



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)



DC2005-0017
September 12, 2005

2005 REVIEW OF THE POVERTY REDUCTION STRATEGY APPROACH

BALANCING ACCOUNTABILITIES AND SCALING UP RESULTS

Attached for the September 25, 2005, Development Committee Meeting is a progress report entitled "2005 Review of the Poverty Reduction Strategy Approach – Balancing Accountabilities and Scaling up Results," prepared by the staff of the World Bank and the International Monetary Fund.

* * *

SYNTHESIS: 2005 Review of the Poverty Reduction Strategy Approach Balancing Accountabilities and Scaling up Results

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

September 9, 2005

I. INTRODUCTION

1. **In December 1999, the World Bank (the Bank) and the International Monetary Fund (the Fund) introduced a new approach to their relations with low-income countries, centered around the development and implementation of poverty reduction strategies (PRS) by the countries** as a precondition for access to debt relief and concessional financing from both institutions. These strategies were also expected to serve as a framework for better coordination of development assistance among other development partners. The approach sought to empower governments to set their development priorities and encouraged donors to align their assistance around a country's priorities, rather than their own. By providing an operational framework for governments to set their development priorities and to specify policies, programs and resources needed to meet their goals, it was hoped this process could help crystallize political commitment and accountability—both for countries themselves and for their development partners—for accelerating progress towards the Millennium Development Goals (MDGs).

2. **The PRS approach has become widespread.** Currently 49 countries have prepared national poverty reduction strategies. Just over half of these countries are in sub-Saharan Africa; a similar proportion are heavily-indebted poor countries (HIPCs). Countries have been implementing their strategies, on average, for just over two and a half years. Several countries are in the process of revising their original strategies, and Burkina Faso, Tanzania, and Uganda have already done so. Eleven more countries have produced interim strategies, and ten have initiated processes that could result in a PRS.

3. **The 2005 PRS review is not an evaluation that seeks to attribute specific poverty reduction results to the approach**—an endeavor that would not be possible.¹ Instead, it focuses on decision-making and implementation processes, and the role of the PRS approach in influencing these processes and in strengthening the systems and analyses that support improved interventions and better outcomes. In this sense, the review does not take a narrow approach of reviewing PRS documents against a uniform benchmark, but instead focuses on examining how selected processes are evolving over time.

¹ The PRS approach is not a project or particular policy measure, where one can observe a counterfactual and establish direct causality to poverty outcomes. Rather it comprises a set of principles and actions that affect the environment in which policy is formulated, implemented and monitored.

4. **This paper summarizes the main findings of the review.** A more detailed discussion, with various country experiences, is presented in a companion paper.² Section II summarizes the review's findings in light of the development agenda. Going forward, it calls for viewing PRS implementation more explicitly through an accountability lens and strengthening the PRS approach as a platform for scaling up assistance. Section III highlights several crucial themes—which were at the center of this review—where good practices demonstrate that, when well implemented, the PRS approach can provide the needed framework to bring coherence to setting and implementing national priorities and aligning donor support around those priorities effectively.

II. THE DEVELOPMENT AGENDA AND THE PRS APPROACH

5. **The international focus on development has intensified since the Monterrey Conference on Financing for Development in 2002, reflected in the increase in official development assistance (ODA) over the past three years.** One result of this renewed focus has been the recent commitment to scale up ODA even further to poor countries, particularly in Africa. Following commitments made at the G8 summit in Gleneagles in July 2005, aid flows are projected to increase by around US\$50 billion a year by 2010. This increase would include a doubling of aid for Africa by 2010.

6. **The challenge now is to translate this increased focus and additional resources into sustainable development results.** The Monterrey Consensus created a framework of mutual accountability for achieving these results. The PRS approach should provide the operational framework for scaling up efforts at the country level to achieve ambitious development results, such as the MDGs. Developing countries need to improve their policies and governance, and developed countries and international financial institutions need to open their markets and provide more and better aid. The Paris Declaration (March 2005) reaffirmed the importance of predictable, well-programmed, and coordinated aid to achieve results.

7. **In light of this development agenda, the findings of this review call for focused attention along two main thrusts in order to enhance the effectiveness of the PRS approach:**

- To reinforce mutual accountability for development results, the PRS approach needs to support a balance in accountabilities between governments (to their domestic constituents for improved policies, governance, and development results) and donors (to provide more and better aid in ways that support rather than detract from domestic accountability).
- To support accelerated development efforts, the PRS approach needs to provide a platform for scaling up aid and demonstrating tangible results at the country level.

² In addition, the Fund will be preparing a paper in the coming months for consideration by its Board on its overall role in the PRS process, as part of its strategy for dealing with low-income countries.

8. **In broad terms, this review finds that the principles underpinning the PRS approach provide a useful framework for translating mutual accountability into concrete terms, and for achieving sustainable development results at the country level.** (See box on core PRS principles). Putting the country at the center of the development process has focused attention more squarely on poverty reduction and the need to address country-specific constraints to development. While implementation experience has been diverse and varied, what is common is the need to address a challenging development agenda in an environment with generally weak institutions and capacity. In many countries, the PRS approach has helped catalyze a process of strengthening policy processes and systems that are central to meeting their development challenges. In particular, there is increased focus on: setting clear goals and targets that are linked to public actions; improving budget and monitoring systems; opening the space for discussing national priorities and policies for poverty reduction and growth; filling country-specific analytic gaps; and aligning and harmonizing donor assistance with national priorities. It is also clear, however, that the PRS approach is not a panacea; it cannot compensate for generalized policy failures, poor governance, or broad institutional lapses.

PRS Core Principles

Recognizing that there may be, at times, limitations to their immediate applicability in particular country contexts, poverty reduction strategies should be:

Country-driven (with broad based participation). A country-driven approach improves the prospects of designing reforms that are tailored to country circumstances and feasible to implement, by appropriately prioritizing and sequencing public actions and programs and by focusing on strengthening country processes. Participation can contribute to higher quality strategies, and strengthen the environment for governance and accountability.

Medium- to long-term in perspective. The PRS approach encourages defining development objectives in the context of a long-term development vision, and sustained efforts over the medium to long term to address capacity, institutional, and governance constraints to faster growth and better development results.

Comprehensive and results-oriented. The PRS approach recognizes that sustainable development will not be possible without rapid economic growth that benefits poor people, for which macroeconomic stability, structural reforms, and social stability are required. This implies a multidimensional view of poverty and of the approach to reducing it, with better understanding of the causal links between policies and intended outcomes, and attention to setting appropriate targets for measuring progress. Effective monitoring can help ensure that policies are well designed and effectively implemented.

Partnership-oriented. A national poverty reduction strategy can provide the context for improved partnerships between government, external partners, and other domestic stakeholders. The PRS approach thus reinforces the shared responsibility for achieving improved results.

9. ***Domestic accountability.*** **The PRS approach has contributed to enhancing domestic accountability in many countries in a variety of ways.** The PRS process has encouraged countries to prioritize their development goals, and set concrete targets and appropriate intermediate progress indicators. Several countries have begun this process, but many PRSs would benefit from a more explicit link between goals and the policies needed to achieve them. While the MDGs can be a good starting point for defining a country's development priorities, few countries have fully customized them to local circumstances. Countries are also establishing necessary links between the PRS, the

annual budget, and the medium-term expenditure framework (MTEF). Deepening these links will help improve prioritization and implementation.

10. **The results focus inherent in the PRS approach has increased attention to improving national monitoring systems.** Most countries are taking actions to improve their overall statistical capacity. While country-level efforts are ongoing across the board, significant challenges remain in setting up coordinated systems; identifying appropriate intermediate indicators; and collecting, analyzing, and using data to inform policy choices. The results focus has also pointed to the need for strong analytical linkages between policies and intended outcomes, including growth.

11. **The PRS process has opened space for stakeholders to engage in a national dialogue on economic policy and poverty reduction.** However, participation has often been broad rather than deep, and was initially focused primarily on PRS formulation. While parliaments and poor people were not always fully engaged in the PRS process, parliamentary involvement has been increasing, and countries are taking steps to engage a broader cross-section of the population in the PRS process. To support institutionalized participation, strategic communications can play an important role to engage the broader population. Poverty and social impact analysis has been used more frequently to enhance the pro-poor focus of policies and to identify reform options. By contrast, the PRS process has had a limited impact in generating open public discussions of alternative macroeconomic policy options and related structural reforms.

12. ***External Accountability.* Governments receiving development assistance are also accountable to those who provide it.** Demands from external partners for better financial management and results oriented performance broadly coincide with the interests of domestic stakeholders. However, although the PRS approach encourages donors to improve the quality of their assistance and to align it with country priorities, rather than their own, several factors could tilt the balance toward external accountability. Domestically, these include the lack of priorities, specificity, and operational detail in PRSs; and the reliance on parallel processes not embedded in existing domestic planning modalities. Certain aspects of aid arrangements, coupled with the high dependence on external assistance, as well as the focus of donors on the social sectors or areas that can demonstrate quick results, can also detract from an appropriate balance of accountabilities.

13. **Donors are committed to providing coordinated, predictable aid that is harmonized and aligned to country priorities.** While overall progress on this front is mixed, it is promising and there is considerable upside potential and immediate opportunities. There has been progress in aligning aid with the goals and actions set forth by countries in their PRSs, and a small but growing list of examples of collaborative and joint programming of assistance strategies among donors, particularly in sector work. Moreover, in an increasing number of countries donors have started to simplify and coordinate their aid procedures and practices; undertake joint analytic work; engage in delegated cooperation; and follow common procurement and financial management procedures. A limited start has also been made on the use of country systems. Continued

efforts are needed, though, to institutionalize good practices and address remaining constraints.

14. ***Supporting a Balance of Accountabilities.*** In countries where the PRSs are reasonably well-articulated and governments have assumed a strong leadership role, the PRS approach has brought about the intended shift in the relationship between developing countries and their external partners. Elsewhere, rebalancing domestic and external accountabilities requires that countries continue their efforts to strengthen their PRSs by (re-) integrating them with existing domestic processes, and improving their prioritization, sequencing, monitoring framework and costing. While some countries are using the PRS process to prioritize analytic and capacity building needs, these practices need to become more widespread. Donors also need to respect their international commitments to provide more and better aid using modalities that reinforce, rather than undermine, domestic accountability.

15. ***Scaling-up results.*** The commitments to scale up aid rapidly reflect growing international concern for achieving the MDGs, but they also focus attention on the need to allocate aid across countries and ensure its efficient use in each country. The use of alternative scenarios—spelling out the improvement in results that can be expected from higher external assistance and the necessary strengthening of domestic policies and absorptive capacity—is one approach to addressing the criticism that many PRSs are not formulated as an operational framework for reaching the MDGs. However, efforts in this direction have been limited to date, due to a combination of factors including: the need to focus limited country capacity initially on strengthening PRS content and implementation; technical challenges to designing alternative scenarios; and skepticism by many countries that such efforts will yield more and better aid. Making progress in this direction requires focused efforts to identify and address absorptive constraints. It also calls for strengthening analysis to understand better the key linkages between public policies and expenditures with greater shared growth, poverty reduction, and accelerated progress towards the MDGs. For example, while coverage of growth has become increasingly central in most PRSs, the quality of growth strategies generally remains weak.

III. REALIZING THE POTENTIAL OF THE PRS APPROACH

16. At the start of this review process, Bank and Fund staffs identified five themes that are central to enhancing the effectiveness of the PRS approach. This review has confirmed the importance of these themes, all of which are central to a country-based development model. These themes consist of: (i) strengthening the medium-term orientation of the PRS; (ii) utilizing the PRS as a mutual accountability framework; (iii) enhancing linkages between PRSs, MTEFs and budget processes; (iv) sustaining meaningful participation; and (v) tailoring the PRS approach to country circumstances, particularly to the circumstances of conflict-affected and fragile states.

17. The review's findings confirm that improving each of the elements is important for moving forward with the PRS approach in the directions outlined

above. This section highlights experiences and some good practices in each of these five areas, pointing to how they support a balance of accountabilities and efforts to scale up results. Going forward, the key is to translate good practice into normal practice, while maintaining momentum and support behind a process that requires commitment over the long haul.

A. Strengthening the medium-term orientation of the PRS

18. **Strengthening the medium-term orientation of the PRS requires progress along several dimensions.** The review points to the need for countries to set clear *goals and targets* (paragraphs 27 to 32)³, which in turn support greater transparency and accountability. To provide a *framework for supporting ambitious development plans* (paragraphs 141 to 145), alternative scenarios need to be mapped out, including measures to address such issues as *managing macroeconomic impacts* of scaling up aid (paragraphs 146 to 151) and *institutional and skill constraints* (paragraphs 152 to 156). Effective *monitoring systems* (paragraphs 47 to 52) are needed to track progress and adjust policies and programs during implementation.

19. Medium-term goals and targets. **Setting clear development goals and specific targets, based on a medium- to long-term vision, helps clarify the priorities of government.** To keep countries at the center, goals and targets can be framed against the backdrop of the MDGs, but they need to be customized to country conditions. In Vietnam, for example, the process of defining country-specific targets and indicators highlighted the importance of improving equity and the need to focus on regions and social groups not benefiting from growth. Appropriate intermediate indicators—which complement measures of poverty outcomes—are needed to enable monitoring and feedback. Over time, as the causalities and complementarities among public actions and outcomes are better understood, links between goals/targets and public actions are strengthened. In Uganda, for example, when monitoring indicators showed disappointing results in reducing infant mortality, further investigation led to adjustments in the set of public actions—moving from a set of fairly narrow health sector interventions to a broader, cross-sectoral approach. Development partners can support country efforts to refine goals, targets and indicators and to strengthen links to public actions, through coordinated, demand-driven support for analytical work and capacity building.

20. Framework for supporting ambitious development plans. **PRSs need to provide a framework for scaling up country-level efforts to reach the MDGs.** One way to marry the need for a realistic PRS with a framework that can support ambitious, longer-term development goals, would be to use alternative scenarios. Such alternative scenarios would need to spell out the combination of resources, policies and other public actions that would be needed to achieve improved results. To date, the use of alternative scenarios has been infrequent, in part due to challenges highlighted previously. Senegal, however, provides an early example where efforts have been made to develop scenarios based on different assumptions regarding the availability of external financing, domestic

³ Paragraph numbers refer to relevant paragraphs in the companion report.

resource mobilization, and absorptive capacity. While the use of alternative scenarios can provide a credible framework for scaling up assistance at the country level, translating this into practice will require efforts on various fronts. Aid skepticism needs to be addressed by delivering on pledged increases in ways that are flexible and predictable. Absorptive constraints, whether they be related to macroeconomic impacts, human and physical capital, or institutional capacity, need to be understood at the country level in order to develop sequenced interventions to alleviate them. Such efforts require well-coordinated, country-driven support by donors for filling analytic gaps and building capacity.

21. Dealing with the macroeconomic impacts of scaling up aid. **The cases where prospective increases in aid flows could seriously threaten macroeconomic stability are expected to be few.** But there are potential macroeconomic issues that need to be assessed and managed at the country level. These include the impact on medium-term fiscal and debt sustainability and the adverse effects on competitiveness of a possible real exchange rate appreciation.

22. Addressing capacity constraints. **In order for significantly scaled-up aid to contribute effectively to sustained growth and poverty reduction, capacity constraints need to be addressed.** Good practice also includes using the PRS process to identify the most binding human and physical capital and institutional constraints, and to develop sequenced plans for alleviating them. In Ethiopia, for example, modeling simulations have helped examine various constraints and their implications for using additional aid productively. Ethiopia has also developed a comprehensive capacity building strategy, integrated into the PRS, around which most development agencies are coalescing their support. While this provides a positive example, in most countries considerably more attention is needed to using the PRS to identify and prioritize capacity building requirements. Development partners also need to ensure that their support for capacity development is demand-driven, coordinated, and takes into account local conditions. The Public Expenditure and Financial Accountability (PEFA) program, which emphasizes country ownership and donor coordination, is an example of good practice worth supporting and extending to other areas. Involving country stakeholders in diagnostic work can also help build capacity and ownership of a reform program.

23. Monitoring systems. **For PRSs to support evidence-based policy decisions, mechanisms for evaluating the effectiveness of development programs, and for making adjustments based on implementation experience, are needed.** For countries, good practice includes paying sufficient attention to the incentives for building and using PRS monitoring systems. Placing the institutional lead for PRS monitoring systems close to the center of government or budget process, as the Kyrgyz Republic has done, can give the system greater authority. It is also useful to disseminate monitoring information and analysis across government and to the public. Cooperation with civil society partners can be helpful in presenting monitoring information to the general public in a non-technical way, as has been done in Nicaragua. Development partners need to provide sufficient coordinated support to overcome capacity and technical constraints. Setting up parallel monitoring systems should be avoided. Also, development partners need to be flexible

with regard to their reporting requirements, allowing more space for governments to develop country-specific annual progress reports which are closely tied to (or integrated with) domestic reporting arrangements. Bearing that in mind, it is also important that partners articulate any essential monitoring needs during the design process to ensure that they can be served through the system.

B. Utilizing the PRS as a mutual accountability framework

24. **The PRS approach is intended as an instrument to support mutual accountability.** To strengthen it in this regard, the review findings point in two directions. Countries need to develop PRSs that include sufficiently *prioritized and specific public actions* (paragraphs 33 to 38) around which donors can align their support. At times this process requires strengthening *analytic foundations* (paragraphs 114 to 139) to help inform choices, particularly those focused on sustaining higher growth; it also requires the political will to make difficult choices. Donors need to improve *aid quality* (paragraphs 83 to 90) by making it more predictable, aligned, and harmonized. These efforts by countries themselves and donors are both central to maintaining a balance of accountabilities.

25. Prioritization and specificity of public actions. **Sufficiently specific operational plans are needed to support PRS implementation and donor alignment.** For countries, good practice includes continuing efforts to make PRSs—or the (operational) plans closely linked to them—more action-oriented and prioritized. Tanzania provides a good example of strengthening the comprehensiveness of a PRS while also improving prioritization and specificity of public actions by progressively developing and integrating sector strategies and growth diagnostics during the course of implementation. For specific actions that are highlighted, it is useful to specify the agency responsible and timeframe for implementation, as is the case, for example, in Timor Leste. In the interim, when a PRS is not yet sufficiently specific to derive operational priorities, donors need to take special care that the areas which they support benefit from real political commitment.

26. Analytic foundations. **Improving analytic foundations that facilitate better understanding of the nature of poverty and of the growth process, including their links to various public actions, will help to progressively strengthen PRSs.** For countries, good practice includes regularly updating poverty profiles and refining them when needed. Given the wide range of areas where analysis may be needed—including growth and sectoral diagnostics—it is important to identify high-priority gaps and fill those first. As noted above, Tanzania strengthened its PRS over time by refining sector strategies (e.g., education) and incorporating additional sectors (e.g., agriculture). Poverty and social impact analysis of proposed land reforms in Cambodia and mine closures in the Democratic Republic of Congo provide examples of focusing distributional analysis on reforms that are likely to have a significant impact. Care must also be taken that donor-supported analysis is operationally relevant so that it can be integrated into the PRS process. This calls for helping to understand better the key linkages between public policies and expenditures and faster growth, poverty reduction and accelerated progress

towards the MDGs. Attention should also be paid to building capacity of government counterparts as well as local and regional research groups, as was the case with the Center for Poverty Analysis in Sri Lanka.

27. Aid quality. **Aid that is provided in an effective manner can reinforce, rather than detract from, domestic accountability.** This requires alignment, harmonization, and predictable aid flows that take into account domestic budget cycles. For countries, good practice includes actively leading coordination efforts, as in Vietnam, and facilitating alignment by continuing over time to strengthen content and implementation of their PRSs. Donors need to deliver aid in ways that build rather than undermine local capacity by harmonizing their practices and using country systems whenever feasible. When parallel implementation arrangements are unavoidable, care needs to be taken to design these arrangements in a way that helps strengthen rather than undermine existing systems. The review finds evidence in some countries that donors have internalized the principle of aligning their programming to PRS priorities, a necessary prerequisite to actually adapting donor programs. This is now happening in a range of countries, including, among others, Ethiopia, Mozambique, and Vietnam. Effective implementation of the harmonization agenda is also spreading—beyond some of the coordinated practices mentioned above, in some countries (e.g., in Tanzania and Uganda) donors are developing joint country assistance strategies. The key going forward will be translating high-level commitments and good practices into consistent actions at the country level.

C. Enhancing linkages between the PRS, the MTEF and budgets

28. **Review findings indicate that linking the PRS to domestic processes helps strengthen domestic accountability.** *Close links between a country's PRS and MTEF and budget processes* (paragraphs 39 to 44) fosters prioritization and are a requisite for linking scaled-up resources to PRS priorities.

29. Links between PRS, MTEF and budget processes. **Linking the PRS to an MTEF and the budget process encourages prioritization, and enhances country ownership and customization by integrating the PRS with domestic decision-making processes.** Successful efforts have benefited, although to varying degrees, from high-level political commitment to budget reform and active engagement of cabinet in the PRS and MTEF process (Benin, Rwanda). In other countries, such as Burkina Faso, forging this link was facilitated by pre-existing expenditure planning and information systems that were reasonably well developed. Developing MTEFs and sector strategies can also be mutually reinforcing. For example, well-developed sector strategies have facilitated the adoption of MTEFs (Albania, Uganda), while the preparation of sectoral MTEFs can strengthen sector strategies by grounding them in budget realities (Tanzania). Countries often take the approach of gradually strengthening the linkages between PRS and the budget/MTEF process by developing MTEFs sector by sector (Ghana, Kyrgyz Republic). Development partners need to be aware of local conditions and avoid undermining existing capacity with reform overload, pursued through multiple, disconnected initiatives. This calls for coordinated, demand-driven capacity building efforts. The changes to the role of the Bank and the Fund in PRS process, which were introduced last year, were intended to

encourage stronger links to domestic processes. Disseminating information about these changes and how they are being taken up at the country level is important.

D. Sustaining meaningful participation

30. Participation can help enhance the quality of strategies. The review findings also point to the supportive role that *institutionalized participation* (paragraphs 54 to 63) can have on strengthening domestic accountability. Including *key stakeholders* (paragraphs 70 to 76) and *opening the policy space* (paragraphs 64 to 69) are also important elements of meaningful participation.

31. Institutionalized participation. **Participation can be a mechanism for encouraging strong accountability.** While the nature of participation has varied depending on countries' political structures, traditions, and institutional capacity, relative to their starting points, the PRS approach has opened space for stakeholders to engage in a national dialogue on economic policy and poverty reduction. While many countries initially focused on participation during PRS formulation, an acceleration in cross-country learning and knowledge sharing seems to have encouraged the spread of participatory monitoring tools, such as public expenditure tracking surveys and citizen scorecards. Other countries, such as Armenia, are focusing on institutionalizing participation in formal monitoring systems.

32. Strategic communications. **Strategically managed communications can also be used to help create demand for accountability and to open space for more effective dialogue between government and civil society.** For countries, good practices include communicating the goals of the participation process upfront and providing relevant information in accessible forms (such as simplified, local language publications in Yemen or through soap operas to report on implementation issues in Rwanda). When the aim of participation has not been clearly spelled out, this has led to different expectations among stakeholders as to what can be expected from the process. Learning from earlier experience, both Tanzania and Uganda developed consultation guidelines when they revised their strategies.

33. Neglected stakeholders. **Continued efforts are needed to identify stakeholder groups that are important in each country and for processes to be put in place for their engagement in the PRS process.** For example, concerns have been raised that the early focus on civil society engagement in PRS formulation may have bypassed certain stakeholders groups, notably parliaments and poor people and other marginalized groups. While PRSs have been formally presented to parliament in about a third of the countries with full PRSs, continued efforts are needed to strengthen parliamentary capacity to engage in the PRS process, as has been done in Ghana and Malawi. Development partners need to be aware of (and not bypass) participatory and representative processes and institutions that already exist. When such processes are weak, consideration needs to be given as to whether and how external assistance can contribute to improving them. Other countries have focused attention on identifying vulnerable groups and developing mechanisms to address their concerns, such as the Roma community in Montenegro. In

other cases, such as in The Gambia, participatory poverty assessments have helped inform PRSs with the views of poor people. During implementation, there is also an opportunity to broaden the engagement of stakeholders, such as the business community, that may have been less involved in the formulation stage, as was the case with micro-, small- and medium-sized enterprises in Honduras.

34. Opening the policy space. **Ensuring that the space is created for open debate on policy choices requires information, capacity, and political willingness to do so.** While the PRS has opened up the space for policy dialogue in some areas, observers note that the PRS process has had a limited impact in generating discussions of alternative policy options with respect to the macroeconomic framework and related structural reforms. There may be several reasons for this, including the sensitivity of some macroeconomic policy decisions, government reluctance, or an inflexible institutional framework. However, there are several recent examples of more wide-ranging discussions of macroeconomic issues, including of alternative policy options or targets, between government officials and Fund staff (Mozambique, Nicaragua, and Tanzania). The use of analysis, which is clear about underlying assumptions and which examines the distributional impact of reforms, can also be helpful in informing policy debate. Development partners should also encourage the country authorities to establish an appropriate framework for more open public debate on policy choices.

E. Tailoring the PRS approach to country circumstances Conflict-affected and fragile states

35. **Tailoring the PRS approach to country circumstances is important everywhere, but is particularly critical in conflict-affected and fragile states.** The broad principles of the PRS approach apply to conflict-affected and fragile states, but extra care is needed *to tailor the approach* (paragraphs 77 to 80 and paragraphs 91 to 94) to ensure that it is appropriately customized and that expectations are realistic.

36. Tailoring the approach. **Tailoring PRS content in conflict-affected countries requires sensitivity to several dimensions.** For example, in countries recently emerging from conflict, there is often a greater need to integrate security, political, humanitarian, and development concerns. With a focus on reconstruction and recovery, short-term priority setting and planning is likely to have greater urgency than long-term planning. Policy choices can also be made better by considering the sources of conflict and its legacies, even in cases where it may be politically difficult or counterproductive to peace and reconciliation to include detailed references in written documents. While there is evidence that participatory processes can be beneficial, expectations need to be realistic and combined with a clear understanding of the political context in order to assess and manage risks. Care must also be taken to ensure that participatory processes are conflict-sensitive (Bosnia, Sierra Leone, Rwanda). Development partners should tailor their aid instruments and disbursement procedures based on a sound understanding of local circumstances, to provide flexibility and avoid mechanisms that create long-term dependence on parallel, unsustainable structures. In post-conflict countries, it is also important that aid volumes not diminish just at the time when they can be most effective.

F. Summary

37. **The review findings point to the need for continued support for a country-driven development model, recognizing that this requires medium- to long-term commitment to institutional changes and capacity building—including efforts to strengthen governance and accountability.** There are no magic bullets. For example, while standardizing interventions would make design, management, and reporting “simple,” it contradicts the need to match interventions to country contexts. While vertical aid programs, such as global funds aimed at specific sectors or problems, have the potential to generate additional resources by raising the profile for the need for more aid, they are unlikely to produce sustainable country-level results unless they are aligned to and link with country priorities, budgets, and systems. The PRS approach provides a framework for customizing interventions, and linking aid to country priorities and systems.

38. **The focus of country efforts, and of donor support, looking forward should be on building and implementing country-driven strategies that are consistent with the core PRS principles.** Specifically, these strategies need to: lay out results and the policies to achieve them; rely on processes and systems that are fully integrated into existing domestic decision-making processes; focus on monitoring of implementation and of intermediate progress so as to make adjustments as needed; and emphasize building the analytic, human and institutional capacity to strengthen formulation and implementation. Such strategies will contribute to maximizing the long-term sustainable impact of aid. Donors must consistently translate their international commitments to align their assistance, harmonize their procedures, and increase the volume of their aid into actual practice at the country level. Above all, they must be careful to provide their assistance in ways that help strengthen domestic systems and accountability.

39. **The priority in this next “generation” of PRSs should, therefore, be to renew the focus on the core PRS principles and ensure their even application.** This will enable the PRS approach to realize its potential as a framework for effectively coordinating public action and donor support, as well as for balancing accountabilities so that countries and their development partners can meet their shared responsibility for achieving the desired development results.

40. **With this country focus in mind, and realizing that after five years of annual reviews a body of good practice is now available, the issue then becomes one of tailoring these practices to individual country circumstances.** Countries are at different stages in applying the PRS approach, and, for sustainability, PRS processes need to be increasingly embedded in domestic policy formulation and implementation processes. Therefore, it would be more beneficial to focus any future reviews on particular aspects of the approach that are important for effective implementation. Countries and donors alike are more apt to benefit from this more selective and targeted approach to experiences on the ground than from additional general reviews.