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The Effectiveness of the Macroeconomic Frameworks of the PRSPs for Growth and Poverty Reduction

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Commissioned for the

UNRISD Flagship Report on Poverty
Project on Poverty Report and Policy Regimes

April 2008 ▪ Geneva

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The Effectiveness of the Macroeconomic Frameworks of the PRSPs for Growth and Poverty Reduction

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April 2008

[1] This paper has been prepared for UNRISD under the project 'Poverty Reduction and Policy Regimes.' I am very thankful to Mr. Yusuf Bangura for his suggestions on how to develop this paper and for his very useful comments on an earlier draft, Thomas Lavers for his overall support, and Pedro Martins and Wezi Mwangulube for effective research assistance. The usual caveats apply.

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Summary

This paper assesses to what extent the macroeconomic content of the Poverty Reduction Strategy Papers (PRSPs) supports the ultimate objectives of sustainable growth and poverty reduction – or, instead, merely reflects typical macroeconomic policies embodied in IMF based stabilisation programmes. It also contributes to our understanding of what forces shape the design and implementation of the macroeconomic policies contained in the PRSPs.

The paper first discusses the degree to which conventional IMF-stabilisation programmes and PRGF programmes are similar or not. It next analyses the macroeconomic frameworks of 44 PRSP documents from 30 countries, focusing on monetary, fiscal and exchange rate policies. It also discusses what changes these frameworks have witnessed over time. It then addresses the questions: to what extent do the PRSP macroeconomic frameworks reflect standard IMF policies, and to what extent they incorporate alternative or innovate elements? To what extent are PRSPs top-down, IMF driven, and to what extent is the design of their macroeconomic components mediated by actions from other actors thereby contributing to a more balanced design and implementation process? What are donor governments doing to ensure that the macroeconomic framework does not constrain aid spending? The paper ends by sketching what sort of macroeconomic framework one should expect embedded in a growth and poverty reduction strategy.

The paper shows that, in practice, PRGFs make a few departures from traditional IMF stabilisation programmes, including more flexibility for fiscal accommodation, prioritisation of pro-poor expenditure and emphasis on fiscal governance. These departures are nonetheless limited, especially when compared to what PRGFs promise in theory. In turn, PRSPs' macroeconomic frameworks are closely aligned with what PRGF programmes are in practice. Their fiscal framework has a pro-poor focus, but growth targets are not MDG-linked, very low inflation targets are specified, budget balance is stressed, flexibility to deal with shocks is almost absent, and pro-growth expenditure is missing. Overall, PRSPs' macroeconomic frameworks prioritise macroeconomic stability over growth or other policy objectives; their core macroeconomic policies are essentially the same as those from traditional IMF stabilisation programmes, despite the facts that many developing countries have already achieved macroeconomic stability and that PRSP's ultimate goals are sustainable growth and poverty reduction.

PRSPs' macroeconomic frameworks are not homogenous, however. It is possible to find a certain degree of variation across PRSPs from the countries under analysis. Our analysis suggests that small countries experiencing poor growth and countries emerging from conflict are those whose macroeconomic frameworks lack elaboration and are most aligned with standard macroeconomic policies. Countries that have been performing well for a number of years, have received special attention by the donor community in the form of increased aid, and presumably have stronger government capacity, tend to generate PRSP documents whose macroeconomic frameworks are more elaborate and attuned to the goals of sustainable growth and poverty reduction. These countries in particular are those that do include a few innovative elements in their

macroeconomic frameworks to address growth directly and macroeconomic volatility caused by shocks, even though these innovative elements are mostly confined to their fiscal frameworks. Disappointingly, our analysis shows that it is hard to spot any significant change between early and recent PRSPs, as the latter, second generation PRSPs are still overly committed to macroeconomic stability narrowly defined, with emphasis on very low inflation targets and stringent fiscal targets, with little room left for other policy objectives such as growth or poverty reduction. Moreover, it is possible to notice that their fiscal frameworks have become less pro-poor and less pro-growth over time, from a starting point where whilst reasonably pro-poor, they were already very little pro-growth.

Finally, the paper indicates that, although the IMF has a strong hold on macroeconomic policy design, other actors such as country governments, donors and civil society do have power to influence macroeconomic policy, and that it is when they get organised to strive for change that more pro-growth and pro-poor outcomes emerge.

The above therefore shows that the main shortcoming of PRSPs' macroeconomic frameworks is that these are not designed to support faster growth directly, which in our view is the most effective way to tackle large-scale poverty. Whilst it is true that budgetary allocation is pro-poor, the fact is that, pro-poor budget that does not grow fast enough due to lack of rapid economic growth – the basis for increased revenue collection – and is constrained by stringent fiscal rules, is likely to have only a limited impact on poverty reduction.

In our view, what is needed is to break with the unvarying character of macroeconomic policy framework, through the provision of a wider range of macroeconomic policy options that are more flexible and thereby more pro-growth, pro-development and tailored to specific country needs and circumstances. Donors and country governments have a critical role to play in this respect through generating their own capabilities in macroeconomic policy assessment and design so as to support a growth-based development path.

1. Introduction

This paper discusses the macroeconomic framework contained in the Poverty Reduction Strategy Papers (PRSPs) from a group of developing countries that have prepared the document as part of their poverty reduction strategies.

The objectives of the paper are twofold: first, to assess to what extent the macroeconomic content of the PRSPs supports the ultimate objective of the strategy papers – sustained economic growth and poverty reduction – or, instead, merely reflects typical macroeconomic policies embodied in IMF based stabilisation programmes. Second, the paper aims to contribute to our understanding of what forces shape the design and implementation of the macroeconomic policies of the PRSPs. What role or weight does the IMF, donors, country authorities and civil society have each in macroeconomic policy design and implementation, and why? Are their roles changing or shifting over time? In addressing these objectives, the paper brings elements that show whether and to what extent the macroeconomic contents of the PRSPs have what is needed for effective poverty reduction.

The paper has been prepared as part of the UNRISD project on poverty reduction and policy regimes. In accordance with the project, its ultimate aim is to shed light on how institutions, policies and politics interact with each other and how, through this process, each contributes to the shaping of poverty outcomes across developing countries.

For the analysis of countries' PRSPs, the paper draws on 44 PRSP documents from 30 countries. The 30 countries are selected out of a total of 64 countries which, at the time of selection – November 2007 – had either a complete or at least an interim PRSP posted on the IMF website. [2]

The paper is organised in seven sections. Following this introduction, Section 2 discusses the degree to which conventional IMF-stabilisation programmes and Poverty Reduction and Growth Facility (PRGF) programmes are similar or not. This is done given the widespread view that PRGF programmes underpin the macroeconomic frameworks of PRSPs. Section 3 analyses the macroeconomic frameworks of 44 PRSP documents from 30 countries, focusing on monetary, fiscal and exchange rate policies. The section also discusses whether and how these frameworks have changed over time. Section 4 compares the PRSP macroeconomic frameworks with standard IMF policies. It is guided by the questions: to what extent they reflect such policies, and to what extent they incorporate alternative or innovative elements? Section 5 addresses the questions: to what extent are PRSPs top-down, IMF driven, at least in what concerns their macroeconomic components? To what extent the design of such components are mediated by actions from other actors thereby contributing to a more balanced design and implementation process? Other questions the section includes are: have the PRSPs led to more aid utilisation for poverty reduction? What are donor governments doing to ensure that the macroeconomic framework does not constrain aid spending? Section 6 attempts to sketch what sort of macroeconomic framework one should expect embedded in a poverty reduction strategy. The concluding section discusses how effective PRSPs are in reducing poverty, drawing on previous analysis of their macroeconomic content and the policy regime within which they operate.

[2] The criteria used for country selection is explained in Annex 1. See also Annex 1 for the list of countries covered in this study.

2. The IMF Stabilisation Programmes, SAPs and the PRGF

2.1. *IMF Stabilisation Programmes and Structural Adjustment Programmes (SAPs)*

IMF stabilisation programmes are aimed at restoring a country's macroeconomic equilibrium. Macroeconomic disequilibrium is understood to happen when a country faces high inflation and runs a large current account deficit. The need for macroeconomic adjustment typically arises when the country faces difficulty in financing the current account. The basic IMF diagnosis is that macroeconomic disequilibrium reflects excessive domestic absorption (excess domestic demand) arising from large fiscal deficits and expansionary monetary policy, and relative prices biased against tradable goods, as a result of an overvalued exchange rate. The basic IMF prescription to correct these imbalances has been to impose ceilings on the fiscal deficit and domestic credit creation (demand management policies), and to change relative prices in favour of tradable goods through domestic currency depreciation.[3]

This type of stabilisation programme was prescribed by the IMF to many developing countries from the 1950s onwards. However, a view emerged from the Bretton Woods institutions in the 1970s that current account-led balance of payments (BOP) crises reflected not only poor demand management that resulted in excessive domestic absorption, but also problems of structural nature. It was on the basis of this new diagnosis that structural adjustment programmes (SAPs) were initially adopted in the 1980s in response to BOP crises in developing countries. SAPs' objectives included not just macroeconomic stability, to be achieved through demand management policies, but also long-term supply response, to be engendered through a change in relative prices (to the benefit of tradable and rural sectors), and the reduction of the State in economic activities (Demery, 1994). The intermediate objectives were expected to be achieved through: macroeconomic discipline, trade liberalisation, the liberalisation of product and factor markets, financial sector reforms, and privatisation of state-owned enterprises. These measures were expected to ultimately increase economic efficiency and enhance economic growth.

[3] See Krueger (2000) for a comprehensive historical account of IMF traditional stabilisation programmes.

2.2. *The Poverty Reduction and Growth Facility (PRGF) in theory*

Many low-income countries were affected by an external debt crisis in the 1980s, a situation that was still unresolved in the 1990s. In face of it, the international community launched the Heavily Indebted Poor countries (HIPC) initiative, which was aimed at reducing the countries' debts to levels that made it sustainable and compatible with growth and poverty reduction. The HIPC initiative coincided with the refocus of the international community on poverty reduction.

The Poverty Reduction Strategy Papers (PRSPs) started to be prepared in the late 1990s and early 2000s in this new context. The main purpose was to ensure that the resources freed up by debt relief were used for poverty reduction. To support the PRSP process, the IMF established in 1999 the Poverty Reduction and Growth Facility (PRGF). The PRGF was expected to share with the PRSPs its main objectives: growth, poverty reduction and country ownership.

The PRGF supported programmes were specifically intended to embody the following features: greater flexibility on the part of the IMF staff in their interactions with countries' authorities when designing and implementing the PRGFs, and more selectivity in the use of conditionality, to ensure increased country ownership; the development of more pro-poor and pro-growth budgets, greater flexibility in accommodating increasing fiscal deficits and inclusion of medium-term projections with poverty- and growth-driven scenarios for aid to make the programme consistent with the country's growth and poverty reduction strategy; creation of contingent expenditures in case additional aid became available; explicit indication of how fiscal objectives could be adjusted to shocks; strengthened fiscal governance through increased accountability for public resource management and more transparent monitoring systems; inclusion of poverty and social impact analysis (PSIA) of macroeconomic policy measures and indication of ways to mitigate possible adverse distributional impacts.

In incorporating these features, the PRGF supported programmes were expected to give governments more space in the timing and design of poverty reduction strategies; at the same time, such a strategy was expected to fully integrate macroeconomic, structural and social policies, thereby requiring closer collaboration between the IMF and World Bank staffs; a key aspect in the growth and poverty reduction strategy was to identify measures to enhance the role of the private sector in promoting growth, to increase efficiency and targeting of spending in areas related to growth and poverty reduction, and support tax reforms to improve efficiency and equity, and to create additional resources for the overall strategy (IMF, 2000).

2.3. *The PRGF in practice*

To gauge the extent to which the PRGF supported programmes have in practice meant a departure from traditional IMF stabilisation programmes, it is useful to place it in context. First, created in 1999, it replaced the Enhanced Structural Adjustment Facility (ESAF), established back in 1987 to support low-income countries facing protracted balance of payments problems and high macroeconomic instability. Therefore, the emphasis was on restoring macroeconomic stability and addressing problems of structure nature – the IMF side of SAPs. The PRGF supported programmes, in turn, were born in response to the re-focus of the international development community on growth and poverty reduction, and the Millennium Development Goals (MDGs). They have been implemented at a time economic performance across low-income countries has improved markedly. Although it is difficult to clearly identify the key factors underlying such improved performances, it is possible to associate them with a few facts: the primary commodity boom that has benefited a large number of developing countries since 2003-2004, increased aid flows after many years of a declining trend, and macroeconomic stability.

In this new context, one should expect at least a reasonable degree of change in PRGF programmes compared to ESAF programmes, as the macroeconomic conditions facing low-income countries have improved considerably. However, a shared sentiment exists among different stakeholders committed to the MDGs that, although some changes in emphasis can be noticed, PRGF programmes remain essentially narrowly focused on macroeconomic stability. Their approach towards increased aid flows has been conservative, with emphasis on the stability rather than growth and the MDGs. This sentiment has been confirmed by a recent Evaluation Report from IMF's Independent Evaluation Office (IEO, 2007). Based on this recent report, in what follows we briefly highlight those areas where the PRGF programmes seem to have been different from previous IMF supported programmes and those where little change has taken place.

First, a key change that can be noticed in PRGF based programmes compared to ESAF ones is that, in the context of increased aid, more fiscal space has been created for public expenditure (although space for more flexibility for fiscal adjustment to deal with shocks still lacks). Taking what the 29 Sub-Saharan African countries surveyed by the IEO have experienced, whilst public expenditure increased on average 1 percent of GDP under ESAF programmes, they increased 2.5 per cent under PRGF programmes (IEO, 2007, p. 16). Of course, more fiscal space essentially reflects increased aid, which has been the case in the 2000s, and opposite to what happened in the 1990s when ESAF programmes were implemented.

Second, increased public expenditure has taken the form of more spending on social sectors – health and education, and on pro-poor areas such as safety net programmes. However, pro-growth spending such as basic infrastructure or any other growth-related area has not been prioritised in PRGF budgets. Clearly, this is not to say that all social spending is only pro-poor. It certainly also contributes to growth, but its contribution takes longer to be felt. This shift of emphasis towards pro-poor expenditure is perhaps the main departure of PRGF relative to ESAF programmes.

Third, fiscal governance has been given special attention under PRGFs, with emphasis on accountability and transparency in the management of public resources, a feature absent in previous Fund-supported programmes. This has reflected a combination of

factors: shift by donors from project aid to budget support; efforts to improve aid effectiveness, and concerns with budget execution and reporting, which are seen as important elements underpinning macroeconomic stability.

Fourth, PRGF supported programmes have accommodated increased aid, but only under certain conditions. When a country meets the pre-requisites of sufficiently high level of international reserves, and low inflation, most of additional aid can be absorbed (i.e. the current account deficit excluding aid and interests is allowed to widen) and spent (i.e. the primary fiscal deficit is allowed to expand). The threshold for international reserves is two to three months of imports, and for inflation, 5 per cent. Taking the sample of countries surveyed by the IEO, countries meeting these thresholds had a programmed absorption of a 100 per cent of additional aid flows, and a programmed use of anticipated aid increases of 79 per cent. However, countries that had low levels of reserves could absorb only 5 per cent of anticipated increased aid, with the rest being used to increase reserves; and countries with inflation above the 5 per cent threshold could only spent 15 per cent of anticipated aid, with the rest used to retire domestic debt. More recently, programmes have become more flexible in relation to inflation targeting, with the latter raised in some instances from 5 to 7 per cent.

Fifth, PRGF programmes have set conservative aid projections over the medium term, despite donors' pledges on aid increases, and against the spirit of the PRGF when it was created. In the first year of the programme, however, aid projections have in fact been slightly optimistic. Conservative projections over the medium term takes place because the IMF draws on past aid trends for its projections, although more recent projections have been gradually reflecting the more positive aid environment. An alleged reason for this conservative approach is that aid flows are still very volatile and one cannot make projections that underpin budgetary programming on the basis of promises that in the end may not materialise. However, this conservative approach makes it difficult for IMF supported programmes to be MDG linked. To the extent that these programmes mould the PRSP process rather than the other way round, a country's poverty reduction strategy itself becomes de-connected from the MDGs.

A further problem with this conservative approach is that if projections differ significantly from actual aid trends, the frequency of aid surprises will happen more often, and the magnitude of errors will be larger. When there are aid surprises – unanticipated aid higher or lower than anticipated aid – PRGF programmes have what is called automatic adjusters for dealing with it. But these adjusters have been set in ways so that unexpected additional aid has to be fully saved, while with aid shortfalls, permission is given for limited domestic financing only, due to concerns about macroeconomic stability. This applies for a six month period, after which the programme targets are reviewed, and thus adjusted according to the new circumstances (Perone, 2006). On the positive side, it was found in country case studies conducted by the IMF IEO involving five countries – Burkina Faso, Ghana, Mozambique, Rwanda and Tanzania, that more recently adjusters have been set to support greater spending of unexpected aid.

In addition to lack of ambition in aid projections, the IMF has been criticised for its failure to identify additional aid opportunities, which certainly exist where absorptive capacity exceeds projected aid inflows. But the biggest failure of all has been the lack of support to increased investment in growth-related areas such as basic infrastructure or to job creation activities, in part reflecting re-prioritisation towards social expenditure. An aggravating issue is the fact that recipient country governments are not permitted to

borrow on non-concessional terms from the private markets, even to finance productive projects with high returns. There has been therefore a systematic failure to support expansion of supply-side response capacity – and connected with it, systemic competitiveness.

In summary, PRGF programmes differ from ESAFs for greater flexibility in accommodating fiscal deficits, and for its focus on poverty-related expenditure and fiscal governance. However, they have failed to set ambitious aid targets; have put additional aid to use for growth only when the country's macroeconomic conditions meet its stringent macroeconomic stability criteria; have not really provided budget flexibility to adjust to shocks; have not really supported pro-growth budgets; have lacked a pro-active role in identifying opportunities for growth and failed to support the need of actions to strengthen a country's supply side response, which is vital for faster growth to meet the MDGs. As the IEO report puts it, while the willingness to break with the past may have been there when the PRGF was created, what has happened in reality is that the IMF supported programmes have gravitated back to its original practices, with emphasis on macroeconomic stability. In IMF's view, a key component of it is very low inflation, which can only be maintained or kept in check through tight monetary and fiscal policies.

This path-dependent behaviour is worrying for two reasons: first, contrary to what is claimed, the PRGF programmes are not designed around PRSPs, but instead they pre-determine the latter, particularly its macroeconomic framework. Second, nearly all countries that have prepared a PRSP have in place a PRGF. To illustrate this point, 28 of the 30 countries covered in this study have in place, or have had in the past, a PRGF programme. As a consequence, due to PRGF's emphasis not on growth but on macroeconomic stability, and since it plays a key role in pre-determining the macroeconomic content of the PRSPs, countries' poverty reduction strategies are not really conducive to meeting the MDGs, due to the missing growth link.

As discussed in section 6 below, the growth link matters in at least two ways. First, it can generate employment, and if a pro-employment growth pattern is pursued, the employment-generation effects can be large. This is a most effective way to reduce poverty. Second, growth makes availability of public resources to expand more rapidly in absolute terms.

3. The Macroeconomic Content of the PRSPs

The PRSP documents under analysis state clearly that their main aim is to promote rapid and sustainable economic growth. Moreover, the documents state that growth should be pro-poor and achieved through: investment in human capital and economic and social infrastructure; promotion of a stable macroeconomic environment; and structural and institutional reforms.[4]

Our analysis of the various PRSP documents will focus on growth, for which all PRSPs set clear targets, and the other components of a macroeconomic policy framework – namely monetary, fiscal and exchange rate policies. Our aim is to see whether the growth targets are realistic and their macroeconomic frameworks have clear elements to support growth, or, as in traditional IMF-based stabilisation programmes, PRSP's macroeconomic frameworks are in essence designed to support macroeconomic stability. The questions this section therefore addresses are: to what extent do the macroeconomic content of the various PRSPs reflect traditional IMF-based stabilisation policies? How close are these to the original formulation of PRGFs, or to how PRGFs are implemented in practice? Do they incorporate pro-growth elements, thus showing in such instances clear departure from conventional macroeconomic stabilisation policies? How varied are these policies across countries and over time?

This section addresses these questions in two steps. It first analyses the macroeconomic content of 44 PRSPs from 30 countries, through looking at the core four macroeconomic areas: growth, and monetary, fiscal and exchange rate policies. Second, to offer a dynamic perspective, it groups the PRSPs between early and recent PRPs, to see whether and to what direction policies have changed over time.

3.1. *The Growth Targets*

Growth targets for all the PRSPs under analysis are within the 4%-10% range.[5] These targets are not MDG based – that is, are not set to meet the MDG-based poverty reduction goal, though in some instances these may coincide with what is needed to achieve it. Rather, targets are associated with countries' growth performances prior to the PRSPs.

Table 1 reports the growth targets of the various PRSPs, together with the countries' average growth rates over 1995-1999 and 2000-2005, and growth in the year previous to the completion of the PRSP documents. The table shows that:

- Poor growth performing countries (e.g., Burundi, Guinea-Bissau, Lesotho, Madagascar), have targets usually set well above average growth rates. That is not to say that targets are entirely decoupled from past performance. In most of these countries growth volatility is high – usually above PRSP countries' average (see Table 2). Therefore, targets are based not on growth averages but on yearly growth when it happened to be relatively high. What therefore is done is that years of poor growth, probably caused by economic shocks or natural disasters, are omitted from calculation for setting targets.

[4] For an overview of the main features common to all PRSPs, see Gottschalk (2005).
[5] Dominica with a 3% target is an exception.

- Countries experiencing an upward trend in growth may have set targets linked not to the growth average but the upper part of the trend (e.g., Honduras, Kyrgyz Rep.).

- Strong performers have targets in line with or slightly above their growth averages (e.g., Ethiopia, Mozambique, Rwanda, Tanzania, Uganda, Vietnam) and in one case, even below (Cambodia).

- Countries emerging from conflict, such as Congo DR, Sierra Leone and East Timor, have set targets close to growth witnessed in the years immediately before the completion of the PRSP document, when strong recovery was observed.

Table 1: GDP growth and the PRSP growth targets (%)

	Average 1995-9	Average 2000-5	Previous year to first PRSP	Target first PRSP	Previous year to second PRSP	Target second PRSP
Africa						
Burkina Faso	4.9	4.5	6.7	7.0-8.0	6.5	7.0
Burundi	-2.8	1.7	0.9	6.0-7.0		
Congo, DR	-2.4	2.2	6.5	7.0-8.0		
Ethiopia	4.8	5.2	7.9	7.0		
Gambia	3.6	4.2	5.8	6.0	5.0	5.0-6.0
Ghana	4.4	4.8	4.5	5.0	5.6	6.0-8.0
Guinea-Bissau	0.4	1.2	3.5	5.0		
Kenya	2.9	3.1	3.0	4.0-5.0		
Lesotho	3.6	2.6	3.2	7.0		
Madagascar	3.2	3.0	-12.7	8.0-10.0	4.6	7.0-10.0
Malawi	7.0	2.5	-5.0	5.0	2.6	6.0
Mauritania	4.2	3.7	6.7	7.0	5.5	8.0
Mozambique	8.3	7.7	1.9	8.0	7.7	7.0
Niger	3.7	3.1	7.1	4.0		
Nigeria	2.5	5.6	10.7	6.0-7.0		
Rwanda	15.7	5.5	6.7	7.0		
Senegal	4.9	4.4	4.7	7.0-8.0	5.1	5.0-8.0
Sierra Leone	-5.9	12.3	7.4	6.0-9.0		
Tanzania	3.8	6.6	3.5	5.0-6.0	7.0	6.0-8.0
Uganda	7.7	5.6	4.9	7.0	4.7	6.0
Zambia	1.6	4.6	4.9	4.0	5.2	7.0
Asia						
Bangladesh	5.0	5.5	6.3	7.0		
Cambodia	7.0	9.0	7.7	6.0	10.0	6.0
Kyrgyz Rep.	3.5	4.0	5.3	5.0		8.0-9.0
East Timor	Nd	3.6	16.5	6.0		
Vietnam	7.5	7.4	6.9	8.0		
Americas						
Bolivia	3.9	2.9	2.5	5.0-5.5		

Dominica	2.4	0.3*	Nd	3.0		
Honduras	2.7	3.9	5.8	5.0-6.0		
Nicaragua	5.4	3.2	4.1	4.5	5.1	4.5

Source: World Development Indicators and PRSP documents.
* 2000-2004.

Table 2: GDP Growth and Growth Volatility

	Average 1995-9	Average 2000-5	Growth Volatility (Standard Deviation)		
			1995-99	2000-05	1995-2005
Africa					
Burkina Faso	4.9	4.5	2.2	1.6	1.9
Burundi	-2.8	1.7	4.8	2.4	4.3
Congo, DR	-2.4	2.2	2.3	5.1	4.6
Ethiopia	4.8	5.2	5.4	5.3	5.3
Gambia	3.6	4.2	1.9	3.4	2.8
Ghana	4.4	4.8	0.2	0.8	0.7
Guinea-Bissau	0.4	1.2	14.5	4.4	10.3
Kenya	2.9	3.1	1.4	2.0	1.8
Lesotho	3.6	2.6	5.3	0.9	3.7
Madagascar	3.2	3.0	1.1	7.2	5.4
Malawi	7.0	2.5	5.1	3.9	5.0
Mauritania	4.2	3.7	4.7	1.8	3.4
Mozambique	8.3	7.7	3.3	3.2	3.3
Niger	3.7	3.1	3.6	3.0	3.3
Nigeria	2.5	5.6	1.1	2.9	2.7
Rwanda	15.7	5.5	10.1	2.6	8.7
Senegal	4.9	4.4	0.9	1.9	1.5
Sierra Leone	-5.9	12.3	7.6	8.1	12.0
Tanzania	3.8	6.6	0.4	0.7	1.5
Uganda	7.7	5.6	2.5	0.7	2.0
Zambia	1.6	4.6	3.6	0.8	2.9
Asia					
Bangladesh	5.0	5.5	0.3	0.6	0.6
Cambodia	7.0	9.0	2.8	2.3	2.7
Kyrgyz Rep.	3.5	4.0	5.2	3.1	4.2
East Timor	Nd	3.6	Nd	8.9	8.9
Vietnam	7.5	7.4	1.9	0.6	1.4
Americas					
Bolivia	3.9	2.9	1.7	0.8	1.4
Dominica	2.4	0.3	1.5	3.9	3.1
Honduras	2.7	3.9	2.4	1.2	1.9
Nicaragua	5.4	3.2	1.3	1.4	1.7
Average			**3.4**	**2.8**	**3.8**

Source: World Development Indicators and PRSP documents.
* 2000-2004.

Are these targets realistic?

Strong performers have set growth targets which, even when slightly above past growth averages, look feasible because, in most cases, these are countries that have received increasing amounts of aid as a proportion of their GDPs, in a context in which their GDPs have been growing fast (see Table 3). This probably has been the case partly because good performance has helped attract aid – which in turn helps enhances growth, thereby making the growth-aid nexus mutually reinforcing. Strong performers from Asia stand apart in that they have witnessed a decline in aid as a proportion of their GDP, possibly because after many years of rapid and continued growth, they have gradually become less dependent on aid to support their growth process. But because growth in this group of countries looks so strong (albeit vulnerable to changes in the international economic environment), their growth targets look feasible all the same.

Table 3: Aid Flows

As per cent of GNI

	1998-99	2004-2005
Africa		
Burkina Faso	14.3	12.8
Burundi	8.5	51.4
Congo, DR	2.6	27.9
Ethiopia	8.6	18.1
Gambia	9.0	15.1
Ghana	8.8	13.1
Guinea-Bissau	37.4	28.6
Kenya	2.7	4.1
Lesotho	4.0	5.1
Madagascar	11.4	23.9
Malawi	25.6	27.7
Mauritania	16.6	10.6
Mozambique	24.9	21.5
Niger	11.8	16.5
Nigeria	0.6	4.2
Rwanda	18.5	27.1
Senegal	11.2	11.3
Sierra Leone	14.1	32.1
Tanzania	11.8	14.1
Uganda	9.8	16.0
Zambia	16.2	18.2
Asia		
Bangladesh	2.6	2.2
Cambodia	9.6	9.3
Kyrgyz Rep.	19.7	11.8
East Timor	Nd	32.6
Vietnam	4.7	3.9
Americas		
Bolivia	7.3	7.9
Dominica	6.0	8.7
Honduras	11.0	8.9
Nicaragua	18.4	22.1

Source: World Development Indicators.

A number of factors could stop the strong performing countries gearing up towards truly fast growth – growth at 8% or above that is in line with the MDG poverty reduction target – such as a major external shock or political instability. Moreover, growth itself could lead to economic overheating which in turn could make countries adopting PRGF-sponsored programmes adopt demand management policies that could slow down growth or even kill it off entirely. It is important that growth if faster is managed, not suppressed, and that faster growth is supported with investment in supply capacity expansion so that higher growth can be maintained.

Poor performers face two issues: 1) how to finance higher growth, and 2) how to reduce growth volatility.

1) Their PRSP documents fail to identify in quantifiable ways additional sources of finance to support higher investment needed for higher growth. Unless additional aid is forthcoming, these countries have to find domestic sources of additional finance, both public and private, to support higher growth. PRSP documents indicate that private investment could increase as a result of structural reforms and less crowding-out by the public sector. Public investment could also increase as a result of re-prioritisation of government spending towards growth-related projects and of tax revenue raising efforts. However, PRSPs fail to provide credible proposals on how these potential sources of finance could materialise in the short- to medium term. Higher productivity of labour and capital could take place, for example as a result of structural reforms such as tax reform and trade liberalisation, and thereby at least partially compensate for lack of additional finance. However, possible productivity gains arising from reforms may take time to happen, thus falling outside the timeframe of a PRSP.

2) Growth volatility, relatively high within this group of countries, may not decline; rather, it may become even higher as the economies become more open, and thereby affect long-term growth. Yet again, it will be seen below that the PRSPs fail to design a macroeconomic framework aimed at reducing macroeconomic volatility. Their emphasis is on macroeconomic stability understood in terms of price stability to be achieved through monetary restraint and fiscal balance. Given this, monetary devices or counter-cyclical fiscal elements to prop up demand when it declines are not part of PRSP's macroeconomic frameworks. Some PRSPs do offer some counter-cyclical elements to address effects arising from shocks or economic downturns, but, interestingly, these are easier to be found in PRSPs from strong rather than poor performers – see further below.

Countries gradually moving from moderate to fast growth fall in between the challenges facing strong and poor performers, while countries emerging from conflict face the challenge of attracting additional external finance to be able to reconstruct their infrastructure, a condition necessary to move from the stage of recovery to continued growth. Moreover, countries emerging from conflict face the additional challenge that they are still in the process of consolidating macroeconomic stability. In this context, even if they attract additional aid, PRGF-sponsored programmes may restrict considerably its use to support faster growth (see previous section).

A broader issue concerning countries' ability to meet their growth targets is that the key components of the PRSP macroeconomic frameworks such as monetary policy –

analysed next, or fiscal and exchange rate policies, analysed subsequently, are not designed to support growth directly.

3.2. *The monetary framework*

How pro-growth are the PRSP's monetary frameworks?

The emphasis of nearly all PRSPs in regard to their countries' monetary policy frameworks is on ensuring price stability. Little reference can be found to other broad policy objectives, such as growth and employment.

Table 4 reports the inflation rates PRSP countries experienced between the 1980s and the 2000s. It can be seen that, in the 1980s, inflation was still moderately or very high for a number of countries. Of 26 countries for which average inflation in the 1980s is displayed, 11 countries – that is, over 42 per cent of the total – had inflation above 20 per cent, and around 9 countries had inflation around or above (in three cases, well above) 50 per cent. Of the remaining 10 countries, five countries had one-digit inflation and the other five, inflation in the 10-19 per cent range. A policy goal of reducing inflation to lower levels therefore could be seen as appropriate for a number of countries at the time.

The figures are not much different in the 1990s, but then these change significantly in the 2000s. In the present decade, average inflation has been much lower. Of 29 countries, 21 countries – or 72 per cent of the total – had just one-digit inflation; in 5 countries inflation was between 10 and 19 per cent; and only three countries can be found with inflation at around or above 20 per cent.

However, despite significant achievements on the inflation front in the recent past, nearly all countries have set very low inflation targets. Of 39 PRSP documents that have set clear numerical targets for inflation, 32 have set targets at or below 5 per cent, with the remaining setting targets between 5 and 10 per cent. Price stability in the form of very low inflation therefore is an over-riding monetary policy objective for most countries.

It varies from country to country whether inflation itself has been within or outside targets. Taking as a reference point either average inflation in the 2000s or inflation in the year before the publication of a PRSP document, 12 of a total of 28 countries have had witnessed inflation within their targets, seven have had inflation near the target (from just above the target up to the maximum of target plus 2 per cent), and other eight countries have had inflation above targets, but below the 20 per cent level. Thus, although only one among all PRSP countries under analysis has not had inflation below 20 per cent in the recent past, all of them will have to strive to bring inflation to very low levels or, among those countries where inflation is already very low, to maintain them at that level. This is a tall order, because PRSP countries are low-income countries that face high inflation volatility, for which therefore it may be required very tight monetary policy to achieve this policy objective, and thereby imply high costs, both in terms of loss of flexibility in the conduct of monetary policy and foregone output.

Table 4: Inflation and the PRSP Inflation Targets (%)

	Average 1980-9	Average 1990-9	Average 2000-5	Previous year to	Target first	Previous year to	Target second

				first PRSP	PRSP	second PRSP	PRSP
Africa							
Burkina Faso	5.0	4.5	2.5	-1.1	< 3.0	2.0	< 3.0
Burundi	7.2	13.5	10.7	13.0	2.5-4.0		
Congo, DR	57.0	3367.2[a]	156.7	21.3	6.5		
Ethiopia	4.6	8.0	4.5	-8.2	5.0		
Gambia	17.5	5.5	7.9	4.4	3.0-4.0	3.2	3.0-5.0
Ghana	48.3	27.6	21.2	14.8	5.0-7.0	12.6	< 9.0
Guinea-Bissau	70.5[b]	37.4	2.7	3.3	2.0		
Kenya	11.8	17.4	8.2	9.8	3.5		
Lesotho	13.9	12.4[c]	7.6	5.0	Na		
Madagascar	18.6	17.3	11.0	15.9		18.5	5.0
Malawi	16.8[e]	31.0	17.2	22.7	4.0	15.4	5.0
Mauritania	7.5[d]	6.4	6.6	4.1	< 3.0	12.1	5.0
Mozambique	45.1[b]	34.5	12.0	12.7	5.0	7.2	5.0
Niger	3.6	4.3	2.7	4.0	< 3.0		
Nigeria	20.9	30.5	14.6	14.0	9.0-10.0		
Rwanda	4.7	8.6	6.3	3.0	< 3.0		
Senegal	6.9	4.4	1.4	3.1	< 3.0	1.7	3.0
Sierra Leone	63.0	45.9	5.3	14.2	5.0		
Tanzania	30.1	23.1	4.0	7.9	4.0	0.0	Max 4.0
Uganda	111.2[e]	15.9	4.0	2.0	< 5.0	7.8	Max 5.0
Zambia	69.3[d]	76.2	21.2	21.4	< 5.0	18.3	Single-digit
Asia							
Bangladesh	7.8[f]	5.7	4.9	9.2	5.0-6.0		
Cambodia	Na	6.6	2.1	-0.6	4.0	3.9	3.0
Kyrgyz Rep.	Na	25.7	6.5	6.9	5.0		
East Timor			Na	Na	2.0-3.0		
Vietnam	Na[g]	5.1	3.5	-0.4	Na		
Americas							
Bolivia	1383.2	10.4	3.4	4.6	< 4.0		
Dominica	4.9[e]	2.3	1.4	2.2	2.0		
Honduras	7.4	19.7	8.8	11.1	9.0		
Nicaragua	1693.9	1053.7	7.7	11.5	4.0		

Source: World Development Indicators and PRSP documents. [a] 1995-1999. [b] 1988-1989. [c] 1990-1996. [d] 1986-1989. [e] 1981-1989. [f] 1987-1989. [g] 1996-1999.

The excessive focus on price stability embedded in nearly all PRSP documents implies not only lack of direct reference to growth, but also very little room for other policy objectives. Of course, WAEMU member countries,[6] and countries like East Timor,

[6] WAEMU stands for 'West African Economic and Monetary Union', formed of the following countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

which has adopted the dollar as its domestic currency, lack degrees of freedom or instruments to devise a monetary policy for objectives other than price stability.

Box 1 summarises the monetary policy objectives of the various PRSP countries under analysis. The box shows that only a few countries succeed in stating other monetary policy objectives along with price stability. For example, stable exchange rate and/or appropriate level of international reserves are two explicit objectives in the monetary policy framework proposed by countries such as Ethiopia, Ghana, Mozambique and Tanzania. Explicit reference to supporting growth activities directly is made only in the Madagascar and Nigeria's PRSPs. Ghana's PRSP also refers to monetary policy role in external shock management, and in Mauritania's PRSP monetary policy is also expected to avoid restrictive policy measures that pose risks of recession at the end of an expansionary phase. A further aspect to notice is the higher dose of realism in the wording, and higher degree of elaboration, in the description of the monetary policy framework, when comparing the first and second PRSP documents from the same country (see further below).

To summarise, very low inflation targets is the over-riding monetary policy goal of most PRSP countries, although many of these countries are currently experiencing already reasonable low levels of inflation. The counterpart of the excessive focus on price stability is that monetary policy is not designed to support directly productive activities or growth more broadly. Their design therefore is not coherent with a pro-growth macroeconomic framework needed to help accelerate growth and reduce poverty faster.

Box 1: Monetary Policy Objectives and Instruments

Burkina Faso (I and II)	Member of the West African Economic and Monetary Union (WAEMU).
Burundi	Control growth of money supply to control inflation, while releasing resources for revitalisation of private sector.
Congo, DR	Price stability through prudent monetary policy in the context of a floating exchange rate regime.
Ethiopia	Monetary targeting (through monitoring reserves and broad money) to reduce inflation and increase international reserves.
Gambia (I and II)	Liquidity control through issuing T-Bills to maintain low inflation.
Ghana (I)	Price and exchange rate stability, to be achieved through tight credit and open market operations; external shock management.
Ghana (II)	Further reduce inflation, minimise exchange rate fluctuations and promote the efficient operation of the banking and credit systems.
Guinea-Bissau	Member of the WAEMU. Pursue a prudent monetary policy consistent with WAEMU goals.
Kenya	Maintain price stability and foster a stable market-based financial system.
Lesotho	Ensure price stability in the context of a fixed exchange rate and the common monetary area (CMA) agreement.
Madagascar (I and II)	Prudent monetary policy to control inflation, while ensuring adequate financing for economic activities.
Malawi (I)	Reduce high inflation through tight monetary policy.
Malawi (II)	Achieve low inflation through using foreign exchange sales and open market operations to influence liquidity levels.
Mauritania (I)	Rigorous monetary policy to support the exchange rate policy and maintain low inflation.
Mauritania (II)	Prudent management of monetary policy, taking into account relaxation associated with oil revenues, and avoiding the risks of recession that restrictive policies can cause at the end of an expansionary phase.
Mozambique (I)	Avoid monetisation of fiscal deficit.
Mozambique (II)	Maintenance of inflation at low and stable levels; stable and competitive exchange rate and international reserves at appropriate levels.
Niger	Member of the WAEMU.
Nigeria	Price and exchange rate stability; maintain low real lending interest rates; restructure composition of credit to the private sector to boost production.
Rwanda	Broad money targeting.
Senegal (I and II)	Member of the WAEMU.
Sierra Leone	Reduce inflation and maintain positive real interest rates to promote domestic savings and efficient allocation of financial resources.
Tanzania (I)	Prudent monetary policy.
Tanzania (II)	Focus on price stability; expanding credit to the private sector; maintenance of exchange rate stability and adequate level of foreign reserves.
Uganda (I and II)	Low inflation through targeting growth rate of M2.

Zambia (I)	Low inflation; make open market operations more transparent and efficient.
Zambia (II)	Achieving and maintaining single-digit inflation.
Bolivia	Not specified.
Dominica	Not specified.
Honduras	Maintain an effective monetary policy; prudent liquidity management through open-market operations, consistent with interest rates that support investment and one-digit inflation.
Nicaragua (I)	Reduce annual inflation to 4 per cent by 2005.
Nicaragua (II)	Eliminate structural causes that cause undesired monetary expansion; more passive role for monetary policy.
Bangladesh	Maintain price stability through active monetary policy; adequate flow of credit at reasonable interest rates and competitive exchange rate.
Cambodia (I and II)	Maintain price stability to ensure low inflation.
Kyrgyz Rep. (I and II)	Low inflation through tight monetary policy.
East Timor	Low inflation; monetary stability.
Vietnam	Prudent monetary policy to control inflation.

Source: PRSP documents.

3.3. *The Fiscal Framework*

The common tenet of fiscal policy proposed in nearly all PRSPs is the need of fiscal prudence to ensure macroeconomic stability and private sector development. The private sector is seen as the main driver of growth. Thus, the PRSP's fiscal frameworks support growth mainly indirectly, via the macroeconomic stability and private sector development routes. Nearly all PRSPs either aim at deficit reduction or at least at ensuring fiscal sustainability; of all countries under analysis, at least 14 countries have established in their PRSPs clear fiscal targets – in some cases these are very low, but in others targets are higher and therefore in line with what the countries can realistically achieve (see Table 5).

Table 5: Fiscal Deficit and the PRSP Fiscal Deficit Targets (%)

	Target first PRSP	Target second PRSP
Africa		
Congo, DR	2.0-3.0	
Gambia	2.0-3.0 (before grants)	0.0-3.0
Ghana	1.0-2.0	
Guinea-Bissau	5.0-7.0	
Kenya	3.0	
Madagascar		3.0
Malawi		1.0
Mauritania	Below 3.0	10.0 (before grants)
Niger	6.0 (primary surplus)	
Nigeria	3.0	
Uganda		6.5

Zambia		2.0
Americas		
Dominica	1.0-2.0	
Nicaragua		1.0-2.0

Source: World Development Indicators and PRSP documents.

However, underneath the fiscal prudence tenet, the PRSP's proposed fiscal frameworks hold a much larger number of goals and targets than their monetary framework, and draw on a far larger range of instruments to achieve them. Moreover, together with the goal of stability, these frameworks have a clear focus on poverty reduction and prioritise budgetary allocation towards this policy goal. A further feature of the various PRSP's fiscal frameworks is that to a certain extent some of them contain recommendations to address their country-specific institutional and budgetary gaps and shortcomings, and to propose ways to overcome them. On the whole, they are designed at a higher level of detail and tailored to the reality of their countries. More detailed fiscal policies, in turn, imply that a certain degree of differentiation in fiscal policy design exists across countries. Box 2 summarises the main elements contained in various fiscal frameworks.

Box 2: Fiscal Policy Objectives and Instruments

Burkina Faso (I and II)	Prudent budget policy; commitment to the WAEMU convergence criteria.
Burundi	Contain budget deficit; control and rationalise allocation of public expenditure; increase state revenue.
Congo, DR	Prudent fiscal policy; support macroeconomic stability through increased resource mobilisation and control over public expenditure; increase public revenues through implementation and expansion of reforms.
Ethiopia	Fiscal discipline based on reducing the deficit to sustainable levels and reorienting expenditure, especially towards agriculture, health and education; increase in tax revenue from 14.3% to 17.7% of GDP through tax reform; move forward towards fiscal federalism. Acknowledgement that macroeconomic discipline is dependent on structural factors and external shocks.
Gambia (I)	Strengthen public finances to lower the budget deficit and thus the high level of domestic debt.
Gambia (II)	Further improve revenue collection through strengthening institutional capacity and procedures at the revenue departments; reduce domestic debt burden by maintaining a minimum primary balance surplus of 3% of GDP; slow down and reduce external indebtedness.
Ghana (I)	Improvements in expenditure and debt management and more effective revenue mobilisation to improve fiscal discipline.
Ghana (II)	Containment of fiscal deficits; aggressive domestic revenue mobilisation and its efficient use (through capacity enhancement; re-prioritisation of expenditure in favour of development expenditure.
Guinea-Bissau	Commitment to the WAEMU Convergence, Growth and Solidarity Pact.
Kenya	Fiscal sustainability; expenditure restructuring for growth and poverty reduction; improve public service delivery.
Lesotho	Sustainability of public deficit and debt through management of

	aggregate expenditures and revenues.
Madagascar (I and II)	Reduce the budget deficit through fiscal discipline, rationalising management of public finances and eliminating waste in government expenditures; simplify tax system to stimulate the private sector and enhance government revenue.
Malawi (I)	Prudent fiscal policy through improving public expenditure management and parastatals expenditure; more autonomy to treasury and budget to avoid pressures for financing the budget.
Malawi (II)	Maintain fiscal discipline while balancing government expenditure between productive and social sectors.
Mauritania (I)	Sound budgetary policy in the long term; in the short to medium term, controlled easing of budgetary policy, with a view of supporting economic growth; projected medium-term budget deficit with an upward trend (from 1.5% in 2000 to 3% in 2004) as a reflection of increased public investment and other additional expenditure related to PRSP projects; increase tax revenue through new tax reform (incl. VAT management improvement); prioritisation in the allocation of public expenditure.
Mauritania (II)	Consolidate tax reform; maintain control of public spending; careful management of new budget space created by inflow of oil revenues; improve targeting and efficiency of public spending.
Mozambique (I)	Limit budgetary expenditure; mobilise budget resources; tax reform; rationalise tax services and costumes; ensure flow of international finance; dynamic approach to resource allocation, by acknowledging that rapid growth is the best way to create resources for essential public services; greater co-ordination and transparency of public expenditure; adoption of programmes to reduce vulnerability to natural disasters.
Mozambique (II)	Reform and increase efficiency of the tax administration to increase domestic funds as a proportion of GDP, so that external dependency is reduced; simplify the tax system and broaden the tax base; modernise tax administration; curb fraud and tax evasion.
Niger	Strict budgetary policy; commitment to the WAEMU convergence criteria.
Nigeria	Tighter fiscal policy; tax reforms to raise revenues and diversify the tax base; establish a fiscal rule based on the price of oil; and a stabilisation fund for excess revenue arising from oil sales; establish a public expenditure rule so that deficit does not surpass 3 per cent of GDP.
Rwanda	Programme for reduction, prioritisation and rationalisation of expenditure; tax reform, aimed at reducing corporate tax, raising VAT and introducing new taxes; short-run increase in capital expenditure above long-term level, if funds are made available; temporary increases in public expenditure required in the short run to ensure long-term sustainability; the development of a range of financial instruments so that expenditure can be smoothed out during periods of revenue fluctuations.
Senegal (I)	Commitment to the convergence criteria of the WAEMU; simplification of taxation and broadening of the tax base; public expenditure closely monitored in order to obtain a positive budget balance; use of alternative sources of finance like the regional

	market for public debt bonds.
Senegal (II)	Consolidate the budgetary framework, in conformity with the WAEMU convergence criteria.
Sierra Leone	Strict fiscal discipline; keep overall expenditures consistent with the goal of price stability and overall external balance; rationalise the tax system.
Tanzania (I)	Prudent fiscal policy; improvement of expenditure planning; expected increase in revenue and expenditure due to tax reform; rationalisation of the tax system; provision of additional safety nets and the undertaking of special initiatives to prevent the collapse of crop production.
Tanzania (II)	Reduce aid dependency over the medium term; maintain fiscal prudence; continue to strength tax administration; reduce tax evasion and corruption; increase tax effort.
Uganda (I)	Prioritise expenditure towards the poor; overall fiscal deficit expected to increase in 1999/2000 and 2000/1 to 8.1% and 9.7%, and to decline to 8.2 % in 2002/3; equalisation grants.
Uganda (II)	Hard budget constraint for medium/long term spending plans of all sectors to maintain public finances on a sustainable basis; spending plans must be accommodated within their sector expenditure ceilings; expenditure ceilings cannot be stretched in the expectation that more resources will be found to support higher expenditure; raising the inflation target to generate more growth or to accommodate more expansionary fiscal policy seen as not acceptable.
Zambia (I)	Balanced budget in 2003 and 2004, but increase the budget deficit in the short run; need for policies to target the losers from the adjustments caused by the growth process.
Zambia (II)	Avoid excessive fiscal deficits and debt.
Bolivia	Sustainable fiscal deficits based on non-inflationary sources of finance.
Dominica	Prudent fiscal policy that is conducive to growth.
Honduras	Low fiscal deficit through firm control over expenditures; revenue strengthening through enlarging sales tax, improving the customs valuation system, and modifying the Income Tax Law; efforts to improve tax administration; rationalisation of public expenditure with priority to poverty reduction programmes; creation of a poverty reduction fund (with resources coming from debt relief and privatisation).
Nicaragua (I)	Rationalisation of public investment programmes (based on a bottom-up approach); increase in government spending on poverty-related outlays to 62% of the budget.
Nicaragua (II)	Fiscal discipline; declining fiscal deficit from 2.7% in 2006 to 0.6 % in 2010; long-term sustainability of public finances to keep inflation under control and stimulate economic growth.
Bangladesh	Maintain macroeconomic stability for private sector investment, through low-level target budget deficit, in line with sustainable national debt; domestic borrowing restrained to 2 per cent of GDP or below; mobilise foreign assistance for public investment in social and infrastructural sectors.
Cambodia (I and II)	Fiscal discipline; increase domestic revenue to finance poverty reduction; improve budget management and governance more

	broadly.
Kyrgyz Rep. (I and II)	Reduce budget deficit (through increase in revenues) and limit increase in external debt; poverty reduction programmes supported by increased tax revenue; tax reform based on VAT collection improvement, tax base expansion (through cancelling existing exemptions) and flat scale income and profit taxes maintained at 10%.
East Timor	Budget revenue growth for financial independence; effective management of oil and gas revenues; effective management of budget deficit and financing.
Vietnam	Appropriate fiscal policy to safeguard medium-term sustainability; strengthen the tax system; increase the tax base through new sources of tax revenue and the efficiency of the tax payment system (while ensuring it remains pro-poor); increase expenditures on basic social services and rural infrastructure; public expenditure bias in favour of poor provinces; increase in budget transparency; balance between capital investment and recurrent expenditure; adoption of preferential taxes for new investment and production expansion, technology innovation and new development.

Source: PRSP documents.

It can be seen from Box 2 that countries that have been performing well for a number of years (such as Ethiopia, Mauritania, Mozambique, Rwanda and Vietnam) have more developed fiscal frameworks, with higher degree of detail in regard to diagnosis of issues and how to address these – for example, their frameworks identify priority sectors for resource allocation, according to their specific needs and policy objectives. Moreover, within this group of countries, a number of PRSPs identify the need to support specific economic activities for growth, and a few acknowledge that it is also important to have mechanisms in place to address growth volatility caused by external shocks. Paradoxically, countries facing very low growth for many years maintain a narrowly focused commitment to fiscal prudence for macroeconomic stability (e.g., Dominica, Burundi, Guinea-Bissau, Lesotho).

Countries emerging from conflicts have their priorities geared towards supporting macroeconomic stability (e.g., Congo DR., Sierra Leone) and reduced aid dependency (e.g., East Timor); small countries such as Gambia stress the need to strengthen institutional capacity for tax revenue collection and other fiscal tasks; countries facing increased revenues arising from natural resource activities such as oil have proposed resource management improvements (e.g., Mauritania), or creation of fiscal rule based on the oil price and a stabilisation fund (e.g., Nigeria); and countries still facing very high external debt levels, such as Kyrgyz Rep., explicit address the need for debt containment or reduction.

The less developed fiscal frameworks are those from the WAEMU countries, which are committed to the WAEMU convergence criteria. Where specific policy proposals exist, these are along the lines of tax simplification and proposal of procedures to ensure budget balance in accordance with the convergence criteria (e.g., Senegal; see Box 3 for a summary description of the WAEMU pact).

Box 3. WAEMU’s Convergence, Stability, Growth, and Solidarity Pact

The WAEMU.s Convergence, Stability, Growth, and Solidarity Pact is a formal agreement adopted in 1999 by a group of countries of the Franc of the African Financial Community (CFA), concretely Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. This agreement is aimed at strengthening monetary and fiscal convergence, reinforcing macroeconomic stability, accelerating economic growth and enhancing solidarity amongst member countries. The Pact entered into force in 2003.

The primary convergence criteria are:

- Ratio of the basic fiscal balance to nominal GDP must be 0% or more.
- Ratio of outstanding domestic and foreign debt to nominal GDP must not exceed 70%.
- Average annual inflation rate cannot be more than 3% per year.
- Non-accumulation of domestic and external payments arrears in the current financial period.

The secondary criteria are as follows:

- Ratio of the wage bill to tax revenue cannot exceed 35%.
- Ratio of domestically financed public investment to tax revenue must be at least 20%.
- Ratio of the current external deficit (excluding grants) to nominal GDP cannot exceed 5%.
- Tax to GDP ratio must be 17% or more.

There is a mechanism of sanctions specified in case of no compliance by WAEMU member countries.

A couple or reasons probably explain why countries’ fiscal frameworks hold a higher degree of elaboration compared to the monetary frameworks. First, it is far easier for fiscal frameworks to establish direct links to, and therefore include policy measures for poverty reduction. Second, in principle PRSP country governments have higher human and institutional capacity in the fiscal compared with the monetary areas. This can be inferred through the counter-example cases – the fiscal frameworks of those countries emerging from conflicts, where resources of all kinds (human, institutional infrastructure) have been destroyed by war. In these cases, their frameworks are very simple, and lack the ability to articulate a clearly devised poverty-focused fiscal policy strategy.

3.4. *The Exchange Rate Regimes*

The proposed exchange rate regimes vary across countries. WAEMU countries are committed to a fixed exchange rate regime, so they lack room to incorporate policy objectives other than exchange rate stability.

At the other extreme, a number of countries aim at a flexible exchange rate regime. These countries include Burundi, Kenya, Madagascar, Nigeria, Sierra Leone and Kyrgyz Rep. This aim exists irrespective of the country’s institutional conditions and strength to achieve and maintain this policy goal. Some countries, such as Kenya and

Madagascar, mention the need for interventions in the market to avoid excessive exchange rate fluctuations. A secondary policy objective among this group of countries is to maintain their international reserves at adequate levels, usually above 3 months of imports.

A number of other countries implicitly suggest pursuing a *de facto* managed exchange rate regime, with the goal of exchange rate stability in mind; others a competitive exchange rate, and the build up of international reserves as a cushion to deal with external shocks.

Although the policy objectives of the various exchange rate regimes are multiple, it is not possible to find a single PRSP that identifies growth as an explicit policy objective; aiming for a competitive exchange rate to support the export activities is as far as the countries seem to be able to go in their proposed exchange rate regimes. Box 4 summarises the various exchange rate regimes proposed in the PRSPs.

Box 4: Exchange Rate Regimes Proposed in the PRSPs

Burkina Faso (I and II)	Fixed exchange rate regime (WAEMU member).
Burundi	Flexible management of the exchange rate; foreign exchange reserves above three months of imports of goods and non-factor services.
Congo, DR	Floating exchange rate regime.
Ethiopia	Stable exchange rate; eliminate exchange rate restrictions.
Gambia (I and II)	Maintain exchange rate policy consistent with holding of foreign reserves at levels required to meet external sector needs.
Ghana (II)	Stable exchange rate; prudent management to keep the currency depreciation below 4 per cent per annum.
Guinea-Bissau	Fixed exchange rate regime (WAEMU member).
Kenya	Flexible exchange rate regime; interventions limited to smoothing short-term volatility and variability of donor flows; maintain sound levels of international reserves; respond to medium- and long-term exogenous shocks.
Lesotho	Fixed exchange rate regime (to South Africa’s Rand).
Madagascar (I)	Floating exchange rate regime, while allowing for interventions to achieve foreign reserve objectives and prevent major fluctuations in the currency.
Malawi (I)	Competitive exchange rate (neither appreciated, nor depreciated).
Malawi (II)	Maintain market-determined exchange rate regime.
Mauritania (II)	Maintain an exchange rate consistent with economic fundamentals.
Mozambique (I)	Maintain a competitive exchange rate.
Mozambique (II)	Flexible exchange rate.
Niger	Fixed exchange rate regime (WAEMU member).
Nigeria	Establish a market-based exchange rate regime; avoid overvaluation of the real exchange rate.
Rwanda	Policy based on intervention to smooth short-term fluctuations while allowing the exchange rate to adjust to export price movements.
Senegal (I and II)	Fixed exchange rate regime (WAEMU member).
Sierra Leone	Maintain market-determined exchange rate regime.

Tanzania (II)	Market-determined exchange rate; maintain international reserves at least 6 months of imports.
Uganda (I)	Market-determined exchange rate; intervention to avoid excessive volatility and maintain international reserves (at adequate levels).
Zambia (II)	Stable and competitive exchange rate.
Bolivia	Competitive exchange rate through adoption of a crawling peg.
Dominica	Not specified.
Honduras	Competitive exchange rate; avoid exchange rate appreciation.
Nicaragua (II)	Long-term move towards a more flexible exchange rate regime.
Bangladesh	Maintain exchange rate stability (within a floating regime); ensure competitiveness and reduce excessive fluctuation unrelated to fundamentals; build up foreign exchange reserves to cushion against external shocks.
Cambodia (I and II)	Stable exchange rate (in the context of a highly dollarised economy).
Kyrgyz Rep. (I and II)	Maintain a floating exchange rate regime.
East Timor	Maintain the US Dollar as the country's currency.
Vietnam	Increase flexibility and transparency of the exchange rate regime.

Source: PRSP documents.

3.5. *Analysis of Earlier versus Recent PRSPs*

PRSP documents have received a great deal of attention and critical analysis covering a wide range of aspects, from political-institutional to economic ones, since first launched in the early 2000s.[7] How much have they changed, as a reflection of feedback and criticisms received over time? How much have they de-coupled from traditional IMF type of stabilisation programmes, and become more pro-poor, more pro-growth?

To answer these questions, we revisit the PRSP documents, taking the year 2004 as the cut off point between what can be considered the early PRSPs (or first generation PRSPs) and the recent PRSPs (second generation PRSPs). The choice of year is arbitrary, but can be justified in two ways: first, 2004 was the year when PRSP countries started completing their second PRSP documents, thus inaugurating the beginning of a second round of PRSPs; second, it was a year when a campaign for scaling-up resources for meeting the MDG targets gathered strength, a campaign which culminated with the G-8 Gleneagles pledges for doubling aid for Africa by 2010;[8] 2004 was also the year when the bulk of the UN-sponsored Millennium Project had reached completion, which in turn sparked a lot of debate around the need for a new financial push to support MDG-linked development strategies in low-income countries.

The analysis below indicates that not much has changed, apart from the fact that the PRSP documents in their macroeconomic framework parts seem to contain a higher degree of elaboration in terms of objectives and instruments, as noted earlier.

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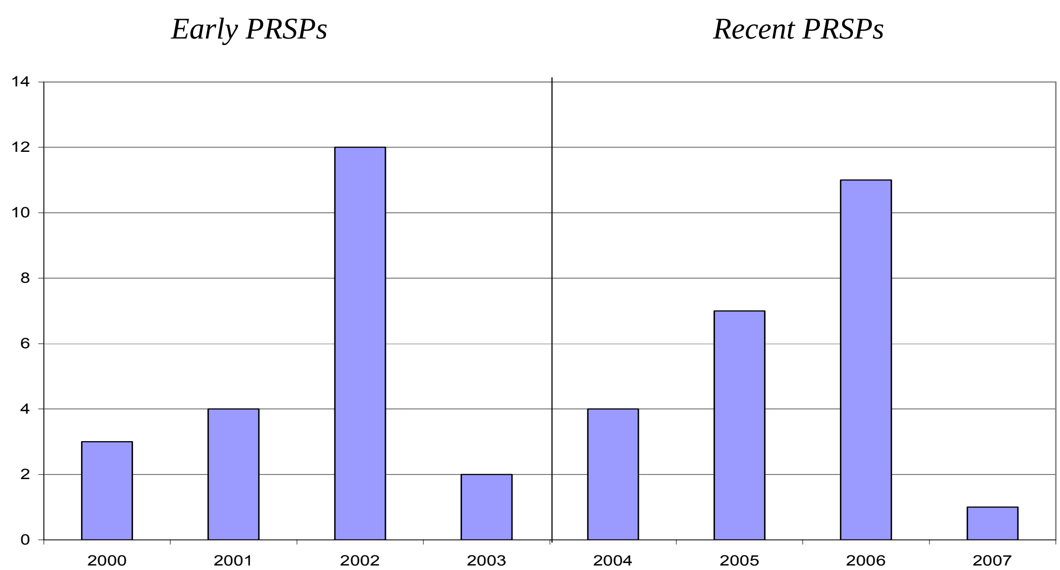
[7] See, for example, Booth (2001); Jenkins and Tsoka (2001); Gottschalk (2005); Dijkstra (2005); Cuesta (2007).

[8] The G-8 meeting at Gleneagles took place in 2005. See G-8 Gleneagles Summit documents at: http://www.g8.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1119518698846

In what follows, we take as parameters the following variables to gauge how more realistic, flexible and pro-growth the PRSP macroeconomic contents have become: the growth targets, the inflation targets and the fiscal elements contained in the fiscal frameworks. We will compare the growth targets with past growth to see to what extent PRSPs have become more realistic concerning what sort of growth their countries can achieve; the inflation targets to see whether the monetary frameworks have in recent past opened up space for faster growth; and the fiscal elements to see whether the fiscal frameworks have become more pro-growth. For this latter purpose, we will consider pro-growth measures in a broad sense to include explicit references made to both economic growth and growth volatility.

Figure 1 below shows how the various PRSPs under analysis are distributed across the years 2000-2007. From the figure we can see that, after a low start with three PRSPs documents completed in the year 2000 and four other in 2001 (of a total of 44 PRSP documents under analysis), a big jump took place in 2002 when 12 documents came to completion – followed by three others in 2003. In total 21 PRSPs were completed in the years 2000-2003 – what we call the early PRSPs. Then between the years 2004 and 2007 23 other, more recent PRSPs, were completed, 14 of which were countries' second PRSP documents. So, of the 30 countries under analysis, 14 countries had two PRSP documents released, while 16 other countries had only one over the years 2000-2007.

Figure 1: Number of PRSPs – 2000-2007



Source: Annex 1, Table 1.2.

Tables 6 reports the dates of completion for each of early PRSP documents by chronological order plus information on growth and inflation targets, and pro-poor and pro-growth fiscal measures contained in the various PRSP documents. Table 7 does the same for the recent PRSPs.

Table 6: Early PRSPs – Selected Indicators

			Growth Targets	Inflation Targets	Pro-poor Fiscal Measures	Pro-growth Fiscal Measures
2000	**May**	Burkina Faso I	7.0-8.0	<3.0		
	October	Tanzania I	5.0-6.0	4.0	Yes	Yes
	December	Mauritania I	7.0	<3.0	Yes	Yes
2001	**March**	Bolivia	5.0-5.5	4.0		
	April	Mozambique I	8.0	5.0	Yes	Yes
	July	Nicaragua I	4.5	4.0	Yes	
	August	Honduras	5.0-6.0	9.0	Yes	
2002	**January**	Niger	4.0	<3.0		
	March	Uganda I	7.0	<5.0	Yes	
	March	Zambia I	4.0	<5.0	Yes	
	April	Gambia I	6.0	3.0-4.0		
	April	Malawi I	5.0	4.0		
	May	East Timor	6.0	2.0-3.0		
	May	Senegal I	7.0-8.0	<3.0		
	May	Vietnam	8.0	Na	Yes	Yes
	June	Rwanda	7.0	<3.0		Yes
	July	Ethiopia	7.0	5.0	Yes	
	December	Cambodia I	6.0	4.0	Yes	
	December	Kyrgyz Rep. I	5.0	5.0	Yes	
2003	**February**	Ghana I	5.0	5.0-7.0		
	July	Madagascar I	8.0-10.0	Na		

Source: Author's elaboration, based on information from Table A.1.1, Annex 1, and PRSP documents.

Table 7: Recent PRSPs – Selected Indicators

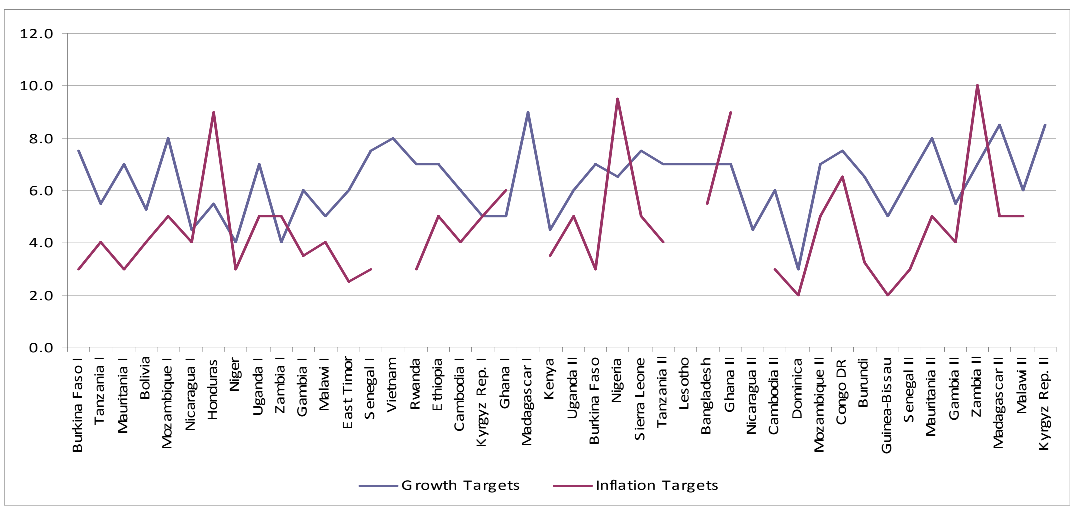
			Growth Targets	Inflation Targets	Pro-poor Fiscal Measures	Pro-growth Fiscal Measures
2004	**March**	Kenya	4.0-5.0	3.5	Yes	Yes
	March	Uganda II	6.0	Max 5.0		
	July	Burkina Faso II	7.0	< 3.0		
	Not specified	Nigeria	6.0-7.0	9.0-10.0		
2005	**February**	Sierra Leone	6.0-9.0	5.0		
	June	Tanzania II	6.0-8.0	Max 4.0		
	August	Lesotho	7.0	Na		
	October	Bangladesh	7.0	5.0-6.0	Yes	Yes
	November	Ghana II	6.0-8.0	< 9.0	Yes	Yes
	November	Nicaragua II	4.5	Na		
	December	Cambodia II	6.0	3.0	Yes	

2006	**April**	Dominica	3.0	2.0		
	May	Mozambique II	7.0	5.0		
	June	Congo DR	7.0-8.0	6.5		
	September	Burundi	6.0-7.0	2.5-4.0		
	September	Guinea-Bissau	5.0	2.0		
	September	Senegal II	5.0-8.0	3.0		
	October	Mauritania II	8.0	5.0		
	November	Gambia II	5.0-6.0	3.0-5.0		
	December	Zambia II	7.0	Single-digit		
	Not specified	Madagascar II	7.0-10.0	5.0		
	Not specified	Malawi II	6.0	5.0		
2007	**June**	Kyrgyz Rep. II	8.0-9.0	Na	Yes	

Source: Author's elaboration, based on information from Table A.1.1, Annex 1, and PRSP documents.

A first glance at the tables and Figure 2 as well suggests that both growth and inflation targets are not dramatically different between 2000-2003 and 2004-2007.

Figure 2: Growth and Inflation Targets - 2000-2007



Source: Tables 6 and 7.

Table 8 reports averages for both growth and inflation targets contained in early and recent PRSPs, so as to permit more detailed analysis. These averages show that these targets have moved up a little bit over time, from 6.2 per cent to 6.5 per cent in the case of growth targets, and from 4.3 to 4.9 per cent in the case of the inflation targets. However, these increases are not statistically significant.[9]

Table 8: PRSP's Selected Targets and Fiscal Measures[1]

	Average Growth	Average Inflation	Number of PRSPs with pro-	Number of PRSPs with

[9] Statistical tests are fully reported in Annex 2.

	Targets (%)	Targets (%)	poor fiscal measures	pro-growth fiscal measures
Early PRSPs (21 in total)	6.2	4.3	11	5
Recent PRSPs (23 in total)	6.5	4.9	5	3
PRSPs I (14 in total)	6.2	4.2	8	3
PRSPs II (14 in total)	6.8	5.1	3	1

Source: Author's elaboration based on PRSP documents.
[1]For the calculation of the averages, we choose the mid-point values where a range is provided;
and the closest integer to the maximum value, where the latter is provided.

The observed increased averages, even if they were significant, could simply be a consequence of the facts that the countries producing the early and the recent PRSPs are not exactly the same, and that countries that have produced PRSPs only recently include those that are very small (and that therefore took time to complete a PRSP due to low institutional capacity) and with poor growth performance such as Burundi, Guinea-Bissau and Lesotho – as well as those that have emerged from conflict recently (e.g., Sierra Leone, Congo DR); the first group have poor growth records, and therefore may have targeted high growth to recover lost ground; and the second group may have set higher inflation targets because they are still in the process of moving towards a one-digit inflation level, thus with a clear focus on macroeconomic stability.

However, we can find increased averages for growth and inflation targets within the group of countries that have produced two PRSPs as well – from 6.2 to 6.8 and from 4.2 to 5.1 per cent, respectively (see also Table 8). For growth targets, the increase is not statistically significant. For inflation targets, the increase is only statistically significant at 5 per cent when only countries that have specified inflation targets in both PRSP documents are included in the samples used for statistical inference.[10]

The increased targets for inflation could be reflecting more flexibility in the monetary policy frameworks to allow for faster growth. Alternatively, they may simply reflect a higher dose of realism about what low inflation countries may be able to achieve, in face of existing structural and institutional constraints to low inflation.

What about possible changes in the fiscal frameworks? Have these become both more pro-poor and pro-growth? Or have they become less pro-poor and more pro-growth – or less of both?

What the crude numbers gathered can tell us is that, in what concerns the PRSP fiscal frameworks, a clear shift has taken place towards less pro-poor, and also less pro-

[10] See Table A2.5 in Annex 2. Also, the increase in average is only statistically significant at 5% if the null hypothesis is that averages are the same and the alternative hypothesis is that average from PRSP II documents is higher than from PRSP I documents. If the alternative is that average from PRSP II documents is different from PRSP I documents, then the null can only be rejected at 10% significance level.

growth frameworks. This applies both to the whole group of early and recent PRSPs, and between early and recent PRSPs from countries that have produced two PRSP documents over 2000-2007.

The result for the fiscal framework is not necessarily incoherent with that for growth or for the monetary framework. A careful reading of the various components of the macroeconomic framework in each PRSP document suggests that, first, higher growth targets (albeit not statistically significant) reflect not so much an effort to reach faster growth to meet the MDGs, but simply the fact that growth has speeded up for many countries from 2003-04 onwards, and that the PRSP growth targets reflect this fact. Second, the monetary policy elements described in the various PRSP documents suggest that an adjustment upwards in inflation targets has happened in a few cases to make them more aligned with what the country can realistically achieve, rather than a willingness to open up space for faster growth. Third, the fiscal goals and measures reported in the PRSP documents point to stricter fiscal policy to ensure fiscal stability, even at the cost of growth and poverty reduction.

All in all, what we can cautiously conclude is that PRSPs may have become a little more realistic, in what concerns growth and inflation targets; and that the monetary framework continues to be narrowly focused on macroeconomic stability, with disregard to growth or other policy objectives. At the same time, their fiscal frameworks have become less pro-poor and less pro-growth as well, from a starting point where whilst reasonably pro-poor, they were already very little pro-growth. Surprisingly, the latter has happened despite growing emphasis by the international development community on faster growth and the recent context of increased aid to support this policy objective.

Finally, the trend in the fiscal framework indicates that if there has been a shift in priorities by the international development community and countries from the focus on pro-poor to pro-growth spending, and if PRGF-supported programmes have supported such shift in public spending at all, the truth is that these facts have not been reflected in the macroeconomic frameworks embodied in PRSP documents.

4. PRSP Macroeconomic Frameworks: Similar to Standard IMF Policies?

The previous section shows that the primary aim of the PRSPs' macroeconomic frameworks is to ensure macroeconomic stability. The fiscal components of the frameworks include growth and poverty reduction as policy objectives, but fiscal prudence to ensure macroeconomic stability is the central policy goal. The monetary and exchange rate components, in turn, fail to address directly growth or poverty reduction at all. In that sense, PRSPs macroeconomic frameworks are very similar to standard IMF policies.

The international context has changed in the past 30 years or so, as have countries' macroeconomic conditions. This has led to changes in the IMF – in how it designs and operates its various programmes, and how it sells these programmes to the wider public. However, this paper presents arguments and evidence that show that changes in the IMF have been more at the level of discourse than practice. It does so through analysing IMF's PRGF, a facility created in the late 1990s in response to the interest of the international community in poverty reduction.

It shows that, in theory, PRGF makes an important departure from traditional IMF programmes by proposing: greater flexibility in design and implementation; selectivity in the use of conditionality and the need of greater country ownership; more pro-poor and pro-growth budgets; more flexibility in accommodating increasing fiscal deficits; medium-term projections that include growth-driven scenarios; indication of how fiscal objectives should be adjusted to shocks; and strengthened fiscal governance through increased accountability for public resource management and transparent monitoring systems.

However, in practice PRGF-sponsored programmes have been more limited in what it does or allows to be done. Compared to traditional IMF programmes, on the positive side, it can be seen that they have been more flexible in regard to fiscal accommodation, prioritised poverty expenditure in budget allocation (with greater participation in budget design), and put emphasis on fostering increased accountability and developing more transparent monitoring systems. On the negative side, little progress seems to have been made concerning greater country ownership on the formulation of core monetary and exchange rate policy goals and instruments, on the rules for absorbing and spending increased aid (both anticipated and unanticipated), on fiscal flexibility to adjust to shocks, on pro-growth budgeting, on identifying new investment opportunities and on medium-term projections that are growth, MDG-driven.

Our analysis of the PRSP documents show that their macroeconomic content is closely aligned with PRGF programmes in practice. Growth targets are not MDG-linked but with past growth trends; very low inflation targets are specified, thus in line with PRGF inflation thresholds for spending of increased aid; budget balance is stressed with inclusion of low budget deficit targets, thus coherent with PRGF's lack of flexibility for spending additional aid or for adjustments to shocks; references exist to prioritising pro-poor budgeting but only very few to pro-growth budgeting, as in PRGF programmes; and identification of growth or other related opportunities for additional aid exist, but are few, thus again reflecting PRGF's failure to identify additional aid opportunities.

At the same time, our analysis shows that a certain degree of variation concerning the fiscal component of PRSPs macro frameworks exists, probably made possible by greater country ownership in the fiscal area (see below) and by the pro-poor focus of PRGF programmes in budgetary allocation issues, which gives space for the inclusion of country-specific measures. Moreover, the analysis suggests that a few PRSP documents go beyond by proposing innovative elements that are not found in conventional IMF policies, nor in PRGF programmes – such as specific references to easing fiscal stance or the use of additional funds to support growth-enhancing activities or address equality issues.

More broadly, drawing on the previous analysis, it can be argued that both PRGF programmes and the macro content of the PRSP documents hold some degree of variation across countries. For example, section 2 in this paper makes reference to the IMF IEO study that includes countries such as Mozambique, Rwanda and Tanzania, which shows that more recently the PRGF programmes in these countries have allowed for greater spending of unexpected aid. Our PRSP analysis shows that these are among the few countries under analysis that do have more ambitious fiscal frameworks that include explicit growth-related concerns.

Greater room for alternative policies and references to the spending of additional resources in both PRGF programmes and PRSP documents by the same countries

indicate that country-specific factors do play a role in the formulation and implementation of these programmes. This takes us to the following question: to what extent are PRSPs top-down, IMF driven, at least in what concerns their macroeconomic components? To what extent is the design of such components mediated by actions from other actors thereby contributing to a more balanced design and implementation process?

5. Formulation of Macroeconomic Content of PRSPs: Top-down or Bottom-up?

This section explores the questions formulated at the end of the previous section, to see to what extent actors other than the IMF contribute to the design of macroeconomic policies embedded in the PRSPs. It discusses the role of different actors – country governments, donors, and civil society. Towards the end of the section, if specifically asks: what are donor governments doing to ensure that the macroeconomic framework does not constrain aid spending?

It is common view that the IMF has great control over the design of PRGF programmes, and that these programmes underpin the macroeconomic content of PRSPs. The IEO (2007) reports a survey with IMF staff showing that nearly 80 per cent of IMF staff agrees with the statement that the PRGF programmes provide the macroeconomic basis for the PRSPs. What is less known and understood is the degree to which the formulation of PRSPs' macroeconomic contents is entirely under IMF control, and to what extent it is a process mediated by other actors, who try to influence outcomes. Given the close connection between PRGFs and PRSPs, we start this section by taking the PRGFs as a proxy to try to understand how PRSPs are formulated.

The IMF IEO (2007) country case study involving Burkina Faso, Mozambique, Ghana, Rwanda and Tanzania shows that the PRGFs in these five countries have become more flexible in the use of aid windfalls for increased aid absorption and spending, and in allowing full or partial financing of aid shortfalls.[11] The study also shows that the change in IMF position on the matter of use of aid for absorption and spending was influenced by pressures from actors such as countries' authorities, donors and civil society. Moreover, the study shows that whilst these actors did play a role in the change of programme design, better macroeconomic performance and macroeconomic stability have played an important role as well. Another aspect worth mentioning is that the specific elements concerning IMF staff over macroeconomic stability varies from country to country – for example while external debt sustainability was a key issue in Rwanda, macroeconomic stability concerns associated with rapid expansion of fiscal expenditures was the issue influencing programme design in Ghana. In the same way, the actors that are more active in trying to influence programme design vary according to the country – government authorities and donors in Ghana; government authorities, donors and civil society in Tanzania; NGOs in Mozambique.

What is particularly worth mentioning in it all is that it was in countries like Mozambique and Tanzania where a broader range of actors seem to have played a role in influencing change in the design of the PRGFs, and that in Burkina Faso, where apparently actors other than the IMF have less weight in programme design and implementation, what really counted for change was markedly improved macroeconomic stability.

[11] See IEO (2007), pp. 59-62.

The greater level of elaboration of PRSP documents with inclusion of innovative elements in countries such as Mozambique and Tanzania, and less so in countries such as Burkina Faso (see discussion of PRSPs above), indicate that the same forces that influence the design process of PRGFs are present and do play a role in the formulation of the macroeconomic frameworks embedded in the PRSPs of these countries.

Looking at the PRSP documents in more detail, it is possible to see that countries that have been performing well for a number of years, have received special attention by the donor community in the form of increased aid, and for one reason or another presumably have stronger government capacity (resource, technical), tend to generate PRSP documents whose macroeconomic frameworks are more elaborate and attuned to the goals of sustainable growth and poverty reduction. Therefore, it is possible to raise the hypothesis that degree of coherence between PRSP contents and goals is higher in countries with strong actors that strive for change.

Of course, some countries that fulfil these conditions – continued strong performance, increased aid flows and relatively strong government capacity – may still have their PRSPs strictly aligned with typical IMF programmes, with focus on macroeconomic stability, strictly defined. Uganda is an illustrative case of a strong performer where its PRSP greatly emphasises macroeconomic stability underpinned by low inflation targets and the need not to raise such targets to generate more growth, and hard budget constraint for medium/long term spending plans (see Boxes 1 and 2 above).

Therefore, it seems that two ingredients are necessary for a country to generate a development strategy whose core elements are fully consistent with the ultimate goals of growth and poverty reduction: willingness and capacity. Countries like Ethiopia, Rwanda, Tanzania and Mozambique seem to have these two ingredients in place and have made use of them for more pro-growth and pro-poor development strategies. At the same time, a country like Uganda also appears to have the capacity to depart from strictly conventional macroeconomic policies, but its government authorities may lack the willingness to do so, possibly due to greater degree of genuine alignment with IMF thinking.

The above permits us to conclude that, while in broad terms the formulation of the PRSPs' macro contents is very much a top-down approach dominated by the IMF, the process is mediated by other actors, including country authorities whose capacity and negotiation strengths play an important role in shaping PRSP programmes. Of course, one might expect that the role such actors have played in influencing the design and implementation of macroeconomic policies has gradually increased over time. That makes sense to the extent that capacity is a key ingredient to influence the policy process, and that it seems the case that capacity building is taking place among different actors, particularly country governments.

However, taking a dynamic perspective, it should be noted that our analysis of the first and second generation PRSPs in section 3 indicates that, if increased capacity and influence have indeed taken place, these developments have not been reflected in a clear shift in the macroeconomic content of PRSPs over time – from pro-stability to pro-growth focus, at least not in a generalised fashion.

The final question to explore in this section is: what role do donors play, specifically in regard to ensuring that the macroeconomic framework does not constrain aid spending?

We have seen above that donors can play an important role in pressuring the IMF to allow for higher spending of aid –as they have done in countries such as Tanzania. However, we argue that donors' attitude towards the Fund's role in the macroeconomic area is ambivalent. Donors praise the Fund's macroeconomic assessments (see IEO, 2007, page 22), and have increasingly relied on the Fund's assessment for aid disbursement decisions, a growing reliance made necessary due to their gradual shift from project aid to budget support. At the same time, they disagree with the Fund over how much additional aid can be spent. Once donors take a decision on increasing aid to a specific country, their expectations probably are that all of it should be spent. This, of course, clashes with IMF approach, which allows aid for adsorption and spending only when pre-determined thresholds for levels of international reserves and inflation are observed. So in donors' view, Fund's macroeconomic assessment is good, but their policy prescriptions on how additional aid should be used are not. Their fight with the IMF therefore takes place downstream at the expenditure level, not upstream on core policy design and the precepts that underpin it.

Donors have used expertise in macroeconomic issues from outside the IMF in order to have their own understanding of specific macroeconomic issues as well as the technical arguments to be able to fight with the Fund over how additional aid should be used (see IEO, 2007). In doing this, they have allied themselves with country governments and civil society. But it seems that this approach is not satisfactory because it is ad hoc and circumstantial.

It therefore would be desirable that, if donors wish to strengthen their hold on the macroeconomic area, and contribute to support countries in the design of a macroeconomic policy framework for growth and poverty reduction, they should generate their own macroeconomic assessment for aid disbursement and allocation decisions. In other words, they should be able to build their own expertise in macroeconomic matters to be able to provide systematic macroeconomic analysis, and take their aid disbursements and allocation decisions on the basis of their own assessment. This would alleviate tension between donors and the IMF, reduce the Fund's monopoly on macroeconomic issues, and contribute to provision of a richer pool of macroeconomic policy proposals to draw on.

Of course, tensions do not exist only between donors and the IMF. These also exist within countries – between country government and civil society, and within a country government, e.g., between the economic and social ministries. The kinds of alliances that take place certainly vary from country to country. It may be the case that in some countries the IMF and country's social ministries agree on prioritising budgetary allocation to the social sectors such as health and education, and that the ministries of finance and planning push for pro-growth expenditures instead. In other cases, disagreements may take place between the country's central bank, which may take a more pro-stability stance, and the civil society, which may wish for more pro-development expenditure.

In all possible alliances that may be forged between different actors, civil society seems to be the actor with the weakest amount of power to influence the design of macroeconomic policy. PRGFs and PRSPs have built ways to enable the civil society to participate in monitoring issues – and possibly on effective participation in specific budgetary issues (Jenkins and Tsoka, 2001). However, by and large they have failed to

build the channels through which civil society can influence the design of core macroeconomic policies, such as monetary or exchange rate policies.

6. A Macroeconomic Framework for a Growth and Poverty Reduction Strategy[12]

Following the discussion in the previous sections on to what extent the macroeconomic contents of the PRSPs are pro-growth and pro-poor, this section takes now a step back to address the question: what might a macroeconomic framework that supports growth and poverty reduction look like?

A first answer to this question is that there is not such a ready-made macroeconomic framework that can be applied universally. First, a macroeconomic framework for growth and poverty reduction should be tailored to country-specific features and challenges. Second, it should reflect the external environment the country faces at the time of design and implementation.

A country facing high macroeconomic instability may wish for a macroeconomic framework that has sufficient flexibility to address macroeconomic issues in a dynamic way. This entails initial emphasis on restoring macroeconomic stability. However, from the outset the strategy should combine measures for stability with the adoption of a set of policy measures to address economic recovery directly. For example, a country facing very high inflation – say over 50 per cent annual inflation – and large current account deficit, may have a macroeconomic framework in place that supports a strong fiscal adjustment and exchange rate depreciation, to bring inflation down to more acceptable levels and increase the country's level of external competitiveness. However, the fiscal adjustment should ensure that a minimum level of public capital expenditure is maintained so that the country is able to restore growth more rapidly and in a sustainable way.

Monetary tightening may also be a further component in the stabilisation strategy, but it should not be indiscriminate. It should take into account the impacts high interest rates may have on a country's domestic debt and on the availability and cost of capital, especially when the domestic financial system is bank-dominated. A measured monetary policy response to instability is important to provide the private sector, especially the export-oriented segments, sufficient conditions to respond to the new set of macroeconomic policies and incentives, including changes in relative prices.

Moreover, if a country lacks external sources of financing and has a large external debt, it may be appropriate that its debt is restructured. Many low-income countries especially from Sub-Saharan Africa stayed trapped in a vicious circle of high external debt – low or no growth – increasing poverty – for nearly two decades (the 1980s and 1990s), due to lack of international support for debt restructuring and of clear growth-supporting policies in the stabilisation packages that could help put them back on a recovery path. Growth and debt restructuring are two components of a stabilisation strategy that many

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[12] This section draws on a variety of proposals for pro-growth and pro-poor macroeconomic policies, put forward by a number of academics and UN-based officials. These include Gottschalk (2005), Saad Filho (2007), Weeks and McKinley (2007) and Vandemoortele (2004). Although these proposals share a fair degree of commonality, they differ in emphasis and level of detail.

critics called for in the 1980s when many debt-strangled countries were encouraged by the IMF to adopt its traditional stabilisation programmes.[13]

However, the facts that macroeconomic indicators of low-income countries have improved significantly since the late 1990s and early 2000s, and that external financing conditions have much improved as well, imply that a macroeconomic framework for these countries should reflect these developments today. A key feature of a framework in this new environment is to have growth playing a central role.

Growth should have a central place in a macroeconomic framework, first because it is the fastest and most effective way to tackle large-scale poverty, which is the sort of poverty facing low-income countries. Second, because growth can generate employment, and to the extent it is possible to pursue a pro-employment growth pattern, the employment generation effect can be large and thereby benefit the poor very significantly. Third, growth makes availability of public resources for poverty reduction to expand more rapidly in absolute terms. Of course, the speed to which poverty can be reduced (the elasticity of poverty reduction to growth) depends on a country's initial income and assets' distribution and the pattern of growth that takes place – pro-poor or anti-poor. Attempts to shift a growth pattern from anti-poor to pro-poor growth or to reinforce a pro-poor pattern should focus on a variety of structural and sectoral policies aimed at tackling the sources of anti-poor growth.[14]

The core of a macroeconomic framework – monetary, fiscal and exchange rate policies – should in turn be designed with the principal aim to support growth directly. The focus should be on growth because this is a policy goal easier to target through monetary, fiscal and exchange rate policy instruments. Their effects on poverty exist, but these tend to take place through multiple and indirect channels, making it difficult to tailor such policies to the poverty goal directly.

In addition, these policies should have sufficient flexibility, which they lack today due to their narrow focus on stability and the existence of an array of stringent rules and targets they follow to ensure stability is achieved and maintained. Flexibility is important for low-income countries, first to enable them to deal appropriately with external shocks and macroeconomic volatility, which have major effects on poverty, employment and growth; second, to give countries the space to formulate and implement policies to effectively support growth. Flexibility can be construed in a broad sense, to include choice of instruments, possibility of shifting from one policy objective to another in response to changing circumstances, avoidance of stringent targets, and space to deal with external shocks.

A macroeconomic framework centred on growth, nonetheless, should be anchored in sensible macroeconomic management. In fast growing developing economies undergoing structural changes, the framework may allow for the emergence of certain macroeconomic imbalances, provided these are kept within reasonable boundaries. For example, a current account deficit may take place, provided it is investment-led and hence reversible in the long term, and do not take the country to unsustainable debt levels. Inflation may rise but as a result of exogenous shocks, domestic supply shocks and growth-led bottlenecks, which can be addressed through targeted policy action.

[13] See, for example, Onimonde (1989) and Selowsky and Van der Tak (1986).

[14] For a discussion on the interactions between different forms of inequality and growth , see Goudie and Ladd (1999) and Naschold (2002); for a discussion on distribution and different growth patterns, see White and Anderson (2001).

Moreover, the boundaries within which imbalances may be permitted should not be set the same across countries. Instead, these should vary according to each country's macroeconomic history and characteristics. What should be avoided is that growth becomes entirely subordinated and constrained by the quest for macroeconomic stability, narrowly defined. That is, excessive focus on very low inflation and fiscal balance, which can taper off growth.

Although macroeconomic frameworks to support a growth and poverty reduction strategy should be allowed to vary from country to country, a common set of elements may be expected to feature in each of the core macroeconomic policies – monetary, fiscal and the exchange rate policies. Moreover, given that each of these should support growth directly, it is important that a macroeconomic framework clearly establishes targets for growth and identifies financing sources to support the targets. What follows provides a template for a pro-growth macroeconomic framework, covering what growth targets it should have and what elements may be needed in monetary, fiscal and exchange rate policies to support these targets.

6.1. The growth targets

To garner support for and maintain focus on growth, it is important that clear growth targets are established. These should be fully consistent with the other components of a country's growth and poverty reduction strategy, and with available and potential sources of financing. Moreover, it should look feasible in light of the country's growth track record in the recent past, though not excessively tight to it. Furthermore, a range for growth targets should be established and linked to alternative scenarios for the various financing sources. It is also desirable that the growth targets are linked to the MDGs, but this should be only so where feasible, so that the overall strategy is realistic and credible.

The various financing sources for the targeted growth must be clearly identified. These should include fiscal and private sources.

The two main sources within the fiscal component – external financing and domestic tax revenues – should be provided with base-line and alternative scenarios. The upper range of these scenarios should include optimistic assumptions regarding future flows of external finance and revenues. The assumptions underlying the various scenarios should be made explicit. For example, in building projections for aid flows (a main external financing source), one must show how much weight is assigned to past trend in aid flows, and how much to promises of future flows by donors. In the case of tax revenue sources, it should be made clear by how much new tax efforts and tax sources are expected to contribute to increases in projected revenues, and how realistic growth assumptions underlying projections are.

In relation to private financing sources, although the national accounts provide information on their magnitude, which in turn can serve as a basis for macroeconomic projections, it would be desirable that a qualitative analysis is conducted as well. It should be on how private resources could be better leveraged for growth. Special attention should be given to those resources amassed by domestic institutional investors,

which typically end up invested in domestic government securities due to lack of investment alternatives.

What has been outlined above can be considered a financing approach to growth. This approach can be complemented in two ways.

First, a plan containing measures to increase overall economic efficiency should be laid down. This should include investment in key infrastructure projects, whose spill-over effects are expected to reduce systemic costs and raise productivity across different sectors of the economy. These investment plans should be an integral part of budgetary planning, thereby helping increase coherence between the various components of the macroeconomic framework – in this case, coherence between growth targets and fiscal policy.

Second, measures should be included to reduce growth volatility. The main measures designed to this end should be embedded in the fiscal component of the macroeconomic framework, although the monetary and exchange rate policy components also should be expected to play a role in minimising this type of volatility.

The inclusion of a growth component in a macroeconomic framework is seen important to ensure a coherent macroeconomic framework in which growth helps mould the other components of the framework. However, it should be made clear that a focus on growth is not the same as having a fully fledged growth strategy, which includes a detailed analysis of the main drivers and constraints to growth, and which should be tailored according to each country's structural characteristics.[15]

6.2. *Monetary Policy*

A monetary framework that is broadly consistent with growth should avoid a narrow focus on price stability. There is a need that it supports broader policy objectives, including the exchange rate policy, increase in international reserves, output growth and employment.

Targets for inflation should not be set at too low a level. They may be inappropriate particularly for low-income countries with narrow economic structure, various supply-side constraints and limited access to hedging instruments, features that contribute to greater domestic price volatility. Prices therefore should be allowed to vary within a wider range before conventional demand management policies are called for.

It is an issue of debate what should be the maximum level of inflation permitted, in order to avoid that too high inflation undermines growth. The literature suggests a range of possible inflation levels – from around 7-11 per cent level, to 15 per cent to 30 or even 40 per cent.[16] In light of this, it might be appropriate that what may be considered an acceptable inflation level is informed by the country's own inflation history, and structural and institutional characteristics, the latter including degree of markets' integration, level of monetisation of the economy, size and strength of organised labour

[15] For a discussion of areas that may be important and thus included in a country-specific growth strategy, which may include financial depth, infrastructure, skills, labour markets, industrial and agricultural policies, see Walton (2007).

[16] See Khan and Senhadji (2001), who find that the threshold may be at 11-12 per cent for developing countries; and McKinley (2004) who argues that high inflation – above 40 per cent – may hurt the poor.

markets, degree of indexation in the economy, and coverage and quality of consumer price indexes.

It might be advisable that a monitoring system is in place, and that conventional demand management action is adopted not when a specific inflation threshold is hit, but when the inflation diagnosis clearly indicates that inflation has shifted from a localised to a generalised phenomenon, typically as a result of economic over-heating, which cannot be tackled through topical actions alone. Thus, an increase in inflation should be addressed through the use of conventional instruments not when it hits a specific threshold, as it may happen as a result of a supply shock whose effects may die out and inflation reverse, but when it is broad based. Moreover, because inflation can be bad not just for growth but also for a country's competitiveness and for poverty, inflation should be combated not just when it is likely to affect growth, but when it may undermine the country's external competitiveness[17] and when it has distributional effects that affect large segments of the poor disproportionately.

6.3. *Fiscal Policy*

An underlying feature of the various elements proposed above for the monetary framework is flexibility – for example, in how to decide what level of inflation may be deemed acceptable, or when to switch from topical to demand management actions to combat inflation, or what policy goal to focus on.

Fiscal policy should equally be designed in ways that flexibility exists to deal with different, sometimes unexpected, economic situations. This implies that:

First, stringent fiscal criteria that usually come packaged within stability pacts, such as the WAEMU *Convergence, Stability, Growth and Solidarity Pact*, should be avoided – as it takes flexibility away from fiscal framework needed to adapt to specific circumstances and needs. Flexibility should be institutionalised – for example through incorporation in the fiscal framework of counter-cyclical fiscal rules and mechanisms to be activated to deal with macroeconomic volatility and external shocks. These mechanisms could include permanent safety nets, which would be in place when a shock hits and therefore could be quickly activated. If permanent, safety nets could have a budget that operates counter-cyclically.

Second, fiscal policy should support growth, employment generation and poverty reduction directly. Given that poverty-related spending has been prioritised in recent years in detriment to pro-growth spending, the latter should be given particular attention from now onwards. It is important that pro-poor spending is conducive to job creation, and that pro-growth spending focuses on infrastructure projects that support intensive job-generation activities. Measures that can be undertaken to ensure that a minimum pro-growth spending is guaranteed in face of budgetary constraints may include setting a minimum threshold for this type of expenditure, which traditionally in times of budget tightening tends to be disproportionately reduced. Moreover, specific funding sources outside the tax revenue pot could be identified for pro-growth spending, such as proceedings from privatisation, and unexpected additional financing, such as sudden aid increases or export windfalls from state-owned companies.

[17] Exchange rate depreciation, if not accompanied by other demand management policies, may not be a satisfactory policy response to mitigate real exchange rate appreciation, because it can feed into the inflationary process, especially where the pass through (from exchange rate to inflation) is high.

Third, to further support growth, a fiscal framework should have instruments to mobilise capital, including the use of tax incentives for new investment and production, to support supply capacity expansion.

Fourth, the conduct of fiscal policy should be anchored in the principle of fiscal sustainability. This implies that persistently large fiscal deficits should be avoided, and plans to bring it to balance in the long term should be clearly devised. However, in line with the need for a fiscal framework to have counter-cyclical instruments to deal with macroeconomic volatility, it should allow for the widening of the fiscal deficit when needed. So the long-term trend should be of a declining deficit, but room should be given for the deficit to vary around the trend.

6.4. *Exchange Rate Policy*

Exchange rate policy should aim at a competitive exchange rate to support both the export sector and import-competing industries.

Exports are an important source of growth and foreign exchange earnings. In addition, exports can help create jobs. In some low-income Asian countries they originate from labour-intensive manufacturing, although this is not always the case. In many Sub-Saharan African countries exports are based on extractive activities that generate few jobs. Nonetheless, the import-competing industries, which also benefit from a competitive exchange rate, tend to have a higher employment-output ratio.

A competitive exchange rate should be pursued within a managed exchange rate regime, which allows for some exchange rate flexibility while maintaining competitiveness. Flexibility is important as a hedging mechanism against terms-of-trade and other external shocks. At the same time, the regime should be a managed one because a fully flexible regime may not be advisable for low-income countries. Unlike developed countries, they may suffer from particularly high degree of exchange rate volatility due to their relatively small foreign exchange and derivative markets, and unstable foreign exchange earnings.

7. Conclusions

This paper shows that both PRGF programmes and PRSP documents depart from traditional IMF stabilisation programmes in important respects. The most important one is that both clearly prioritise poverty expenditure in budgetary allocation. This is a main departure point from traditional IMF programmes, which reflect a shift of focus by the international community in the late 1990s towards the goal of poverty reduction worldwide. This shift should be commended, as it has helped improve our understanding of poverty in its different dimensions, and of how to tackle it directly. It also has helped us understand the need to have a broad-based growth strategy for a more balanced and sustainable development process.

The PRGF programmes are also different from standard IMF programmes in that they have been more flexible in regard to fiscal accommodation, and have put greater emphasis on fiscal governance issues. PRSP documents, in turn, also differ from IMF programmes in that, at least a few of them propose in their fiscal frameworks some innovative elements to deal with shocks, and creation of instruments to use additional funds for growth-enhancing activities or in support of development goals more broadly.

However, this paper argues that both the PRGFs and the PRSPs have failed to depart from standard IMF stabilisation programmes in core macroeconomic policy areas. Their monetary policy is narrowly focused on price stability, with emphasis on very low inflation targets. Their fiscal policy, although having a pro-poor focus in budgetary allocation, again is aimed primarily at ensuring fiscal balance, a policy aim anchored in stringent target criteria for specific fiscal variables such as fiscal deficit and domestic debt levels. References to supporting growth or to reducing growth volatility caused by shocks, or policy instruments to support these policy objectives directly are very few. Moreover, whilst fiscal frameworks are pro-poor, they blatantly fail to be pro-growth.

The main shortcoming of PRSPs' macroeconomic frameworks therefore is that these are not designed to support faster growth directly, which in our view is the most effective way to tackle large-scale poverty. Whilst it is true that budgetary allocation is pro-poor, the fact is that pro-poor budget that does not grow fast enough on the back of overall economic growth (which is the basis for revenue collection), and is constrained by stringent fiscal rules, is likely to have only a limited impact on poverty reduction.

Our assessment therefore is that PRSPs' macroeconomic frameworks at best have had a limited impact on poverty reduction. Growth has accelerated in PRSP countries due to factors outside the control of the PRSP-based development strategies, such as world economic growth and commodity boom. PRSPs have failed to support growth directly through growth-enhancing monetary, fiscal and exchange rate policies, or through budgetary allocation towards large-scale infrastructure investment and other growth-related projects needed for supply-capacity expansion, which is the only way a country can absorb aid fully whilst avoiding Dutch disease effects and thereby achieve fast and sustainable economic growth.

Our analysis suggests that the IMF through PRGF design has a strong hold on the PRSPs' macroeconomic content. But actors such as country governments, donors and civil society can play an important role in helping design more pro-growth macroeconomic policies. The process of striving for change is possible, but difficult. In our view, a vital element for change is the build up of resource and technical capacity within country government bureaucracies to enable them to assert their own views on

what development strategy is the most desirable to pursue. In addition, not only capacity but also the willingness to depart from conventional macroeconomic policy formulation is needed, which is made possible only when domestic forces have a clear pro-growth ideology.

Most of all, what is needed is the break with the unvarying character of macroeconomic policy framework, through the provision a wider range of macroeconomic policy options that are more flexible and thereby more pro-growth, pro-development and tailored to country-specific needs and circumstances. Donors and country governments have a critical role to play in this respect through generating their own capabilities in macroeconomic policy assessment and design, so as to support their wish for a growth-based development path.

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Annex 1. Criteria for Country Selection

For the analysis of the macroeconomic frameworks of PRSPs, this paper draws on 44 PRSPs from 30 countries, out of a total of 64 countries which in November 2007 had either a complete PRSP or at least an interim PRSP posted on the IMF website.

The selected countries comprise 21 countries from Africa, five from Asia and four from the Americas. The countries are listed in Table A1.1, which also brings information of the number of PRSPs that were analysed for each country.

Table A1.1: Countries selected for the PRSP analysis

Country	**Number of PRSPs**	**Dates**	**Country**	**Number of PRSPs**	**Dates**
Africa			***Asia***		
Burkina Faso	2	May 2000 July 2004	Bangladesh	1	Oct 2005
Burundi	1	Sep 2006	Cambodia	2	Dec 2002 Dec 2005
Congo, DR	1	Jun 2006	Kyrgyz Rep.	2	Jun 2007* Dec 2002*
Ethiopia	1	Jul 2002	East Timor	1	May 2002
Gambia	2	Apr 2002 Nov 2006	Vietnam	1	May 2002
Ghana	2	Feb 2003 Nov 2005			
Guinea-Bissau	1	Sep 2006	***Americas***		
Kenya	1	Mar 2004	Bolivia	1	Mar 2001
Lesotho	1	Aug 2005**	Dominica	1	Apr 2006
Madagascar	2	Jul 2003 - 2006	Honduras	1	Aug 2001*
Malawi	2	Apr 2002 - 2006	Nicaragua	2	Jul 2001 Nov 2005
Mauritania	2	Dec 2000 Oct 2006			
Mozambique	2	Apr 2001 May 2006			
Niger	1	Jan 2002			
Nigeria	1	- 2004			
Rwanda	1	Jun 2002			
Senegal	2	May 2002* Sep 2006			
Sierra Leone	1	Feb 2005			
Tanzania	2	Oct 2000* Jun 2005			
Uganda	2	Mar 2002 Mar 2004*			
Zambia	2	Mar 2002*			

		Dec 2006			

Source: PRSPs obtained from the IMF website.
* Dates when the PRSP documents were posted on the IMF website.
** Date of submission to the IMF Executive Board.

The criteria for country selection were as follows. Given the amount of information we would have to process in the analysis of the PRSPs, we chose a cut off point of 30 countries, a number we found reasonable in light of the fact that the total universe of countries with PRSPs is formed of 64 countries. To choose the 30 countries, we first selected all countries with two PRSPs – 14 countries in total. This was done to give a dynamic perspective – and hopefully information both on possible changes and their directions. Second, we selected 11 countries which had the PRSPs completed most recently, so that we could capture possible recent trends in the PRSP process. Finally, we selected Ethiopia, Niger, Rwanda, Bolivia and Honduras. This was done despite the facts that they have only one PRSP each, in all cases completed in the early 2000s. They were selected for their labelling, and thus attention received, as good performers, and for being countries included in a previous PRSP assessment by this author – see Gottschalk (2005), so that we could build on previous knowledge and analysis.

Thus, 44 of a total of 78 PRSPs – 56 per cent of the total – are analysed in this study, from 30 countries out of a total of 64 countries (47 per cent of the total). We believe that this sample is fairly representative and can provide a comprehensive picture of the status of the macroeconomic frameworks embodied in the PRSPs prepared by developing countries to date. Moreover, the analysis of the macroeconomic content of the PRSPs is complemented with other documents and reports that also address the same issue, albeit from slightly different angles.

Table A.1.2 reorganises information from Table A.1. through putting it in chronological order.

Table A1.2: PRSP Documents – Chronological Order

2000	**May**	Burkina Faso I
	October	Tanzania I
	December	Mauritania I
2001	**March**	Bolivia
	April	Mozambique I
	July	Nicaragua I
	August	Honduras
2002	**January**	Niger
	March	Uganda I
	March	Zambia I
	April	Gambia I
	April	Malawi I
	May	East Timor
	May	Senegal I
	May	Vietnam
	June	Rwanda
	July	Ethiopia
	December	Cambodia I
	December	Kyrgyz Rep. I

2003	**February**	Ghana I
	July	Madagascar I
2004	**March**	Kenya
	March	Uganda II
	July	Burkina Faso II
	Not specified	Nigeria
2005	**February**	Sierra Leone
	June	Tanzania II
	August	Lesotho
	October	Bangladesh
	November	Ghana II
	November	Nicaragua II
	December	Cambodia II
2006	**April**	Dominica
	May	Mozambique II
	June	Congo DR
	September	Burundi
	September	Guinea-Bissau
	September	Senegal II
	October	Mauritania II
	November	Gambia II
	December	Zambia II
	Not specified	Madagascar II
	Not specified	Malawi II
2007	**June**	Kyrgyz Rep. II

Source: Table A.1.

Annex 2. PRSP Growth and Inflation Targets: T-Test Results

Table A2.1: Average Growth Targets: Early versus Recent PRSPs

t-Test: Two-Sample Assuming Unequal Variances

	Variable 1	*Variable 2*
Mean	6.18	6.48
Variance	1.96	1.74
Observations	21	23
Hypothesized Mean Difference	0	
Df	41	
t Stat	**-0.730**	
P(T<=t) one-tail	0.235	
t Critical one-tail	1.683	
P(T<=t) two-tail	0.470	
t Critical two-tail	**2.020**	

Data source: Tables 6 and 7 of main text.

Table A2.2: Average Inflation Targets: Early versus Recent PRSPs

t-Test: Two-Sample Assuming Unequal Variances

	Variable 1	*Variable 2*
Mean	4.26	4.91
Variance	2.23	5.31
Observations	19	20
Hypothesized Mean Difference	0	
Df	33	
t Stat	**-1.049**	
P(T<=t) one-tail	0.151	
t Critical one-tail	1.692	
P(T<=t) two-tail	0.302	
t Critical two-tail	**2.035**	

Data source: Tables 6 and 7 of main text.

Table A2.3: Average Growth Targets: PRSPs I versus PRSPs II

t-Test: Paired Two Sample for Means

	Variable 1	*Variable 2*
Mean	6.21	6.75
Variance	2.18	1.26
Observations	14	14
Pearson Correlation	0.3596498	
Hypothesized Mean Difference	0	
Df	**13**	
t Stat	-1.337	
P(T<=t) one-tail	0.102	
t Critical one-tail	1.771	
P(T<=t) two-tail	0.204	
t Critical two-tail	**2.160**	

Data source: Tables 6 and 7 of main text.

Table A2.4: Average Inflation Targets: PRSPs I versus PRSPs II

t-Test: Two-Sample Assuming Unequal Variances

	Variable 1	*Variable 2*
Mean	4.19	5.08
Variance	0.90	4.99
Observations	13	12
Hypothesized Mean Difference	0	
Df	15	
t Stat	**-1.279**	
P(T<=t) one-tail	0.110	
t Critical one-tail	1.753	
P(T<=t) two-tail	0.220	
t Critical two-tail	**2.131**	

Data source: Tables 6 and 7 of main text.

Table A3.5: Average Inflation Targets: PRSPs I versus PRSPs II

t-Test: Paired Two Sample for Means

	Variable 1	*Variable 2*
Mean	4.14	5.09
Variance	1.00	5.49
Observations	11	11
Pearson Correlation	0.7393222	
Hypothesized Mean Difference	0	
Df	**10**	
t Stat	-1.821	
P(T<=t) one-tail	0.049	
t Critical one-tail	1.812	
P(T<=t) two-tail	0.099	
t Critical two-tail	**2.228**	