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*Roman Mogilevsky, Victor Baramia,
Mushegh Tumasyan*

**Linkages between the MDGs and PRSPs in
Transitional Countries of Eurasia**

Warsaw, December 2005

Materials published here have a working paper character. They can be subject to further publication. The views and opinions expressed here reflect the author(s) point of view and not necessarily those of CASE.

A paper prepared under the project financed by the United Nations Economic and Social Commission for Asia and Pacific.

The publication was financed by Rabobank Polska S.A.

Keywords: **MDG, PRSP, transition countries.**

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Graphic Design: Agnieszka Natalia Bury

ISSN 1506-1701, ISBN: 83-7178-390-6

Publisher:

CASE – Center for Social and Economic Research

12 Sienkiewicza, 00-944 Warsaw, Poland

tel.: (48 22) 622 66 27, 828 61 33, fax: (48 22) 828 60 69

e-mail: case@case.com.pl

<http://www.case.com.pl/>

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Roman Mogilevsky is an executive director and senior research fellow of the Center for Social and Economic Research CASE-Kyrgyzstan. He works as an advisor to the Kyrgyz Government and a consultant for different projects of international organizations in the Kyrgyz Republic and other CIS countries. His research interests include issues of poverty analysis, fiscal and social policy, foreign trade, agricultural economics. He publishes extensively on problems of the economy of Kyrgyzstan and other transition countries.

Victor Baramia is a coordinator of the UNDP project “Support to Implementation of the Economic Development and Poverty Reduction Program of Georgia (EDPRP)”. The project, which is located in the Ministry of Economic Development of Georgia, aims at providing support to the Government of Georgia in coordination and monitoring of the implementation of the reforms and measures envisaged by the EDPRP. He was actively involved as a consultant in elaboration of the EDPRP and Millennium Development Goals Report (MDGR) for Georgia and following progress reports.

Mushegh Tumasyan is the Chairman and the Research Director of the Economic Development and Research Center (EDRC-Armenia). He is an economist, specializing in macroeconomic policy and modeling, poverty and distribution issues. He previously worked as an economist/fiscal reform analyst in KPMG Consulting for USAID/Tax Fiscal Custom Reform Project. Before that he worked with the Ministry of Finance and Economy of RA heading the Macroeconomic Analyses and Research Department. Mr. Tumasyan has various consulting experience with Government of Armenia, international organizations and development agencies.

Abstract

The paper looks at linkages between MDGs and PRSPs in six transition countries: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Mongolia, and Tajikistan. Progress towards MDG attainment in all these countries is considered. Key features of PRSPs in the countries of the sub-region are analyzed. Against this background, the linkages and consistency between MDGs and PRSPs are discussed in the paper.

1. PRSP framework and MDG agenda in the countries

1.1. Background of the countries with respect to MDGs

1. Six countries considered in the report – Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Mongolia, and Tajikistan – share many common features, which allow grouping them together. The commonalities include:

- *The socialist past*; till 1991, five of these countries had been republics of the USSR and Mongolia had very close economic and political ties with the former Soviet Union; correspondingly, the countries inherited from that period similar problems and achievements;
- *Similar transition path*; during last 15 years every country had to solve problems of transition from plan to market economy, creating/reinforcing institutions of independent state, sustaining achieved level of social development;
- *Similar level of economic and social development*; all six countries have values of key social and economic indicators of comparable order (see Table 1); by the World Bank classification, all these countries apart from Armenia belong to the low income country group;
- *Geography and population*; all countries apart from Georgia do not have access to sea and have to rely on their neighbors for transit to other parts of the world; large part of each country has unfavorable development conditions (mountains, deserts); all countries are not large in terms of population (<10 million people); substantial part of the population in many of this countries live abroad seeking for employment opportunities;
- *Conflicts*; during last 15 years all countries apart from Mongolia have experienced international or domestic military conflicts;
- *Aid dependence*; all countries had received massive foreign aid and accumulated substantial public foreign debts.

2. All countries have identified **poverty** as a major development problem. According to Table 1, half of population of Armenia, Mongolia and Tajikistan, quarter of the Kyrgyz population and smaller but still significant population groups in Azerbaijan and Georgia fell into extreme poverty. During last years all countries have shown quite robust economic growth, and this growth contributed to some improvement of the poverty situation; still poverty remains to be main social and economic problem. The poverty is accompanied by large income inequality. While hunger is not typical problem of these countries, undernourishment and, in particular, child malnutrition rates are not small. A specific feature of poverty in these countries is that it is rather new phenomenon; in previous times, egalitarian socialist system prevented majority of population from falling into poverty. Most typical groups of poor are families with many children, the unemployed, people lacking assets (land, livestock, etc.) or basic education, people with disabilities, refugees; a separate group of poor is population living in remote and isolated areas.

Table 1: Key MDG/human development indicators of the six countries

Indicator	Meas. unit	Year	Armenia	Azerbaijan	Georgia	Kyrgyzstan	Mongolia	Tajikistan
Surface area	Thousand km ²	2002	29.8	86.6	69.7	199.9	1566.5	143.1
Population	Mil. people	2002	3.1	8.2	5.2	5.0	2.4	6.3
GDP	Billion USD	2002	2.4	6.1	3.4	1.6	1.1	1.2
GDP per capita, PPP	USD	2002	3120	3210	2260	1620	1710	980
Share of people living on less than \$2 a day (PPP)	%	2001 ¹	49	9	16	27	50	51
Income share held by lowest 20% of the population	%	2001 ²	6.7	7.4	6.4	9.1	5.6	8.0
Literacy rate of 15-24 year-olds	%	1999-2001	99.8	97.6	99.8	99.6	97.7	99.8
Ratio of girls to boys in primary and secondary education	%	2001	104	98	105	99	112	88
Under-5 mortality rate	Per 1000 live births	2002	35	96	29	61	71	116
Life expectancy at birth	Years	2002	75	65	73	65	65	67
Share of population with access to improved water source	%	2000	86	78	79	77	60	60
Total debt service as a share of exports of goods and services	%	2002	8.8	6.5	11.0	25.3	6.7	10.2
Aid per capita	USD	2002	96	43	60	37	85	27

Source: World Development Indicators 2004, the World Bank; national MDG progress reports.

3. All countries inherited well-established **education** systems with almost 100% literacy and primary school enrollment; enrollment to secondary and tertiary education is also pretty high. These education systems, however, are expensive, and it is hardly affordable for countries to sustain them. Therefore, public funding for education has been reduced. While all countries succeeded in maintaining high enrollment levels, they were less successful in preserving quality of education, which is gradually deteriorating.

4. The countries provide equal legal status to men and women; access to education for boys and girls is practically equal³; participation of women in labor force is also relatively high (while less than men). However, all these societies have different types of **gender** inequality, which is related to disproportionally low participation of women in decision-making and access to well-paid jobs. In all these countries women compose insignificant part of parliamentarians and government members or top-level managers in private companies, and their average wage is only a fraction of men's wages.

5. The trends in the **health** sector are not uniform. During last years all countries have registered some decline in child and maternal mortality, however the absolute values of the mortality rates are still high and the positive dynamics may be related not so much to improvements in living conditions and health system, but to 1.5-2-fold decline in fertility rate accompanied with an increase in intergenerational interval and associated reduction in child and maternal mortality risk. Life expectancy substantially reduced in Azerbaijan, Kyrgyzstan and Tajikistan and increased in other

¹ 1998 for Armenia and Tajikistan and 1995 for Mongolia.

² 1998 for Armenia, Mongolia, and Tajikistan.

³ The situation is somewhat different in Tajikistan, where enrollment rates for girls are much lower than for boys.

three countries. While HIV/AIDS prevalence in these countries is relatively low, the number of cases in many of them started increasing rapidly in last few years. TB morbidity is high and increasing, and the situation with some other infectious diseases is dangerous. Anemia is widespread among women and children. Health infrastructure has suffered much during transition years, public funding reduced two-three times in comparison to 1990, number of medical establishments and personnel shrank and access to health services, especially for poor and people living in isolated parts of the country, substantially worsened.

6. The state of **environment** in these six countries is also worrying. From one side, the economic decline during first years of transition led to some reduction in environmental damage from human economic activities (reflected in reduction of harmful substances emissions, etc.). From the other side, widespread poverty made many people less sensitive to environmental issues and de facto deprioritized the environment problems (while, of course, all official documents pay due attention to the whole environmental agenda). Environmental conditions of living (reflected in, for example, access to safe drinking water) require much improvement.

7. All six countries are actively involved into **global partnership** being recipients of large foreign aid. This aid, of course, helped them much in overcoming the most acute problems of transition. At the same time, many of these countries have become aid-dependent and very quickly accumulated very substantial public external debt. Some of them already went through debt restructuring procedures arranged by Paris Club or individual donors (Russia).

8. The countries have also some characteristic development and human security issues:

- All countries suffer from governance imperfections and widespread corruption; this significantly reduces the ability of the governments to provide public goods efficiently and absorb foreign aid in the way most beneficial for the country.
- The countries underwent radical change of economic structure during the transition period and in majority of them industrial sector has been substantially substituted by services and agriculture. An important consequence of this change for all these countries is large mismatch of people's skills and their current employment; there are many engineers or industrial workers, who are now traders or consumer service providers. This means significant depreciation and underutilization of human capital; this is also a source of a situation not very typical in other parts of the world – poverty among people with good education and assets inherited from previous socio-economic system.
- Economic decline and conflicts forced large groups of population to look for employment abroad; labor migrants compose now pretty large share⁴ of the countries' labor force.
- In all of these countries informal economy is widespread; it is a very important source of employment for many, and especially poor, people. Importantly, informal economy makes little contribution to the government budgets of the countries, so all of them are characterized by

⁴ No accurate estimates exist; however, in some of these countries this share reaches 30% or more of total labor force.

low tax-collection-to-GDP ratios and, therefore, scarce domestic resources for financing of social infrastructure.

- Economic structure based on agriculture and exports of just few commodities make many of these countries vulnerable to external shocks (for example, climate conditions or world price developments). The countries lack effective risk management systems, so these shocks are basically translated to the poorest segments of the population. Only Azerbaijan, which is rich in oil, was able to make steps towards creation of such risk mitigation mechanism as stabilization fund accumulating part of revenues from oil sales.
- In Armenia, Azerbaijan, Georgia and Tajikistan, large problems are related to the situation of refugees and internally displaced persons, whose living standards are much below the country average.

1.2. Key features of PRSPs in the countries of the sub-region

1.2.1. PRSP Process

9. All countries went through a similar process of PRSP preparation and adoption. PRSPs replaced earlier adopted poverty alleviation programs (for example, National Poverty Alleviation Program/ National Program for Household Livelihood Support in Mongolia or National Poverty Reduction Program “Araket” in Kyrgyzstan). So, to a some extent the Governments utilized previous positive (e.g., community-driven approach to development in Mongolia) or negative (lack of proper monitoring mechanisms or too narrow focus on social issues with insufficient attention to governance or environmental sustainability, which were characteristic to all countries) experience of programming in the area of poverty reduction. In 1999-2002, Governments of these countries in dialog with civil society and donors developed Interim PRSPs, and then, after approval of I-PRSPs by the IMF and the World Bank, full-fledged PRSPs have been adopted in 2002-2003 (see Table 2).

Table 2: PRSPs and national MDG progress reports in the countries of the region

Country	Title of the PRSP document	Date of PRSP adoption	Date of the first progress report on	
			PRSP	MDGs
Armenia	Poverty Reduction Strategy Paper	2003	2005	2001 ⁵
Azerbaijan	State Programme on Poverty Reduction and Economic Development	2003	2004	2004
Georgia	Economic Development and Poverty Reduction Programme	2003	2005	2004
Kyrgyzstan	National Poverty Reduction Strategy	2002	2004	2003
Mongolia	Economic Growth Support and Poverty Reduction Strategy	2003	2005	2004
Tajikistan	Poverty Reduction Strategy Paper	2002	2004	2003

10. The process of PRSP preparation and adoption in all countries was designed to be participatory. The working/expert groups responsible for drafting PRSPs were staffed by representatives of the government agencies, parliament and civil society organizations⁶. Non-governmental experts

⁵ Draft, no final version has been published yet.

⁶ Interestingly, in majority of the countries business community and political parties were rather inactive during the PRSP process.

were also present in the editorial boards, which prepared final PRSP versions. In majority of the countries donors were directly present in the working groups; in Georgia, for example, donors established the so-called “Donor Framework Group” coordinated by UNDP, which had to improve coordination between donors and the Government. Drafts of the PRSPs were published and discussed on a series of national and regional seminars with wider audience; typically the documents received large TV, radio and other media coverage; in some countries (Armenia, Kyrgyzstan) special web-sites had been created in order to facilitate participation process. To make the strategy document more accessible for general public, shorter/simplified versions of the document had been prepared and published in some of these countries (Georgia, Kyrgyzstan). Kyrgyz PRSP contains special Matrix on Partnership and Participation in PRSP Implementation, which describes the role of civil society in the strategy implementation.

11. Kyrgyzstan and Tajikistan have longer-term strategies, which sets a stage for PRSPs. In Kyrgyzstan there is “Comprehensive Development Framework 2001-2010” (CDF); Tajikistan has the “Social and Economic Development Program until 2015” (SEDP). The Kyrgyz PRSP is seen as a mid-term tool of the CDF implementation, and these two strategies have basically the same structure and scope and differ mainly in the level of details. In Tajikistan SEDP is a long-term development policy document developed by the Ministry of Economy and Trade. It sets five-year targets covering the period up to 2015 and focuses mainly on the infrastructure developments and the energy sector. This document serves as a basis for planning the budget capital investments and has a significant impact on the budget process in general. As opposed to this Program the PRSP focuses mainly on human development and private sector development.

12. In all countries the PRSPs have been approved by presidential or government decrees, in Tajikistan it has been approved by Mejlis (the parliament). Coordination of PRSP preparation and implementation is fulfilled by specially designated bodies – Secretariats, which were parts of the Presidential Administration (in Georgia /before 2003/, Kyrgyzstan, Tajikistan) or ministries of finance and/or economy (Azerbaijan, Georgia /after 2003/, Mongolia).

13. PRSPs are also supplemented by action plans, which contain measures to be undertaken during the implementation period. However, these measures are not always concrete, well-structured and backed by necessary resources and/or stakeholder commitment. For example, the Kyrgyz action plan relies on large private investments, which are not guaranteed.

14. In every country the PRSP contains a built-in monitoring system with detailed system of indicators, benchmarks, and stakeholders responsible for data collection and analysis. All these systems provide a role for the civil society in the strategy monitoring. While the very design of the monitoring systems looks reasonable in majority of the countries, in practice monitoring arrangements suffer from many deficiencies (non-availability of data on many important indicators, outdated measuring methodology⁷, insufficiently reliable information sources).

⁷ In particular, this relates to infant mortality rate.

15. An important part of PRSP monitoring and implementation process is preparation of annual progress report. All countries have published it in 2004-2005 (see Table 2). According to the IMF and World Bank Joint Staff Assessments, the progress reports have been expected to be a tool for policy updating; however, so far they were merely lists of implemented measures and description of the development outcomes.

16. After the change of political regime in Georgia in the end of 2003, the new Government has endorsed priorities and principles of PRSP, but revised substantially the action plan. Two other countries (Kyrgyzstan and Tajikistan) have started a process of substantial updating PRSPs/preparing of the second PRSP in 2005. It is expected that updated PRSPs will address explicitly MDG/PRSP linkages.

1.2.2. PRSP Contents

17. Common background and similarities between the countries coupled with the need to achieve agreement on PRSPs' contents with the IMF and the World Bank made core PRSP contents (goals, priority directions of action, etc.) pretty close in all six countries. In every country main strategy pillars are:

- Macroeconomic stability;
- Reliance on the private sector development as a main engine of economic growth;
- Enhancing public sector effectiveness and infrastructure (energy, roads, communications, irrigation, safe water supply, etc.) development;
- Achieving social equity and fairness through development of health and education systems and increased targeting of social assistance on the most vulnerable groups of the population;
- Promoting good governance.

18. Some other policy areas are also included into all PRSPs, but there is a difference between the countries in the method, how these issues are incorporated into PRSP agenda. These issues are gender equality (included as a main policy issue in Mongolia and as a cross-cutting issue in Georgia and Kyrgyzstan) and environment (listed among first priorities in Georgia and Mongolia and included into PRSP, but did not receive highest importance in Kyrgyzstan).

19. Country specifics are reflected in an emphasis on post-conflict rehabilitation and support to refugees and IDPs, which is characteristic for the strategies in Azerbaijan and Georgia. Georgia has included development of science and information technologies as a priority; IT has been specially considered in some other PRSPs (e.g., Kyrgyzstan). This reflects the aspiration of the countries for overcoming their isolated location and intention to capitalize on the achieved education level, which substantially exceeds the current low level of economic development and prevailing outdated technologies.

20. In all countries PRSPs are based on an extensive empirical quantitative and qualitative research on the scope and nature of poverty. This research has been implemented by statistical agencies of the countries with support from the World Bank, UNDP and some other international organizations. To understand qualitative dimensions of poverty NGOs had also been involved. This analysis provided necessary information for pro-poor policy design. All governments broadly ade-

quately addressed poverty analysis findings in their strategies, however, not in all cases the linkages between the poverty situation and policy priorities are explicitly shown.

21. According to the IMF and World Bank JSAs, almost all PRSPs suffer from similar deficiencies: (i) insufficient prioritization and attempts to include the whole policy agenda of the countries into the PRSP priority list; and (ii) poor costing of programs, which partially reflects government capacity problems and lack of necessary experience and partially is a result of governance problems and insufficient budget transparency.

22. In order to translate PRSP policy priorities into practical government activity all countries utilize⁸ Mid-Term Expenditure (Budget) Frameworks (MTEF). MTEFs are updated annually on rolling basis. MTEFs provide a macroeconomic forecast and estimates of budget revenues and expenditures for the next three years. Annual government budgets are compiled on the MTEF basis. The role of MTEF is to provide realistic assessment of the resources of the Government and to plan their distribution, which best suits PRSP priorities. Experience of 2003-2004 shows that in general the Governments managed to reflect PRSP priorities in their MTEFs and annual budgets⁹ and provided a significant increase in funding for priority sectors (agriculture, education, etc.). However, typically the linkages between PRSP and budgets are not explicit (there is no direct subordination of budget items to the corresponding PRSP policies); this makes monitoring of budget compliance with PRSP uneasy task. Some of the countries (e.g., Kyrgyzstan, Tajikistan) have also Public Investment Programs (funded by loans and grants from international financial organizations) as a separate budget planning document generally subordinated to MTEF.

1.3. MDG process in the countries

23. In 2001-2004 every country has prepared national MDG progress report. The first of them was Armenia, where the report had been published in 2001, while Azerbaijan, Georgia and Mongolia published these reports in 2004 (see table 2). All reports provide statistical data and narrative description of situation, analysis of problems and suggested required actions in order to achieve the goals. All reports address the first seven Millennium Development Goals; all reports apart from Armenian one consider also the Goal 8.

24. In all countries the MDG reports have been prepared by expert groups as a result of extensive consultations (national and regional seminars, public debates, etc.) with all development stakeholders – the Government agencies, civil society and international organizations (UNDP and the World Bank have been especially supportive to the MDGR preparation in almost all countries). In data sources the reports rely mainly on the national statistical agencies supplementing them with information published by non-governmental and international organizations. Azerbaijan MDG re-

⁸ Georgian and Tajik Governments are preparing their first MTEFs now.

⁹ This still is not the case in Tajikistan, where budget allocations are based solely on the annual targets set by the Ministry of Finance. This system, of course, impedes budget streamlining according to PRSP.

port is somewhat different from other reports, because it is combined with the annual PRSP progress report.

25. In all countries working groups considered necessary to adjust international formulations of goals, targets and indicators to the country conditions. This was motivated by the fact that some of international targets have been met by the countries already (in particular, this relates to the Goal 2, primary education has achieved almost 100% coverage long time ago) or are not relevant (for example, malaria is not a serious threat in all of these countries apart from Tajikistan), while other problems are of big importance and urgency (tuberculosis prevalence is very high in many of these countries). In many cases the year 1990 adopted as an international baseline date seems not to be suitable, as this year relates practically to the different country (USSR), so later baseline dates have been chosen¹⁰. Considering real situation, Tajikistan has chosen some target values less ambitious than it is done internationally; for example, the poverty level is to be reduced from 83% in 2001 to still high 60% in 2015. In Armenia and Azerbaijan the MDG adjustment process is still underway, some other countries (e.g., Kyrgyzstan) also clearly indicated their intention to modify some of the targets and indicators as soon as needed statistical capacity would be in place. The most important and common adjustments to MDGs are summarized in the Table 3.

Table 3: MDG adjustments in the national reports

	Adjustment	Countries
Goal 1	Use of national general/extreme poverty line instead of the international line of US\$1 per day (PPP)	All
	The target 2 on hunger is either not included at all, or reduction of malnutrition is targeted	All
	Special targets on socio-economic rehabilitation and social integration of refugees and IDPs included	Azerbaijan ¹¹ , Georgia
Goal 2	Targeting on higher than primary education	Azerbaijan, Georgia, Kyrgyzstan, Tajikistan
Goal 3	More emphasis is made on the gender equality on labor market and participation in decision-making and public life rather than to the equality in education system, which is considered to be achieved already	All
	Time horizon for target 4 has been moved to 2015 for elimination of gender disparities in primary and secondary education and to 2025 for elimination of the disparities at all levels	Mongolia
Goal 6	Combat tuberculosis	All apart from Armenia
Goal 7	Access to basic household amenities (including safe water and improved sanitation) is presented as a separate goal	Armenia
	Target 11 is linked to improvement of housing conditions without reference to slum dwellers	All

26. The reports contain also assessments on whether or not MDGs could be achieved; these assessments reflects more subjective judgments of the reports' authors and are not based on any clear methodology apart from the general situation and trends discussions.

27. In all countries for many indicators currently there are no data or available information is not sufficiently reliable as it is directly indicated in the MDG progress reports. This complicates MDG monitoring and calls for corresponding improvement of statistical capacity of the countries.

¹⁰ For example, the earliest possible year, for which comparable data are available, 1996 – in Kyrgyzstan, 2000 – in Georgia, 2002 – in Azerbaijan.

¹¹ In Azerbaijan this target is included under the Goal 7.

28. An important component of the MDG process in Tajikistan is the joint work of the government and the MDGs Needs Assessment Group on estimation of the financial requirements and determining of the priorities for the MDGs. The results of this work will be included in the revised PRSP in 2005 and will serve as a basis for developing the Medium-Term Expenditure Program. In Armenia, where PRSP has the same time horizon as MDGs, costing of the PRSP was done with direct accounting for the need of MDG attainment thus providing basis for further specification of MDG resource requirements.

29. It is assumed that national MDG progress reports should be published periodically. Currently the second report is being prepared in Kyrgyzstan. In Armenia and Tajikistan it is planned to combine MDG and PRSP progress reports similarly to what was done already in Azerbaijan.

2. Linkages between MDGs and PRSPs

2.1. Direct ties of PRSPs to MDGs

30. All PRSPs contain direct reference to the Millennium Declaration and MDGs stating coincidence of national and international development goals. In particular, reference is made to the Goal 1 “Eradicate Extreme Poverty and Hunger”. PRSPs in Armenia and Azerbaijan contain special chapters discussing the relationship of PRSP and MDGs. Armenian, Georgian and Mongolian PRSP have special tables comparing and establishing links between PRSP and MDG targets and indicators. Tajik PRSP establishes 2015 as a target year and MDG targets as the PRSP targets putting all the national development agenda into MDG perspective.

31. The integration of PRSP goals and MDGs result in general orientation of the PRSP policies towards MDGs. All PRSPs plan for a substantial increase of resource flow into the “MDG” sectors – income generation by poor (through promotion of job creation, microfinancing, etc.), education, health, and, to a lesser extent, environment. These policies are basically reflected in MTEFs, for example, the Kyrgyz MTEF for 2005-2007 provides for impressive increase of funding for health on 90% and on education on 70% in real terms for three years. Similarly, Azerbaijan PRSP aims at the increase of public expenditure on health from 0.8% GDP in 2001 to 1.2% GDP in 2005. Analogous examples may be provided for other countries as well.

32. Three important reservations need to be made with regards to the MDG-related funding commitments. First, broad coincidence of the PRSP sector and relevant MDG, increase in funding does not necessarily relate to MDG core contents. For example, in Kyrgyzstan part of the envisaged substantial growth of budget allocations for education is intended for higher education, which is arguably not very relevant for MDGs 1 and 2. Of course, directly MDG-relevant expenditures are planned to increase too. However, PRSPs do not always (in fact, rarely) provide enough details in order to trace relevance of different expenditure items to the MDG attainment. Second, even radical increase in funding does not mean that the allocations are sufficient for MDG achievement; the above-cited figures for Azerbaijan health sector in 2005 (i.e., already after the planned increase)

are very low by any international standards. It is worth to note that the work on determining of MDG funding requirements is just beginning (in particular, in Tajikistan, which is one of the pilot countries for the global Millennium Project), so no clear understanding in this area exists in all countries. Third, even if funding allocation perfectly correspond to MDGs, the governance imperfections – the inefficiency of many government structures and corruption – may result in much less real impact on MDG attainment, than one could expect looking at budget figures only.

33. Monitoring arrangements for PRSPs and MDGs have been unified in all the countries. Apart from the combination of progress reports into one document in some countries (see section 2.3), all countries have included many MDG indicators among PRSP ones. Institutional arrangements for monitoring are also integrated; the coordinating bodies in the Governments are responsible for both PRSP and MDG monitoring, the same statistical data sources are used, and participation of civil society in monitoring is similarly built into the process.

34. In Georgia, work towards elaboration of unified database program/software “GeoInfo” designed to monitor progress against three fundamental programs/goal sets such as the PRSP, MDGs and the National Plan of Action for Children, is underway. In 2003, work was launched to pull the set of indicators on the monitoring and assessment of the PRSP into a single system and making it accessible for users.

2.2. Time and resource consistency between PRSPs and MDGs

35. While similar in many other issues, the PRSPs in these six countries differ substantially in terms of time horizon (see Table 4). In Azerbaijan, Kyrgyzstan, Mongolia and Tajikistan¹² PRSP is mid-term strategy with the life span of 3-5 years; in Armenia and Georgia it is long-term strategy lasting until 2015. Therefore, Armenian and Georgian PRSPs are explicitly consistent with MDGs, and all goals and policies are designed to fit MDG setting adjusted to national circumstances.

Table 4: Time horizon of PRSPs

Country	Period
Armenia	2003-2015
Azerbaijan	2003-2005
Georgia	2004-2015
Kyrgyzstan	2003-2005
Mongolia	2003-2007
Tajikistan	2003-2006

36. In other countries, obviously, it is assumed that several consecutive PRSPs would be implemented till 2015. Current PRSPs cover just starting period and provide intermediate development goals and policies towards achieving these goals. So, it is not quite clear whether or not mid-term development plans allow achieving MDGs in 2015. Assuming linear progress towards MDGs the first-stage PRSPs seem to be broadly in line with MDGs as they envisage poverty reduction rates, which, being prolonged to 2015, may allow arrive at MDG targets. However, the assumption

¹² Tajik PRSP does provide target values of key indicators for the year 2015; however, no policy action in PRSP stretches that far.

of linear progress is risky as it implies more or less unchanged external environment and absence of negative shocks, which could not be excluded for these vulnerable countries. For example, all these countries (with only exemption of Azerbaijan) rely heavily on foreign aid and have accumulated already very large and hardly sustainable external debt, so the assumption of continuous aid inflow in the same scale as in 1990s – early 2000s may not become a reality. Optimistic assumptions on the substitution of the government borrowing by FDI, which is built-in, for example, into the Kyrgyz PRSP, also have insufficient grounds as rely on much more massive FDI inflow in the future than it was registered so far. Apart from that, the substitutability between government and private capital investments is not perfect as the government invests into infrastructure and provision of public goods, while FDI would come mainly into profit-generating activities.

37. In terms of resource sufficiency two PRSP parameters seem to be of key importance: the rate of economic growth and the share of the government budget in GDP. Assuming no increase in inequality and proper sector allocation of public expenditure (all PRSPs provide¹³ a set of policies to make this assumption valid), rapid economic growth and prudent government spending may allow to achieve MDGs.

38. In all countries PRSPs project realistic economic growth rates in the range 5-8% per annum. Previous experience shows that this growth rates are sufficient to ensure an increase in incomes leading to reasonably fast poverty reduction. For example, in Kyrgyzstan in 1999-2003 the average growth rate was around 5% and this resulted in poverty reduction from 55% to 41%. Of course, one could not insist that this high growth elasticity of poverty reduction will remain in the long-term.

39. In the majority of countries PRSPs provide also some increase in the government spending (see Table 5), however in Kyrgyzstan and especially in Mongolia some reduction of public expenditures is planned. In all countries no radical change in public funding is expected. This reflects common understanding that under current level of government capacity and persisting governance problems the attempts to channel increased amounts of resource through the government budget may, first, fail due to limited tax collection capacity of the government, and, second, are associated with a high risk of wasting these resources and worsening, not improvement of the situation with the public goods provision. Interestingly that even in Azerbaijan receiving large revenues from oil, the PRSP does not plan for rapid increase in public funding for the social sector; the Government rather prefer to accumulate the surplus in the special oil fund and plan to use it to smooth government expenditures in the future. Anyway, under such general resource ceiling and current spending pattern, public funding for education, health, environment may not be sufficient in order to achieve MDGs. This is even more so that all PRSPs acknowledge the need to improve not only quantitative indicators (coverage, etc.), but also the quality of services. Some of the PRSPs (in Kyrgyzstan, Tajikistan) include very impressive estimates of the financing gap of the order of the countries' GDP.

¹³ Or, at least, declare these policies.

Table 5: Projected change in the total government expenditures, % of GDP

Country	PRSP Benchmark Year	Expenditures	PRSP End Year	Expenditures
Armenia	2002	20.1	2015	21.4
Azerbaijan	2001	20.8	2005	22.7
Georgia	2003	18.8	2015	25.5
Kyrgyzstan	2002	24.4	2005	24.2
Mongolia	2002	44.8	2006	40.8
Tajikistan	2002	19.9	2006	21.1

40. As it was mentioned above, PRSPs and MTEFs do provide for an increased share of the budget expenditure directed to the MDG priority areas. If this redistribution is coupled with increased MDG targeting of expenditures within sectors, this may significantly improve chances for MDG attainment. For example, Armenian PRSP projects a significant increase in funding for the targeted social assistance (four-fold increase in per capita transfers in 2003-2015), primary education (its share in total education expenditures should increase from 65% to 73.5%), gynecological and obstetrical services (the share of expenditures on these services in the total public spending on health will reach 15.5% in 2015 as compared to 7.6% in 2003).

41. The insufficient public funding for the social service provision may also be substituted partially by the private sector resources. This is already taking place in reality as many services in education and health care are provided to recipients on the paid basis (officially or unofficially). Of course, the provision of services for pay threatens access of the poor to essential social services and thus could work in counter-MDG way. However, assuming proper policies are implemented providing free access for poor and paid access to non-poor, this approach may allow saving the very scarce public resources and increasing total funding of the target sectors. Some PRSPs (for example, the Kyrgyz one with regards to the health sector) do make some steps in this way, while it is not quite clear how much resources may be mobilized by introducing the service fees.

42. Institution-wise, the accent of PRSPs on improvement in governance and civil society participation seem to be an absolutely necessary input into creation of enabling environment conducive for MDG attainment. Governance is now the hottest issue in all these countries as without a substantial improvement in the capacity, commitment and transparency of the governments no any increase in resources directed to MDG attainment could help achieving them. To what extent the policies included into PRSPs could help in the governance improvement, this remains to be seen.

43. The efforts to involve civil society into PRSP discussions and the focus of these discussions on poverty reduction and human development helped to attract public attention to these issues. PRSPs raised awareness of the societies on the human development problems, provided them with more clear perspective on what the Governments intend and are able to do in this area and thus contributed to an increase in public initiative and self-reliance, which seem to be necessary pre-requisites for achieving MDGs.

3. Conclusions and recommendations

44. Summing up, MDGs are pretty much incorporated into PRSPs in the six Eurasian transition countries. This has formal aspect (coincidence of goals) and also substantial general (re-)orientation of policies on the human development issues encompassed by MDGs.

45. Macroeconomic and financial arrangements and projections of PRSPs make the MDG-orientation of strategies practical. In general, macroeconomic and fiscal frameworks of PRSPs provide for working mechanisms (MTEFs, annual budgets, public investment programs) of converting general development goals into relevant macroeconomic and sectoral policies. In all countries these mechanisms are not perfect though, but available imperfections are recognized and addressed by the Governments and international organizations.

46. Current PRSPs seem to be rather realistic in assessing economic growth rates and the absorbing capacity of the governments in terms of budget size (including external aid component). These strategies may be sufficient for achieving Goal 1 and possibly Goal 2¹⁴ in majority of countries; however, there are high risks of missing other MDGs.

47. To compensate resource insufficiency, the countries should make large efforts in streamlining of budget expenditures towards MDG-related priorities. The role of the private sector in achieving MDGs needs to be considered in the future PRSP updates.

48. To improve correlation between PRSPs and MDGs it would be worth to recommend including into all future MDG progress reports intermediate targets with timing consistent with country PRSP process. This would make possible comparing the required development dynamics needed for MDG achievement and the planned/actual PRSP outcomes.

49. To monitor the policy effectiveness and efficiency in MDG attainment it is advisable to establish special budget accounting allowing tracing all MDG-related expenditures. This task requires large efforts in capacity building as no such experience exists in the countries. The methodology also does not seem to be simple as it should take into account inter-sector interactions (e.g., actions to promote income generation would increase the ability of households to adjust their way of living in the direction beneficial to infant and maternal mortality reduction, because it is not purely health care issue, but also a social problem).

50. Statistical potential in measuring MDG indicators needs to be improved in all countries. While all of them achieved good results in transition to modern methods of poverty measuring, more efforts are required in establishing reliable data collection systems in the area of education, health, environment, gender equality, etc.

51. So, linkages between PRSPs and MDGs in the countries of sub-region are many, formal and substantial, however, still PRSP and MDG processes have not been fully integrated and both suffer from numerous deficiencies. The good news is that these deficiencies are known and addressed.

¹⁴ All countries are at rather good starting position in the area of education.

Attachment. Documents reviewed

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