



# Working on Administrative & Civil Service Reform



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## The World Bank's Poverty Reduction Support Credit (PRSC)—a new approach to support policy and institutional reforms in low income countries

The World Bank has introduced the Poverty Reduction Support Credit (PRSC) to support countries that are eligible for [International Development Association \(IDA\)](#) loans implement its poverty reduction strategy through policy and institutional reforms. (See the [Interim Guidelines for Poverty Reduction Support Credits \(PRSCs\)](#), May 29, 2001) Over time, the PRSC is expected to become an important vehicle of IDA financial support to low-income countries with strong programs, anchoring the Bank's overall support for their poverty reduction strategies. Focusing on poverty reduction as the central objective of development assistance, the PRSC recognizes the importance of good country-owned policies—both structural and social, as well as macroeconomic—and good institutions to deliver them. These constitute the main drivers of sustainable growth and poverty reduction, and are the basis for effective development assistance and stronger and more explicit cooperation between external agencies and donors. By specifying a medium-term program with clear benchmarks, the PRSP will offer a comprehensive reform road map and facilitate alignment of donor programs with the country agenda.

PRSCs have the following key features:

- **CAS-Based Development Assistance Instrument.** The possible use of PRSCs for a country is set out in the [Country Assistance Strategy \(CAS\)](#). A PRSC program is expected to consist of a series of operations, typically two or three, which together support IDA countries' medium-term policy and institutional reform programs to help implement their poverty reduction strategies. Its specific structure depends on country circumstances, including the objectives and nature of the country's reform program and the timing of the requirement for assistance.
- **Medium-Term Program Linked to the Poverty Reduction Strategy Paper.** The medium-term program supported by a PRSC principally draws from and elaborates on the reform measures and policy actions set out in the [poverty reduction strategy paper \(PRSP\)](#). The time horizon of the PRSC ideally corresponds to the PRSP and CAS periods. After a transition period of initial build-up in

the pipeline of PRSPs and PRSCs, it is expected that PRSCs would normally be finalized and presented to the Board together with or shortly after the PRSP, **Joint Staff Assessment (JSA)** and CAS. The program, along with results-focused indicators and progress benchmarks for monitoring the overall implementation of the poverty reduction strategy, is set out in a multiyear matrix of policy and institutional reforms. Each individual credit in a PRSC series, like all other adjustment credits, is presented to the Board for its review under regular procedures.

- ***Series of Operations.*** Each individual PRSC in the series is focused on completed priority actions. Each subsequent PRSC builds on the previous one(s); its prior actions formulated and agreed on when it is negotiated draw on the progress benchmarks laid out at the outset as part of the medium-term framework. In moving from one PRSC to the next in the series, if progress is found to lag behind expectations, a judgment is made on whether to (a) adapt the medium-term program, (b) reduce the amount of the subsequent PRSC operation, or (c) delay the subsequent operation until further progress has been made. For each individual PRSC, the government prepares a Letter of Development Policy (LDP) and multiyear matrix of policy and institutional reforms, with results-focused monitoring indicators and progress benchmarks.
- ***Analytic Underpinnings.*** PRSCs are normally based on two analyses: (a) a cross-cutting assessment of the country's development policies (social, structural, and key sectoral), which cover the policy reform and institutional development priorities for sustainable growth and poverty reduction—including enhancement of positive impacts and mitigation of adverse impacts that the reforms being supported may have on poor people and other vulnerable groups and on the environment; and (b) an assessment of the country's public financial accountability arrangements, which covers its public expenditure, procurement, and financial management systems.
- ***Bank/IMF Coordination.*** Given the important complementarities between the macroeconomic and the social and structural issues, there is a presumption—but no guarantee—that after the initial transition period of gradual buildup in the pipeline of PRSPs and PRSCs, the Bank will normally provide support through a PRSC when the Fund provides support through a **Poverty Reduction Growth Facility (PRGF)**.
- ***Focus on Capacity Building.*** Over time, PRSCs are expected to play an increasing role in supporting prioritized policy actions in implementing the country's agenda of social and structural policy and institutional reform. The PRSC program is being introduced gradually through the deliberate application of the following eligibility criteria: completion of the integrative fiduciary and social, structural, and sectoral analyses; a satisfactory macroeconomic framework; and the completion of prior actions and satisfactory progress in implementing the medium-term program of policy and institutional reforms, including specific measures, as appropriate, under the proposed operation to address weaknesses in the country's

public financial accountability, social, and environmental policies and institutions. Building on the Joint Staff Assessment of the PRSP, the CAS would be the primary vehicle for determining the appropriate mean for addressing such weaknesses—through prior action, tranche conditions, performance benchmarks, or triggers under future operations, or through parallel operations supported by the Bank or other donors. The overall thrust of such efforts would be to improve the country's own capacity in these areas.

***PRSCs- The Experience to Date.*** To date, three PRSCs have been approved by the Board—for Uganda, Vietnam and Burkina Faso—which all emphasize public sector and governance reforms as a central part of these countries' poverty reduction strategy. (Project documents for PRSCs are available on the Bank's external website at <http://www.worldbank.org/infoshop>.) Uganda's PRSC program focuses on public expenditure management and public service delivery in education, health, and water. The Vietnam PRSC supports private sector development (including state-owned enterprise reforms), trade, financial sector development, and public expenditure management. In Burkina Faso, the emphasis is on public sector reform and governance as well as pro-poor sectoral policies in education, health, and rural development. Follow-up PRSCs are planned for these three countries, and further PRSCs are tentatively under discussion for Benin, Albania, and Guyana.