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FAST TRACK BRIEF

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The IEG report "Poverty Reduction Support Credits," was discussed by CODE on November 4, 2009

Poverty Reduction Support Credits: An Evaluation of World Bank Support

- **Poverty Reduction Support Credits were intended to help countries implement comprehensive, country-owned development strategies to promote growth, improve social conditions, and reduce poverty.** PRSCs were intended to ease conditionality, make annual flows to recipient countries predictable and integrated with their budgets, strengthen domestic budget processes, provide a framework for donor harmonization, and focus on achieving results.

- **In terms of process, PRSCs have worked well. Findings show that they incorporated many envisaged changes in design and implementation.** These include stronger country ownership, eased conditionality, and a shift of focus towards public sector management and pro-poor service delivery. PRSCs balanced tensions between predictability and program credibility.

- **The outcomes of PRSCs are less clear. While PRSC countries have been somewhat superior performers in growth and poverty reduction, PRSCs were generally offered to better performers.** It is difficult to attribute better outcomes to the PRSC. And other better IDA performers made comparable improvements in performance.

- **PRSCs addressed some bottlenecks to growth but usually without a comprehensive growth strategy**. In pro-poor service delivery, there was at best modest translation of objectives to outcomes. Measurable improvement was made in some areas of financial management, but more difficult public financial management issues remain to be tackled.

- **The PRSC has limitations as an instrument of sector lending, in terms of technical dialogue, engagement of line ministries, integration in aid coordination, and outcomes achieved.** However they have usefully raised crosscutting issues and brought attention to sector budgets.

- **Although PRSCs differed from preceding adjustment loans, development policy lending today has converged towards a similar design.** PRSCs today are subject to the same guidelines as other DPLs. Differences remain in practice in terms of the association with PRSPs, broad scope, programmatic nature, and country performance. The evaluation recommends either that PRSCs be phased out as a separate brand name or that these differences be clearly spelled out.

PRSCs Today are Regionally Concentrated

From FY01 to the first quarter of FY10 the Bank approved 99 PRSC operations amounting to US$ 7.9 billion, and another 20 are in the pipeline. Within four years of their introduction, PRSCs came to account for almost 60 percent of IDA policy-based lending and a quarter of total Bank policy-based lending. The share of PRSCs in IDA disbursements to some individual countries (such as Benin, Burkina Faso, Ghana, Rwanda, and Uganda) exceeded half of total Bank disbursements. Even in those countries where the role of the PRSC was not prominent, for example in Albania, Armenia, and Senegal, it accounted for 20-25 percent of IDA flows. Ten countries have embarked upon their second or third PRSC series. Another nine have had a single series so far. In eight countries, PRSC operations did not mature into a programmatic series.

Africa has the largest portfolio of PRSCs among the Regions, with about half of all ongoing series, typically in the context of multi-donor budget support. In the five Europe and Central Asia (ECA) countries where the PRSC has been used (Albania, Armenia, Azerbaijan, Georgia, and Moldova), it has generally provided a relatively small share of country budget needs. Three ECA PRSC countries have graduated from IDA or chosen other instruments. There are currently no ongoing PRSCs in South Asia or Latin America. Changes in political conditions rendered it impossible to continue with PRSCs in Nepal, Nicaragua, and Sri Lanka, and PRSCs in Guyana, Honduras, and Pakistan have also ceased. The PRSC has never been a part of the Middle East and North Africa lending portfolio.

PRSC Design Reflects Parallel Changes in Aid Architecture

Parallel trend changes in aid architecture recognized the importance of country ownership and government commitment to reform. An increased, multidimensional emphasis on poverty reduction was introduced with the Millennium Development Goals, supporting pro-poor service delivery.

These changes were reflected in the World Bank's Comprehensive Development Framework (CDF; 1999), which emphasized a long-term, holistic vision of development. The Poverty Reduction Strategy Initiative (PRS) was launched in tandem to put key principles of the CDF into practice. Poverty Reduction Support Credits were introduced under Interim Guidelines in 2001 to aid the operationalization of the Poverty Reduction Strategy Papers (PRSPs) and provide structural support for the International Monetary Fund's Poverty Reduction and Growth Facility. By FY05, new Bank guidelines for development policy lending reflected the same principles.

Other lenders also increased budget support aid. Alignment with country systems and harmonization among donors were central tenets of the Paris Declaration of Aid Effectiveness, which also focused on capacity building, transparency, and a results focus based on better monitoring systems.

These changes render it more difficult to isolate the effects of the PRSC and its achievements, as the character of all Bank development policy lending changed over the period of the PRSC. And for recipient countries, the PRSC paralleled increased budget support flows in a multi-donor framework. Despite these issues, the analysis shows how lessons learned from the PRSC remain relevant for policy-based lending today.

PRSCs and Other Policy-Based Lending Have Converged in Many Respects

Convergence is evident in design—for example, eased conditionality and enhanced pro-poor focus—as well as in overall outcomes. PRSCs effectively served in many regards (for example, eased conditionality, sectoral focus, programmatic nature) as a prototype for Development Policy Loans introduced from September 2004, and the PRSC Interim Guidelines were subsumed under their framework. The PRSC label still carries connotations of criteria used since the time of their introduction, but today there is no distinct set of guidelines for the PRSC, despite the use of the brand name.

PRSC Design and Process Have Become More Flexible—as Has All Policy Lending

Stronger Country Ownership

PRSC program ownership was usually strong, especially compared to previous adjustment lending. In Armenia, for example, all counterparts agreed that the PRSC, derived from the participatory PRSP, led to strong country ownership and leadership of the PRSC program. Whereas the Bank had largely determined programs of adjustment credits, the government determined overall strategy in the PRSP, and the PRSCs supported the PRSP program. PRSC ownership has been particularly high at the level of central ministries such as finance and planning, though less so with sectoral ministries such as health or education. PRSCs stimulated dialogue between the center and sectors and raised their accountability. By contrast, recipient government's engagement with legislative organs and civil society was low.

PRSCs aligned reasonably well with national development strategies, especially where the PRS was merged with the national development strategy. Alignment improved over time. In Vietnam, the PRSP merged with the National Development Strategy. Uganda's national Poverty Eradication Action Plan now serves as its PRSP. PRSCs occasionally included policies outside the national plan, reflecting evolving country circumstances.

Shift in Focus toward Public Management and Pro-Poor Service Delivery

The sectoral focus of the PRSC showed a marked shift away from macroeconomic adjustment toward public sector management and key social service delivery. In Lao PDR, the first PRSC series covered virtually all sectors, but in the second series a more selective focus on health and education was adopted. Indeed, all Bank adjustment lending began to reflect a reorientation toward areas emphasized by the PRSC.

Eased Conditionality

PRSCs responded to concerns about the extensive and overly rigid nature of conditionality with fewer legally binding conditions than earlier adjustment loans and a gradual decline in program benchmarks. Armenia provides an example of this pattern. Its Structural Adjustment Credits had a peak of 66 conditions, in multi-tranche operations, while its first through third PRSCs each had about 10-12 legally binding conditions, in the form of prior actions. Its fourth PRSC included only 7 such conditions. Following the introduction of new guidelines for adjustment lending in late 2004, other policy-based lending showed a similar trend, and today there is little difference in numbers or nature of conditions of PRSCs and other policy-based lending.

Yet some country clients continue to believe that there are too many conditions, reflecting blurred perceptions of the difference between prior actions, triggers, and program benchmarks, especially in large multi-donor programs.

PRSCs have been markedly more flexible than earlier adjustment lending, as demonstrated by the high proportions of modifications of triggers, or actions for subsequent operations. In Ghana, for example, an agreed measure to complete the rollout of a budget management system in five ministries was deemed met when achieved in only two, and a significant unmet trigger in the energy sector was waived and made a requirement for the following PRSC. Yet flexibility does not seem to be at the expense of program adherence, as PRSC managers often delayed the loan or adjusted their amounts downward in cases of program slippage.

The Bank has clearly been prepared to exit PRSC series when the reform program went off track, as happened in Nicaragua following a change of government. However, following termination of PRSCs, the Bank has often remained substantially engaged, sometimes though other policy-based loans. This underscores the question of the brand value of the PRSC label.

Somewhat More Predictable Financing

PRSCs have led to some increase in the dependability of obtaining financing from year to year, as well as increased stability in the volume of financing. And PRSCs have tended to disburse in a more timely manner than previous lending. In Burkina Faso for example, whereas 60 percent of budget support disbursements until the end of PRSCs 1-3 took place during the last quarter of the budget year, the approval of PRSC 4 was accelerated to May 2004 to permit a vote by the National Assembly before its June recess.

Limited Donor Harmonization

While PRSCs made effective contributions to donor harmonization under a variety of arrangements, they rarely served as a focal point for donor coordination (Vietnam being an example of an exception). In many large budget support groups the Bank had limited influence in shaping the overall agenda. There has been progress in achieving joint Performance Assessment Frameworks, which are the overall donor matrices of policy frameworks, but upstream harmonization of the PRS process and its integration in the policy matrix has been limited. More also remains to be achieved in the harmonization of results indicators, capacity building, and especially in reporting arrangements.

The Bank's effectiveness is also curbed by limited synchronization of its internal processing calendar with the donor cycle. Agreement on the substantive agenda can be unduly influenced by individual donors. Recipient countries sometimes seek to leave major items off the agenda. The Bank has sometimes reverted to means outside the joint matrix to achieve its objectives. Furthermore, harmonization involves intensive transactions costs that team leaders feel are not adequately recognized and sometimes crowd out substantive issues.

From a wider perspective, clients value harmonization for its reduced transactions costs, but face difficulties with initial increases in conditionality as individual positions are aggregated. In some circumstances clients prefer separate arrangements to spread risks. Donors, especially small ones, face high transactions costs but value having a voice at the table. Further synchronization will be more difficult due to legitimate differences in donor priorities.

Outcomes are Less Clear

Weak Results Frameworks

PRSC results frameworks were initially weak in many operations, although there is some evidence of improvement over time. In Mozambique, for example, the first PRSC had no explicit results framework. PRSC 2 had a results framework but it omitted key areas, and the subsequent series for the first time contained a results framework for the series as a whole. Many shortfalls in PRSC results frameworks can be attributed to shortcomings in underlying country monitoring systems. Upstream shortcomings in results frameworks for PRSPs also contribute. Weaknesses remain in terms of clearly defined and consistent outcome indicators, intermediate milestones, and baseline data. Indicators for poverty outcomes are also lacking.

Unclear Achievements in Pro-Poor Service Delivery

The ultimate objective of PRSCs has been to support national development plans for achieving poverty-reducing economic growth. Assessing the contribution of PRSC operations to growth and poverty outcomes is difficult due to the fundamental problem of attribution. The PRSC is only one, typically small, element in a range of contributing factors.

PRSC countries performed well on growth and macro indicators, but so did relevant comparators. Differences in creating a growth enabling institutional environment are small. Most PRSCs did not have a comprehensive overall growth strategy, focusing in many cases on reforms related to the investment climate (Benin, Ghana, Lao PDR, and Mozambique) and select other issues. It is difficult to trace a direct link from PRSC growth-related measures to country growth outcomes. In some successful countries, Vietnam, for example, a growth-oriented reform momentum was already under way.

PRSC countries have a good record on income poverty reduction as well as on the achievement of the Millennium Development Goals, better than comparable high-performing IDA countries despite broadly similar initial conditions. Yet establishing a clear link between the PRSC and pro-poor service delivery is difficult. A portfolio review shows that most PRSCs had program objectives in these areas, though such program components usually ran in parallel to sector projects, and social sector development objectives were usually ancillary to core objectives. Only around two-fifths of PRSC objectives in education and half in health had an explicit pro-poor focus. Proportions for water supply and sanitation were lower, at less than a fifth.

PRSC program components in health and education focused particularly on budgetary aspects, with an emphasis on increasing resources and improving the efficiency of resource allocation. In Vietnam and Lao PDR, for example, the introduction of a medium-term expenditure framework was a priority in the education sector. But countries lag in their ability to link budgetary inputs with results and outputs. In most countries the PRSC was not able to make the budget the vehicle for most sectoral policy interventions, even in pro-poor areas. Large proportions of country sectoral resources remain off-budget.

Limitations in the monitoring framework make it difficult to track outcomes, especially poverty outcomes. To the extent that indicators are available, targets have been fully met a third to a half of the time across the three sectors of health, education and water supply and sanitation.

Improved Public Financial Management, Largely in Areas that Are Easier to Tackle

PRSCs have helped to advance public financial management and procurement (PFMP) reform in most borrowing countries. PFMP reform programs in PRSCs have been well grounded in recent diagnostics and have generally conformed to Bank guidelines on fiduciary risk analysis. Many PRSCs have integrated two or more diagnostic tools, helping to sequence their recommendations. Countries performed moderately well in developing an appropriately sequenced and donor-supported PFMP strategy, although implementation has sometimes been slower than expected.

Areas of successful reform in PRSCs, such as budget classification systems, have arguably been the easier ones to tackle. Remaining weaknesses reflect tougher challenges, including the inability of most PRSC series to reduce the proportions of extra-budgetary funds or to include all donor funds on-budget, also pointing to limits in progress by donors on the use of country systems under the Paris Declaration. A prominent area of weakness has been the PFM results framework, which was complete or largely complete in only about half the countries reviewed. Finally, the impact of PRSCs—and donor budget support more generally—on overall governance and levels of corruption is a debated issue with little meaningful evidence to support claims either way.

Partial Support to Sectors

In many respects, the PRSC is an imperfect vehicle for sector support. PRSC engagement focuses on central ministries. While dialog between central ministries and sectoral agencies has been strengthened, surveys suggest the depth of their engagement may have been limited.

Efforts to streamline conditionality imply that some areas of importance are not highlighted. Sector staff acknowledge the PRSC's usefulness for high-level dialogue but express reservations about its effectiveness for tackling details. Few support having PRSCs be the sole vehicle for sector engagement, as envisioned by some Bank managers in the early years of PRSCs. When attempted, the Bank usually reverted to parallel sector financing. In Benin, Burkina Faso, and Mozambique, Country Assistance Strategies for early PRSC series expressed intent to subsume health lending in the PRSCs, but sector projects were subsequently resumed. And outcomes of sector components of PRSCs in health appear weaker than in health sector investment lending.

There are also tensions in sector working groups within the harmonization process. In many countries they reflect financing arrangements that may be earmarked or even off-budget, which run counter to the philosophy of joint budget support. And counterparts sometimes prefer separate arrangements.

Sector staff point out that the Bank's incentive framework introduces resource variability and limited recognition for sectoral team participation compared to delivery of free-standing sectoral projects. Incentives affect sector managers as well.

Recommendations

1. Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use

Convergence in the design and content of PRSCs and other development policy lending in terms of conditionality and sector focus suggests that there is limited rationale for the separate existence of the PRSC today. However, there are also implicit criteria backing the PRSC brand name. If the PRSC brand name is still important, clear guidelines (which are currently lacking) and criteria for eligibility should be spelled out and applied.

2. Simplify conditionality for PRSCs/DPLs by eliminating the term "triggers" and by transferring program benchmarks to the monitoring framework

In line with its use of the term "prior actions," the Bank could further simplify its lending framework by dispensing with the term "triggers" and substituting the term "indicative prior actions for future lending." Lending would then be based simply on prior actions already achieved and indicative prior actions for future lending. This would exhibit greater flexibility and ease understanding.

To clearly delineate legally binding conditions from program benchmarks, which are still referred to as binding and non-binding conditions by clients and others in the aid community, program benchmarks should be removed from the policy matrix/Performance Assessment Framework and instead combined with the program monitoring framework.

3. Enable greater voice for the Bank in a multi-donor budget support lending framework

At present, Bank financial commitments in a multi-donor framework must sometimes be made before the Bank's internal review of the PRSC. This can limit the Bank's substantive contributions and comments on program content. Synchronizing the Bank's internal processing timetable with country and donor processes would ensure Bank input in PRSC/DPL formulation.

4. Underpin operations with comprehensive diagnostics

PRSCs (and DPLs) should reflect country-specific growth diagnostics, which are undertaken based on analytic underpinnings that identify an overall growth strategy that reflects the linkages between growth, poverty reduction, and broader social development.

5. Strengthen PRSC/DPL results frameworks, link them with the underlying PRS/national development strategy, and increase their poverty focus

Results frameworks of PRSCs should be consistently linked to those in the PRS or national development strategy and its Annual Reviews and should be simplified to a small set of core outcomes. Adequate baseline and intermediate indicators and pro-poor results indicators should be required, built on country monitoring systems to the extent feasible.

6. Focus sector content in policy loans to high-level or crosscutting issues

PRSC/DPL sector content should focus on areas where it has been consistently effective: cross-sectoral or central ministry issues critical to facilitating key sectoral reforms and strengthening sector budget processes. Complementary parallel sector lending, linked to PRSCs/DPLs, remains important to address detailed technical issues and facilitate program ownership by line ministries.

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