



**IDA13**

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**Poverty Reduction Strategy Papers and IDA13**

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## Acronyms and Abbreviations

AsDF	Asian Development Fund
BWI	Bretton Woods Institutions
CAS	Country Assistance Strategy
CCA	Common Country Assessment
CDF	Comprehensive Development Framework
CPIA	Country Policy and Institutional Assessment
ESW	Economic and Sector Work
EU	European Union
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
IDG	International Development Goal
JSA	Joint Staff Assessment
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
NGO	Non-Government Organizations
PBA	Performance Based Allocation
PEM	Public Expenditure Management
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper

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## POVERTY REDUCTION STRATEGY PAPERS AND IDA13

### 1. Introduction

1. In late 1999, the World Bank (Bank) and the International Monetary Fund (IMF) launched a new approach to the provision of concessional assistance to low-income countries<sup>1</sup>. Following this new approach, governments in low-income countries would prepare their own Poverty Reduction Strategy Papers (PRSPs) through a participatory process, and these PRSPs would provide the foundation for external assistance, as well as debt relief, by the Bank, the IMF and the international donor community as a whole.

2. The PRSP approach is designed to serve several objectives. First, it will constitute a mechanism to link the use of debt relief under the Enhanced Heavily Indebted Poor Country (HIPC) Initiative to public actions to reduce poverty. Second, it will increase the focus of all Bank and Fund concessional assistance to low-income countries on the overarching objective of poverty reduction. Third, it will help improve the effectiveness of concessional assistance through application of the principles of the Comprehensive Development Framework (CDF) -- country-ownership, a long-term, holistic perspective of development challenges, partnerships, and results orientation. And fourth, it will provide a framework not only for improved Bank-Fund collaboration but also for improved aid coordination among all donors, including collaborative efforts to achieve the International Development Goals (IDGs).

3. The early experience with the PRSP approach suggests that it holds considerable promise for improving the effectiveness of development assistance for reducing poverty in low-income countries. While there is broad consistency between IDA's objectives and the PRSP principles, particularly in terms of poverty focus and country ownership, the country-led PRSP process clearly implies some change in IDA's business model during IDA13. Issues of particular importance are: (i) aligning IDA's country assistance strategies (CASs) with the shift to more country-owned programs, in a way that ensures the implementation of IDA's mandates; (ii) providing broad and timely support to PRSP-based country programs, including through programmatic lending; and (iii) ensuring the necessary oversight and fiduciary framework for effective use of IDA resources within a framework which emphasizes country-led development efforts.

4. Against this background, this paper discusses the status to date of the implementation of the PRSP approach, and then considers the issues associated with implementation of a PRSP-based business model for IDA13, in particular the linkages/synergy between the PRSPs, CASs, performance based allocation, programmatic lending, economic and sector work (ESW), and aid coordination.

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<sup>1</sup> See "Poverty Reduction Strategy Papers: Operational Issues," Joint IMF/World Bank Paper, December 10, 1999.

## 2. Status and Key Challenges of PRSP Implementation

5. **Progress to Date.** During the 16 months since its launch in December 1999, the PRSP approach has gained substantial momentum in terms of the efforts by the low-income countries to design better poverty reduction strategies, and in terms of commitment by the international donor community to support the process. As of mid-April 2001, 34 countries presented Interim PRSPs (I-PRSPs) to the Executive Boards of the Bank and the Fund, and 4 countries presented their first full PRSPs. Work is underway on PRSP preparation in most IDA-eligible countries, and as many as 20 countries may be ready to present their first full PRSPs within calendar 2001. A full discussion of the experience in PRSP implementation is provided in two recent reports: "Poverty Reduction Strategy Papers -- Progress in Implementation," September 7, 2000, and April 18, 2001. Below is a brief summary of the experience during this initial period of implementation:

- Most governments have embraced this opportunity to take fuller responsibility for articulating their own strategies, and thereby providing stronger guidance to their external development partners.
- External development partners have expressed their strong support for the objectives and principles of the PRSP approach, their eagerness to work with governments in preparing strategies, and their intention to adjust their own programs to support these strategies. For example, EU decided to base its five-year assistance programs in African, Caribbean and Pacific countries on PRSPs.
- Though progress is promising, the capacities of countries to prepare strategies through a participatory process has varied considerably. Those countries (for example, Uganda and Bolivia) that had already initiated similar efforts, especially by undertaking a CDF exercise, have been able to prepare I-PRSPs and full PRSPs quickly. In many countries, the institutional capacities for undertaking poverty diagnostics, managing a participatory process, and formulating poverty-focused policies have limited the pace and quality of PRSP preparation. A constraint on quality has been the lack of up-to-date poverty data on which to base strategic priorities. While many countries were able to draw on relatively recent data (I-PRSPs of Bolivia, Ghana, Honduras, Kenya, and Mozambique; and full PRSPs of Burkina Faso and Uganda), others (I-PRSPs of Albania, Chad, Sao tome and Principe, Senegal; and full PRSPs of Mauritania and Tanzania) had to rely on out-of-date data.
- The nature and extent of participation in the preparation of strategies has also varied widely among countries, depending on their political structures and traditions. Several countries (e.g., Guinea, Guinea-Bissau, Niger, Uganda) have built on existing participatory processes in preparing I-PRSPs and full PRSPs.
- For the most part, I-PRSPs and first PRSPs have focused on economic and structural policies to achieve higher growth rates and on social sector investments. Relatively few country documents have given significant attention to issues related to gender, environment, and rural development.

- Many governments have begun to use the PRSP process as a means to improve aid coordination. To this end, some countries (e.g., Burkina Faso and Uganda) have presented their strategies to donors. They have also invited external partners other than the Bretton Woods Institutions (BWIs) to provide advice and assistance for preparation of better poverty reduction strategies.
- Many members of civil society, including international and domestic NGOs, have indicated their desire to participate in the preparation, implementation, and monitoring of PRSPs. Some have also expressed continuing skepticism about whether or not the process will lead to more poverty-focused policies and more effective donor assistance.

6. **Key Challenges in Implementation.** The PRSP initiative has multiple objectives among which there are inherent tensions. The key challenges in implementation of the PRSP approach involve finding the right balance among these objectives as the program moves forward. Initially, there has been a strong tension between the speed and quality in the preparation of PRSPs, within the context of debt relief efforts. During the first year of implementation, this was managed by the preparation of I-PRSPs, which have provided an initial basis for interim debt relief and concessional assistance. However, as the first generation of full PRSPs is prepared, there is a general consensus on the need to focus more on quality than speed.

7. Foremost, poverty reduction strategies formulated in the PRSPs should be owned by the country concerned. At the same time, the BWIs and other donors have to be assured that their assistance will be well used to support credible strategies. Finding an appropriate balance between these two objectives requires both serious efforts to achieve a convergence of views between the country and its external development partners, and an understanding about how to cooperate despite differences. Bank and Fund staff have been encouraged to conduct an on-going dialogue with governments during the preparation of their strategies and to be open-minded in reviewing the priorities and policies proposed by the country. It is expected -- but not guaranteed -- that such an exchange of ideas would lead to sufficient convergence of views about desirable strategies. The guidelines for Joint Staff Assessments<sup>2</sup> (JSAs) make clear that a positive assessment does not necessarily require that the staff agree with all the analysis, targets and public actions set forth in the PRSP. In any case, IDA and the Fund will need to design their programs to support those elements of the country's strategy on which there is agreement, and maintain an advocacy role on those on which there is still some divergence.

8. There is a danger that PRSPs might become or be seen as being too "BWI-centric", given the requirement that the countries must present their PRSPs to the Boards of the Bank and the Fund. Consistent efforts are required by governments, the Bank and the Fund, and other donors to ensure broad involvement by all donors in the dialogue during government-led preparation of the PRSPs, as well as an awareness by the Bank and the Fund to the concerns and interests of other donors. The Bank and the Fund have repeatedly urged governments to invite the participation and support of all donors in PRSP preparation, and have encouraged the

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<sup>2</sup> The Bank's and the Fund's views about the countries' strategies and whether or not the PRSP constitutes a sound basis for their concessional assistance are expressed in Joint Staff Assessments. See Annex I for the complete guidelines.

international donor community to engage in the process and to align their own assistance programs behind the PRSPs.

9. **Expected Content for PRSPs.** The Bank and the Fund have avoided excessive prescription of the expected PRSP content. This reflects the premises that country ownership is a key to a successful strategy and that good strategies will vary widely depending on country circumstances. Furthermore, this reflects the recognition that some countries already have strategy documents and participatory processes. In such cases, the PRSPs should be derived from or built on such strategies, and the Bank and the Fund should be flexible in that regard. It is, nonetheless, expected that PRSPs will describe the participatory process used during preparation, and will include three core elements: (a) a poverty diagnosis; (b) targets, indicators, and monitoring systems; and (c) priority public actions over a three year horizon. In presenting those public actions PRSPs are expected to include country's macroeconomic framework; a summary of the overall public expenditure program and its allocation among key areas; and a matrix of key policy actions and institutional reforms and target dates for their implementation. Countries have discretion with respect to the nature of their participatory processes, the choice of poverty reduction targets and indicators, and the priorities for public actions.

10. The Bank and the Fund have taken two approaches to advise countries on the possible content of PRSPs. First, guidelines were prepared for JSAs, outlining the main questions that staff will consider in assessing PRSPs. The JSA guidelines have been drawn taking into account key IDA mandates, and cover *inter alia*: (a) robustness of poverty diagnostic (including the gender dimension of poverty and natural resource degradation); (b) adequacy of poverty reduction goals and indicators of progress; (c) appropriateness of sectoral and structural policies (including key social sector programs, policies and institutions for environmental sustainability and labor market regulations); and (d) governance and public sector management. Indirectly, the JSA guidelines also suggest issues that countries should consider in preparing their strategies, although they do not provide any specific guidance with respect to selecting targets or choosing priority public actions. Second, Bank and Fund staff have prepared a comprehensive PRS Sourcebook, which is a compendium of reference materials that brings together international best practices and policy ideas. It is hoped that this Sourcebook material will be widely used by participants in the process of PRSP development as a stimulus for ideas.

11. Many I-PRSPs and early PRSPs have so far given relatively little attention to issues that are important for sustainable development such as the role of women, environmental management, and analysis of the social impacts of policy reforms. In this context, a key question that has arisen during the initial implementation of the PRSP approach is whether or not the Bank and the Fund should be more prescriptive with respect to the desired content of PRSPs. In addressing this question, one should recognize that, in order to be most useful, PRSPs need to be an accurate reflection of what the country seeks to achieve and intends to undertake. The Bank and the Fund, as well as other external development partners, need to respect the integrity of the process and avoid seeking the false comfort of documents that would merely say what the external donor community wants to hear. In this process, the Bank's role should be to provide objective analysis, define policy options, and advocate policy actions on the basis of that analysis as well as international experience.

12. While giving broad scope for countries to define their own strategies, the Bank together with other external partners can properly set high expectations with respect to the following three dimensions of PRSPs.

- *Prioritizing Public Actions.* PRSPs should set forth a comprehensive public sector budget that indicates allocations among expenditures. Also, the governments should indicate their priorities for policy reform over a several year horizon, recognizing that the actual pace of implementation will be affected by political and institutional constraints.
- *Public Expenditure Management System.* The PRSPs should articulate a program to improve efficiency, transparency and accountability in public expenditure management. Such improvements are essential to ensure that the country's budgetary resources are well spent.
- *Monitoring and Evaluation (M&E) Systems.* Without significant improvements in M&E capacity, client countries and external donors will not be able to determine the effectiveness of their policies and their assistance programs. It should, however, be recognized that this is a longer term undertaking which will need considerable in-country capacity building.

13. Under the PRSP approach, countries have been encouraged -- in selecting their national goals -- to consider the relevance of the International Development Goals (IDGs). IDGs have been widely endorsed among governments in various international fora, including the governments of 77 African, Caribbean and Pacific countries and most recently at the Millennium Summit. Since these goals are directed toward poverty issues that are so widely shared, it is likely that most countries will include the qualitative goals (e.g., reducing maternal mortality) among their PRSP goals, and will set related medium-term and long-term quantitative targets. However, it is not expected that each country would aim at reaching the same quantitative targets at the same date (e.g., reducing maternal mortality by three-fourths by 2015) since the appropriate targets will depend on each country's starting point and capacity.

14. **The Participatory Process and Governance Issues.** While emphasizing the importance of the participatory process for preparing PRSPs, the Bank and the Fund also recognize that it would be inappropriate to prescribe particular modalities for such process. Low-income countries vary widely in terms of their political systems, the status of civil society organizations, and current practices/traditions with respect to participation in public policy making. It is also very important that PRSPs improve, and not undermine, existing institutions and processes for decision making. Therefore, PRSPs are expected to be fully based on the formally approved policies and budgets of governments, and their preparation should follow appropriate channels for approval.

15. Nevertheless, the PRSP approach to designing, implementing and monitoring strategies is intended to stimulate both more extensive public dialogue and greater transparency in all of these stages, with the expectation that this will contribute to better governance in several dimensions. The participatory process is intended to require governments to be more transparent about their goals and policies. I-PRSPs and PRSPs are made public in the country, usually in draft during the consultation process, and formally after completion; PRSPs are also subsequently disclosed

by the Bank, upon the government's authorization, when they are finalized and formally sent to IDA. It is hoped that this openness will generate more public dialogue about desirable policies, although the extent and quality of such dialogue will vary widely depending on the depth and capacities of political institutions and civil society broadly defined.

16. One of the core elements of desired PRSPs is a reasonably comprehensive presentation of public expenditure programs which is likely to bring greater transparency about the public budget, and ensure a more productive public debate about allocative choices. Ideally, such programs would be developed and presented as a Medium-Term Expenditure Framework. Although in many cases the current capacity of governments to generate the data for a comprehensive view of their budgets is limited, it is intended that over time the PRSP process will encourage governments to improve their technical capacities in this dimension.

17. The PRSP process is also intended to encourage governments to improve their Public Expenditure Management (PEM) systems. The recent study of the quality of PEM systems in 25 HIPC countries has highlighted the weakness of these systems in most borrowing countries<sup>3</sup>, a serious concern where systemic progress has been limited despite decades of external assistance to poor countries. There is now, however, widespread agreement in the donor community of the importance of focusing technical assistance and conditionality on improving overall systems of public expenditure, procurement and financial management. In this context, it is important to stress that, while technical assistance can play a very useful role, the implementation of improvements in PEM systems, like many important and difficult reforms, will require political will, to be fully effective.

18. In addition, the PRSP process may stimulate efforts to improve governance if the process of consultations about the strategy brings attention to weaknesses in governance that are of particular concern to civil society. For example, the participatory exercises that have accompanied several I-PRSPs and PRSPs have highlighted the importance of improving the judicial and police systems. In response, the Tanzanian PRSP, for example, included judicial reform measures as a priority.

19. **PRSP Coverage of Blend Countries, Poor Performers, Post-Conflict Countries, and Small States.** Implementation of the PRSP approach thus far has been among IDA-only countries. An issue about which there has been some ambiguity is the treatment of *blend countries* within the PRSP framework. Because the current rules of the IMF require the preparation of an I-PRSP or PRSP as the basis for access to financing from the Poverty Reduction and Growth Facility (PRGF), any blend country seeking a PRGF arrangement will need to prepare an I-PRSP or PRSP to be presented to the Boards of both the Fund and the Bank. For blend countries not seeking PRGF arrangements, it is nonetheless expected that they will articulate a national poverty reduction strategy closely reflecting the principles underlying the PRSP approach which will be the basis for the Country Assistance Strategy and IDA support.

20. Another issue that has not yet been fully addressed is when PRSPs would be required by *poor performing countries* which are IDA-only and which are not expected to qualify for

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<sup>3</sup> IMF/IDA "Tracking Poverty-reducing Public Spending in Heavily Indebted Poor Countries", March 27, 2001.

concessional assistance from the IMF. In these countries, IDA may nevertheless be able to play a useful role through a very limited program that focuses on small projects, technical assistance, and non-lending services. In these circumstances, IDA would continue to work with the countries to build their capacities to develop poverty reduction strategies, but confine itself to a limited program of assistance.

21. In *post-conflict countries*, it will be important to apply the PRSP approach flexibly to ensure that it makes a positive contribution to the country's recovery. It has always been acknowledged that countries have different starting points in terms of their capacities for analytical work and for organizing participatory process and that, as a result, I-PRSPs and PRSPs will vary widely in quality. In this spirit, the particular circumstances of each conflict-affected country should be evaluated in reaching an understanding with the government about what is useful in terms of the PRSP. Consideration should be given to the prospects that a participatory process for the PRSP may provide opportunities to building dialogue and a sense of common purpose among conflicting groups. As for the many *small states* that remain eligible for IDA, flexibility will also be appropriate with respect to the content and frequency of PRSPs.

### 3. A PRSP-Based Business Model for IDA13

22. Since the launch of the PRSP approach in December 1999, the Bank has taken several steps to strengthen and clarify the links between the PRSPs and its own assistance programs. In September 2000, the paper entitled "Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries"<sup>4</sup> sketched a PRSP-based business model for IDA incorporating the following key elements:

- **Vision.** Country commitment is essential. The foundation of IDA's work has to be a country-led and owned policy framework covering the range of structural, social, environmental, institutional and macroeconomic policies needed for successful development. The associated program will normally be articulated through a PRSP.
- **Diagnosis.** IDA's assessment of the country's policies and institutions provides the basis for determining both how best and by how much IDA should support country's efforts. At the same time, core diagnostic economic sector work (ESW) prepared and shared with countries and partners, provides key inputs that the country can use in developing its own vision and diagnosis.
- **Programming.** The country business strategy is set out in the CAS reflecting country priorities, need, performance, institutional capacity, IDA's comparative advantage, and contributions from other partners. The CAS must also reflect, of course, IDA's judgments about the aspects of the country's program which should be priorities for IDA's support, in terms of IDA's own objectives.

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<sup>4</sup> Development Committee Paper: "Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries" DC/2000-19, September 8, 2000.

- **Results.** To improve effectiveness, the governments must set clear targets, monitor and evaluate performance against those targets, and use the results to shape current and future programs. This principle is enshrined in the PRSPs, which should include monitorable indicators and targets in line with priority public actions and capacity constraints.

Against this background, IDA's business model is likely to be increasingly based on countries' program cycles, as described below.

23. **Aligning the IDA CASs with PRSPs.** The PRSP will put forward the country's own development vision and strategy for reducing poverty, and a set of targets, monitorable indicators, and priority public actions for growth and poverty reduction. This will provide the country's framework for partnerships with external donors, including IDA. Once PRSPs have been presented, the CAS itself could refer to the country's document and would become the business plan by which IDA would support the country's own strategy. IDA management has indicated that, after July 1, 2002, IDA CASs will normally be based on PRSPs<sup>5</sup>. This creates the incentive for IDA countries to complete their first full PRSP by mid-2002 so that its IDA assistance program can be reviewed, in line with country priorities, through presentation of a new CAS.

24. Helping governments take on core diagnostic analyses during the PRSP process is a key priority for IDA. To the extent that this is satisfactorily achieved, the results will feed into the CAS. But in most cases, IDA will have to undertake "core diagnostic" analyses itself, particularly with respect to social and environmental impacts and fiduciary arrangements, to assess countries' readiness to make effective use of IDA resources. In any case, CAS will review the adequacy and vintage of the stock of knowledge from IDA's own ESW, and country's and development partners' work, and indicate how remaining gaps are to be filled.

25. With respect to participation and transparency in CAS preparation, the PRSP process should significantly change IDA's recent practice. Since the preparation of the PRSP should involve substantial consultations with domestic and external stakeholders about the country's challenges and priorities, it would no longer be helpful for IDA to organize separate broad consultations as part of CAS preparation. Instead, the IDA-organized consultations could have a narrower focus on the ways in which IDA could best support the PRSP.

26. At the same time, programmatic selectivity should remain the basic principle of the CAS. A CAS must make clear which elements of the PRSP will be supported by IDA lending and non-lending services -- and under what conditions -- and which will not. Hopefully, the PRSP process will involve significant discussions among the major external partners of the country, so that a clear pattern of cooperation emerges. However, unless most bilateral and all multilateral developments partners base their business plans on countries' own program cycles, only limited progress would be achieved in this area.

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<sup>5</sup>. In the Development Committee paper on "Supporting Country Development..." as well as the paper on "Poverty Reduction Strategy Papers—Progress in Implementation," dated September 7, 2001,

27. With respect to timing of CASs relative to PRSPs<sup>6</sup>, the guiding principle should be that both PRSPs and CASs need to be revised periodically to reflect new information (partly based on implementation experience) and changing circumstances. It is generally reasonable to expect that for most IDA borrowers, both PRSPs and CASs would be prepared on a three year cycle. However, there should be some flexibility for determining in consultation with the countries concerned the timing of PRSPs and CASs in line with electoral as well as budgetary cycles, in order to ensure on-going country ownership.

28. **Performance-Based Allocations and PRSPs.** As Deputies are aware, a key objective in recent years has been to allocate IDA resources according to country performance. IDA has given increasing attention to its annual process for Country Performance Ratings (CPR) which combines Country Policy and Institutional Assessments (CPIAs) and the Portfolio Performance. CPRs are the main determinants of Performance Based Allocation (PBA). Through this process, significant progress has been made in shifting IDA's funds toward countries with best track records for policy and institutional reforms, and hence better environments for the effective use of aid resources. The PBA system will continue to be the main mechanism through which IDA allocates resources among countries.

29. In practice, the PBA process is used to establish the level of IDA allocation for the base-case lending scenario in the CAS. The CAS also defines triggers for low- and high-case lending taking into account mainly the policy and institutional weaknesses identified through the CPIA process. As PRSP process becomes fully established, the triggers of CAS lending scenarios are also likely to include implementation of the policy commitments and performance targets set forth in the PRSP, taking into consideration the assessment of the JSA. Actual lending allocation during the CAS period will depend on whether these triggers have been satisfactorily met.

30. To implement this approach under the rubric of the PRSP, it will be important to ensure consistency between the criteria for the CPIA, which evaluates the country's track record in the recent past, and the JSA guidelines for assessing PRSPs, which evaluates the strength and credibility of its proposed public actions in the coming years. Currently, some CPIA criteria, particularly poverty monitoring, and setting institutional policies and budget priorities consistent with poverty reduction strategies, are under review with this objective in mind<sup>7</sup>. In this way, a country that defines and successfully implements a poverty reduction strategy that a JSA considers to be strong, should find its CPIA ratings improved over time.

31. **Programmatic Lending and PRSPs.** Over time, programmatic lending through Poverty Reduction Support Credits (PRSCs) is expected to become an increasingly important element of IDA's overall support for low-income countries' poverty reduction strategies<sup>8</sup>. PRSCs are a

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<sup>6</sup> Since all IDA countries have not yet presented their first full PRSPs, IDA has taken a case-by-case approach. In some countries in which the previous CAS was several years old and new guidance about the assistance program was needed quickly, IDA has finalized CASs in advance of a PRSP or on the basis of an I-PRSP, while noting that a CAS Update may be needed after the full PRSP to ensure adequate alignment of the two.

<sup>7</sup> These changes are part of an ongoing adjustment of the CPIA criteria and guidance. These revisions will apply to the 2001 CPIA exercise.

<sup>8</sup> Development Committee Paper: "Fighting Poverty and Strengthening Growth in Low-Income Countries", DC2001-001, April 18, 2001

CAS-based development assistance instrument. A PRSC program is expected to consist of a series of typically two or three operations, 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 that it supports and the timing of the requirement for assistance. The full discussion of PRSCs is presented in Annex II.

32. The typical sequencing of a PRSC begins with the country's own poverty reduction strategy, as reflected in the PSRP or I-PSRP. The PRSP/I-PRSP and JSA provide the basis for the Bank's business plan spelled out in the CAS and the structural and social reform agenda and public actions to be supported by the PRSC. Thus, it is expected that PRSCs would normally be finalized and presented to the Board simultaneously with or shortly after the PRSP/I-PRSP, JSA, and CAS.

33. It is expected that PRSCs will facilitate implementation of the agreed division of labor with the IMF. The Bank will consider the presence of an on-track PRGF arrangement as adequate evidence that the macroeconomic framework is appropriate. When a PRSC is under consideration or performance under a PRSC is being reviewed without a companion PRGF in place, Bank staff will ascertain whether the Fund has any major outstanding concerns about the adequacy of the country's macroeconomic policies. Similarly, the Fund regards the presence of an on-track PRSC as adequate evidence that the social and structural program is appropriate. When a PRGF is under consideration or performance under a PRGF is under review without a companion PRSC, it is expected that Fund staff will consult with Bank staff to ascertain whether the Bank has major outstanding concerns about the adequacy of the country's poverty reduction strategy, the social impacts of the macroeconomic policies supported by the PRGF, or the country's performance in meeting structural and social conditions in the areas of competence of the Bank.

34. An issue that will emerge in the next several years is the appropriate share of IDA lending through PRSCs. At the country level, the investment/adjustment lending mix will be determined through the CAS process. In the short term, a greater reliance on PRSCs is likely to increase the share of adjustment lending somewhat above the IDA12 level of 16 percent of total IDA lending (to date), reversing the recent trend of a decline in the share of adjustment lending in total IDA lending. The adjustment lending is still unlikely, however, to exceed a 30 percent share of total IDA lending<sup>9</sup>. The experience with PRSCs will be evaluated to determine the role and scale of this instrument in subsequent years.

35. **ESW in a PRSP Framework.** IDA's own "core diagnostic" economic and sector work (ESW) and its active participation in country-led efforts to strengthen the analytical underpinning of PRSPs will constitute an ambitious agenda throughout IDA13. Administrative budget allocations to ESW in recent years have been inadequate for these tasks. Recognizing this, the Management has proposed, in the *Strategic Directions for FY2002-2004*, a significant increase in the coverage of diagnostic ESW, especially for IDA countries. In the coming years, IDA will

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<sup>9</sup> The 30 percent adjustment lending limit is reflected in OD8.60 on *Adjustment Lending Policy (1992)*.

have to balance its efforts between contributing to country-led analytical efforts and presenting the staff's independent, objective views to management and the Board. Specifically, two integrative analyses will be key inputs to the CAS, and are expected to underpin the development of a PRSC program in a country:

- ***Fiduciary Assessment.*** An integrative analysis of the country's public financial accountability arrangements would cover its public expenditure, procurement, and financial management system. This assessment would normally focus on: (a) the comprehensiveness and transparency of the budget with an appropriate focus on poverty-reducing public spending; (b) the adequacy and transparency of systems to guide and monitor budget implementation, including procurement; and (c) the adequacy and transparency of systems for monitoring, reporting on, and auditing public financial flows, including the adequacy of the arrangements for disbursement, reporting, and auditing of PRSC proceeds. Such fiduciary analysis would cover the country's policies and priorities and would identify action plans to address remaining weaknesses, including through the operation itself.
- ***Social, Structural, and Sectoral Analysis.*** The CAS will also be based on a cross-cutting assessment of the country's social, structural, and key sectoral policies, which covers the policy reform and institutional development priorities for sustainable growth and poverty reduction -- including the capability to enhance the positive and mitigate the adverse impacts that the reforms being supported may have on poor people and other vulnerable groups, and on the environment<sup>10</sup>. The review would be informed by poverty assessments, and social and environmental analysis and would set out an action plan for addressing priority policy reforms and strengthening country institutions. A Bank-Fund working group has begun developing a framework for the social impact analysis of macroeconomic and structural policies.

36. An important consideration is to effectively use partnerships to ensure that the necessary scope of analytical underpinnings for a country can be covered without duplication. At each stage of the PRSP process, it is envisioned that the government would identify important analytical gaps, and it is hoped that discussion of these gaps with development partners will lead to understandings about who will do what. In this context, it will be especially important to make good use of the Common Country Assessments (CCA) of the United Nations system. The CCAs ought to be important inputs to the country's deliberations in the preparation and sequential improvements of its PRSP. In designing its own program of analytical work in a particular country, IDA should give particular attention to ways in which it could complement, rather than duplicate the CCAs.

37. **Aid Coordination and PRSPs.** Providing a vehicle for better aid coordination is an explicit objective of the PRSP approach. From the outset, the Bank and the Fund have stressed that this initiative would fail if PRSPs become only documents that mediate the relationship between a government and the BWIs. Instead, it is envisioned that the PRSP will be the primary

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<sup>10</sup> This systemic development policy review would also address the broader dimensions of poverty set out in the *World Development Report 2000/2001*, paying attention to the need to promote a level and quality of economic growth and sustainable development that result in poverty reduction and progress toward meeting the international development goals, including those for environmental sustainability.

instrument by which a country articulates a strategy around which external development partners could align their own programs of support.

38. To bring more coherence to the external support for the implementation of PRSPs, IDA (and several other institutions) promotes a country level coordination of institutional business plans, such as CASs, to reduce overlaps and ensure that key parts of a PRSP are sufficiently supported, either financially or by analytical or advisory work. Ideally, such partnership should bring together, under government leadership: analytical and diagnostic work, alignment of donor actions to the national strategy, selectivity, and harmonization of procedures.

39. For *bilateral agencies* whose assistance programs in any particular country represents a combination of their development, political and commercial interests, alignment of their development assistance program with the country-owned strategy involves striking a balance between their national interests and country's development priorities. As sector strategies for poverty reduction become better articulated through the PRSP process, these can be used as road maps by bilateral donors for defining their own programs working in partnership with others. Sector-wide approaches can facilitate close alignment of bilateral donors' program support with country-owned strategies, while allowing selectivity by individual donors.

40. While some of the regional *multilateral development banks* (MDBs) agree on this coordinated approach, and have started to implement it to some degree (e.g., in the case of Ghana and Vietnam), the principle of an explicitly agreed division of labor under the organizing framework of the country's own strategy has not yet found operational acceptance among all MDBs. The shareholders for MDBs are increasingly calling for closer collaboration and better coordination among MDBs, based on the CDF principles and in support of PRSPs (most recently in the AsDF VIII replenishment). While good progress has been made in many areas, recent joint MDB statements are rather vague on the practical aspects of this close cooperation, including the harmonization of timelines of MDBs' country business plans, which is critical for improved coordination.

#### **4. Conclusions and Issues for Discussion**

41. The PRSP approach aims at improving IDA's focus on poverty reduction as its overarching objective. To do so, it seeks to promote participatory processes that include the poor and build country ownership of poverty reduction strategies, and it gives particular attention to monitorable results. Within this context of broad consistency between IDA's mandates and the objectives of the PRSP approach, there remain many issues of implementation that need to be discussed thoroughly and monitored carefully in order to lay a foundation for IDA13.

42. This paper puts forward a number of key propositions about a PRSP-based business model for IDA13. Do the Deputies agree with the following key elements of the business model summarized below, which would require some changes in the way in which IDA has been operating?

- Poverty reduction strategies prepared by the countries will normally provide the context for IDA assistance, and IDA will continue to avoid detailed prescription about the

expected content of the documents describing these strategies. Nonetheless, IDA's assessment of PRSPs through the JSAs, and its judgments of priorities and extent of IDA support, will continue to be firmly based in the IDA's policy framework, via the CAS and the IDA's performance-based allocation process.

- All IDA-only countries are required to formally present PRSPs to the Bank and the Fund (except possibly in the case of post-conflict countries and poor performing countries with very limited lending programs). Blend countries not seeking a PRGF arrangement are expected to articulate national poverty reduction strategies closely reflecting the principles of the PRSP approach as the basis for IDA assistance.
- IDA will expect that these strategies be prepared through a participatory process designed to enhance country ownership, but will not prescribe particular modalities for that process.
- CASs will become IDA's business plan for the country, emphasizing programmatic selectivity. The government-led process of PRSP preparation will become the primary vehicle for comprehensive diagnosis, and for participation and consultation.
- The availability of independent and objective core diagnostic is a critical priority for IDA, and ESW will continue to play a key role in this regard. ESW will be undertaken to the extent possible in collaboration with country institutions in order to build in-country capacity. The CAS is expected to assess the adequacy and the vintage of the stock of knowledge on a country from all sources, and indicate how remaining gaps are to be filled, especially for fiduciary assessments.
- Performance-based allocation system will continue to be strengthened using criteria aligned with JSA guidelines, and the implementation of policy measures and targets derived from the PRSP will be used to define CAS triggers for alternative lending scenarios.
- 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. Progress in this regard will be gradual, however, with careful analysis of the appropriateness of the instrument for each individual country particularly in terms of the integrity and transparency of public expenditure management and procurement systems. This approach will allow learning from, and application of, the lessons of experience.
- Country-led PRSP process can become a key vehicle for improving IDA's partnerships with other external partners and for improving aid coordination generally. But effective progress in this area will critically depend on harmonization of operational policies and procedures among donors, both bilateral and multilateral.

## Guidelines for Joint Staff Assessment of a Poverty Reduction Strategy Paper

1. When a Poverty Reduction Strategy Paper (PRSP) is presented by a government to the Executive Boards of the World Bank and the International Monetary Fund, it is accompanied by an assessment of that strategy by Bank and Fund staff—the Joint Staff Assessment (JSA). This note provides guidance to Bank and Fund staff on preparing JSAs of full PRSPs.<sup>11</sup> These guidelines will be revised periodically in light of experience and feedback from countries and development partners.

### Purpose of the JSA

2. The JSA must make an overall assessment for the Executive Boards as to whether or not the strategy presented in the PRSP constitutes a sound basis for concessional assistance from the Fund and the Bank.<sup>12</sup> A positive assessment does not necessarily indicate that the staff agree with all of the analysis, targets, or public actions set forth in the PRSP or consider that the PRSP represents the best possible strategy for the country. Rather it indicates that the staff consider that the strategy provides a credible framework within which the Bank and the Fund are prepared to design their programs of concessional assistance. The amounts of assistance and detailed design of the programs in support of a country's poverty reduction strategy are determined through the Bank's Country Assistance Strategy (CAS) and arrangements under the IMF's Poverty Reduction and Growth Facility (PRGF). The JSA contributes to these determinations through its assessment of the strengths and weaknesses of the strategy and its various elements. In addition, the JSA provides constructive feedback to the country about how it might improve its strategy over time.
3. The JSA guidelines reflect the main principles underlying the PRSP approach. The PRSP is prepared by the government through a *country-driven* process, including broad participation that promotes *country ownership* of the strategy and its implementation as well as *partnerships* among the government, domestic stakeholders and development partners. *Comprehensive diagnosis*, *a long-term perspective*, and *results-orientation* are important. The JSA guidelines also reflect the expectation that, although the specific content of PRSPs will vary widely among countries, a PRSP will include four core elements: (a) a description of the country's participatory process; (b) poverty diagnosis; (c) targets, indicators, and monitoring systems; and (d) priority public actions.<sup>13</sup> Full PRSPs are expected to summarize

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<sup>11</sup> Separate guidelines for the JSAs of Interim PRSPs are available on the Bank and Fund websites. See [http://www1.worldbank.org/prsp/IPRSP\\_Guidance\\_Note\\_Sept\\_7.pdf](http://www1.worldbank.org/prsp/IPRSP_Guidance_Note_Sept_7.pdf) and <http://www.imf.org/external/np/prsp/2000/prsp.htm#AnnexVI>

<sup>12</sup> If so, the concluding paragraph of the JSA should include the statement that: "The staffs of the World Bank and the IMF consider that this PRSP provides a sound basis for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion." For countries participating in the Enhanced HIPC Initiative, the concluding paragraph should also state that the PRSP provides a sound basis for debt relief.

<sup>13</sup> See Appendix 1, "Possible Elements of a PRSP," *Poverty Reduction Strategy Papers: Operational Issues*, Joint IMF/World Bank Paper, December 10, 1999, which is available on the Bank and Fund websites.

the priority public actions over a three year horizon by inclusion of: (a) a table(s) presenting the country's macroeconomic framework; (b) a table(s) summarizing the overall public expenditure program and its allocation among key areas<sup>14</sup>; and (c) a matrix of key policy actions and institutional reforms and target dates for their implementation.

4. The JSA—within 10 pages—should, to the extent possible, succinctly answer key questions about each the four core elements of a PRSP. In their assessment, staff should give greatest weight to the clarity and the realism of the priority public actions and to the arrangements for monitoring and evaluation which could lead to improvements in the strategy over time. Staff should take into consideration the country's starting point. The JSA should provide clear and candid assessments and avoid description and repetition of the PRSP itself. It should give particular attention to issues raised in JSAs for the Interim PRSP. In a concluding section it should summarize areas where the PRSP is especially strong or weak as well as risks to the successful implementation of the PRSP.
5. In preparing a JSA, lead responsibility among Bank and Fund staff should be divided in line with primary institutional competencies,<sup>15</sup> taking into consideration that there are areas of overlapping competence and important linkages among areas. The staffs need to reach a common overall assessment. The PRSP/HIPC Joint Implementation Committee provides a vehicle for resolving differences in views that cannot be resolved at the working level.

## Key Questions

6. The key questions are presented below. In selecting these questions, a balance has been attempted between, on the one hand, responding to the requests from countries and development partners for greater clarity about the basis on which the staffs will assess PRSPs and, on the other hand, the desire to avoid excessive prescription of or unrealistic expectations about the content of PRSPs. Given institutional capacity constraints, the quality of data, diagnosis, and analysis in PRSPs will vary widely among countries, and it is not expected that all PRSPs will address thoroughly all of the issues raised in the questions below. Moreover, in preparing the JSA, staff need to consider each of the questions below but should focus in the JSA on those that are most relevant in the country context. Given limitations in available data and analyses and the inherent complexities of many issues, the JSA will need to make tentative judgments in some areas. The bullet points associated with some of the key questions are only reminders of potentially important issues for consideration, not a checklist of issues that must be covered in every case. There may be

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<sup>14</sup> Data on the public expenditure program should be as comprehensive as possible and should not be limited to activities financed by budgetary savings from HIPC debt relief and/or by projected increases in external assistance. However, allocations of specific uses of HIPC debt relief should also be presented.

<sup>15</sup> The Fund's core areas are macroeconomic policies (monetary, fiscal, and exchange policies ) and directly related structural reforms. The Bank's core areas are design of poverty reduction strategies (including poverty diagnostics, sectoral strategies, effectiveness of public expenditures, and social safety nets) and structural, social and governance reforms. Overlapping areas are the environment for private sector growth, trade, financial sector, tax and customs policy administration, and issues related to public expenditure management, budget execution and monitoring, and fiscal transparency.

other issues not included in the bullet point that are important in a particular country and that should be covered.<sup>16</sup>

## A. **Building Country Ownership through Participation**<sup>17</sup>

A.1 Does the PRSP describe the participatory process that the government conducted to design and to build ownership for the strategy?

- Participatory processes within government (among central ministries, parliament, and sub-national governments).
- Other stakeholder involvement (for example, civil society groups, women's groups, ethnic minorities, policy research institutes and academics, private sector, trade unions, representatives from different regions of the country).
- Bilateral and multilateral external development partners' involvement, including collaborative analytical work to support PRSP development.
- Mechanisms used to consult the poor and their representatives.

A.2 Does the PRSP summarize major issues raised during the participatory process and the impacts of the process on the content of the strategy? How has the participatory process evolved over time?

- Extent to which the participatory process has been well integrated with existing processes of the government for policy and decision making.
- Comparison with earlier practices and with the plans in the I-PRSP.

A.3 HOW CLOSELY IS THE PRSP RELATED TO ANY OTHER CURRENT GOVERNMENT DOCUMENTS THAT

SET FORTH NATIONAL OR SECTORAL DEVELOPMENT PLANS AND/OR BUDGETS?

A.4 What are the plans for public dissemination of the PRSP?

## B. **Poverty Diagnosis**

B.1 How adequate are existing poverty data?

- Extent of disaggregation of poverty data by regions and by demographic groups, including by gender.
- Degree to which quantitative data were complemented by qualitative information.
- Accessibility of data for policy analysis, especially outside government.

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<sup>16</sup> For a much more thorough presentation of topics and issues that may be considered within PRSPs and JSAs, see the PRS Sourcebook, which is available on the Bank and Fund websites. The Sourcebook is a compendium of reference material, not a "how-to" guide for PRSPs, that brings together information on international best practice and policies. See <http://www.worldbank.org/poverty/strategies/sourctoc.htm>.

<sup>17</sup> The Executive Boards have instructed the staffs to describe, but not to evaluate, the participatory process. It is recognized that the participatory process is designed and managed by the government and that staff knowledge of the process and its impacts will often be incomplete.

**B.2 How well have the nature and determinants of poverty outcomes (income and non-monetary dimensions) been identified? Have trends in key poverty determinants and outcomes been presented?**

- Extent of income/consumption and other dimensions of poverty (health, including environmental diseases and HIV/AIDS, education, natural resource degradation, vulnerability, disempowerment) and their evolution over time.
- Analysis of gender dimensions of poverty.
- Distribution of assets of various types—natural (especially land), physical, financial, and human.
- Identification of economic, social and institutional (including corruption and poor governance) constraints to poverty reduction.

**B.3 To what extent have the growth and distributional impacts of past policies and programs been assessed?<sup>18</sup>**

- Macroeconomic policies, including the ability to respond to exogenous shocks.
- Structural and sectoral policies, including the distributional impacts of past reforms and policies affecting private sector development, trade, the operation of product and factor markets, and environmental management.
- Equity, effectiveness and efficiency of existing pattern of public expenditures, service delivery, and systems for budget management, financial management, and procurement.
- Other key constraints on implementation capacity.
- Policies with regard to gender inclusion and social inclusion.

**C. Targets, Indicators, and Monitoring**

**C.1 Does the PRSP define medium- and long-term goals for poverty reduction outcomes (monetary and non-monetary), establish indicators of progress, and set annual and medium-term targets? Are these indicators and targets appropriate given the assessment of poverty and the institutional capacity to monitor? And are they consistent with the policy choices in the strategy?**

- Selectivity in the choice of monitorable indicators and targets, in line with priority public actions and capacity.
- Inclusion of indicators related to the International Development Goals, recognizing that the appropriate indicators, as well as specific targets, will vary among countries.
- Indicators and targets which appropriately capture disparities by social group, gender, and region.

**C.2 Are current and proposed monitoring and evaluation systems adequate and sustainable?**

- Adequacy of efforts to improve data collection and analysis.
- Transparency of arrangements for, and results of, monitoring the PRSP, including service delivery to the poor.
- Use of participatory methods for monitoring.
- Adequate use of results of monitoring and evaluation in policy formulation.

**D. Priority Public Actions**

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<sup>18</sup> Monitoring and evaluation systems are usually weak, and rigorous quantitative assessments are seldom possible. Nevertheless, judgments about the efficacy and impacts of past policies, even if qualitative, are crucially important for improving strategies over time.

D.1 Does the PRSP present **clear priorities for public action**? Are these priority actions appropriate and feasible in light of the diagnosis, the targets, their estimated costs, available resources, institutional capacities, and the effectiveness of past policies? In making this overall assessment, staff should also consider the following questions:

## ***1. MACROECONOMIC FRAMEWORK, FISCAL CHOICES, AND FINANCING PLAN***

D.2 Does the **macroeconomic framework** promote: (i) a level of inflation that does not undermine private sector growth; (ii) an external position that is sustainable in the medium- to long-run; (iii) growth that is consistent with the poverty reduction objectives laid out in the PRSP; and (iv) an overall fiscal stance that is compatible with the PRSP's poverty reduction and growth objectives?

- Growth projections that are realistic and take into account likely sources of growth, including external trade.
- Possible tradeoffs between the pursuit of short-term versus long-term poverty reduction and other macroeconomic goals.
- Robustness of the macroeconomic program in light of the risks of exogenous shocks.

D.3 Are **fiscal choices** consistent with the poverty reduction and growth objectives of the PRSP? Is the allocation of expenditures consistent with the strategic priorities, institutional capacities and efficiency, and realistic cost estimates? Have domestic revenue measures been designed in light of likely distributional impacts? Is fiscal management capacity adequate to effectively implement the proposed expenditure program?

- Quality of cost estimates for key programs.
- Comprehensiveness of budget data, i.e., extent to which all programs (including externally financed projects) are included in an integrated budgetary framework.
- Status of a Medium Term Expenditure Framework to improve the capacity to undertake pro-poor budget allocations over time.
- Disaggregation of expenditure programs by sector and key programs for poverty reduction and by recurrent and investment expenditures.

D.4 Does the strategy have an adequate and credible **financing plan**—including domestic borrowing and projected aid (and other external) flows?

- Realism of external financing projections and implications for long-term debt sustainability.
- Extent to which external development partners have begun—or indicated their intention—to align and coordinate their own strategies with the PRSP.
- Contingency plans for expenditures in the event of a shortfall in revenues or financing.

***Structural and Sectoral Policies, Policies for Social Inclusion and Equity, Governance and Public Sector Management***

D.5 To what extent do the **structural and sectoral policies** address the key policy, incentive, and institutional constraints to poverty reduction? How well has the PRSP estimated the likely impact of its proposed policy measures on the poor and included measures to mitigate any negative impacts?

- Measures to expand opportunities for the poor and to distribute the benefits of growth and public services more equally by region, by economic and social groupings, and by gender.
- Prioritization and sequencing of reforms, considering expected impacts on the poor.
- Private sector and financial sector development, including sector, financial and labor market regulations, trade policies, and domestic pricing policies.
- Key social sector policies and programs, including those related to HIV/AIDS.
- Policies and institutions for environmental sustainability.
- Cross-sectoral linkages.

D.6 To what extent do **policies for social inclusion and equity** address the key policy, incentive, and institutional constraints to poverty reduction?

- Measures to promote fair and equitable treatment of poor men and women under the law and avenues of recourse, including with respect to property rights.
- Social protection and labor policies.

D.7 To what extent are improvements in **governance and public sector management** being pursued in areas that are important for poverty reduction? How adequate are proposed improvements in laws and in institutions at the central and local levels with regard to ensuring accountability for use of fiscal resources and better service delivery?

- Measures to address systemic problems in budget formulation and execution, financial management and procurement systems, and monitoring of public spending, as well as short-term measures to ensure accountability for the use of HIPC debt relief.
- Plans for improvements in governance arrangements and service delivery, including the role of local communities and local government.
- Steps to be taken to improve transparency and ensure accountability of public institutions and services vis-à-vis the needs and priorities of the poor.
- Efforts to address critical problems inhibiting civil service performance and any issues of corruption in the public service.

## INTERIM GUIDELINES FOR POVERTY REDUCTION SUPPORT CREDITS

1. The Poverty Reduction Support Credit (PRSC) is a CAS-based development assistance instrument, supporting an IDA-eligible country's policy and institutional reform program to help implement its poverty reduction strategy. The PRSC is grounded in the principles of the Comprehensive Development Framework (CDF) and the international development goals.<sup>19</sup> Over time, it 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. These interim guidelines will be kept under review and revised, as necessary, in light of the early experience with PRSCs.

2. **Context.** The Development Committee paper, *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries*, spelled out the process by which the Bank customizes its country support. As indicated there, the Bank starts with the country's own vision, with the Poverty Reduction Strategy Paper (PSRP) or Interim Poverty Reduction Strategy Paper (I-PSRP)<sup>20</sup> setting out the country's poverty reduction strategy and the priority public actions it expects to achieve its goals. Utilizing country-based economic and sector work (ESW), Bank and Fund staff provide a Joint Staff Assessment (JSA) of the adequacy of the PRSP—and of the country's commitment and capacity to implement it—as a strategy for achieving sustained growth and poverty reduction and making progress toward the international development goals. In turn, the PRSP/I-PSRP and JSA feed into the Country Assistance Strategy (CAS) and PRSC processes, which will increasingly be synchronized.<sup>21</sup> It is expected that the PRSP/PRSC framework will allow donors to combine their efforts behind a single program, with consistent and harmonized monitoring and evaluation focusing on results at the project, program, and country levels.

3. **Features.** A PRSC program typically involves a series of two or three operations (individual PRSCs) that together support the country's medium-term development and reform program to implement its poverty reduction strategy. Its specific structure depends on country circumstances, including the objectives and nature of the country's reform program that it supports and the timing of the requirement for assistance.

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<sup>19</sup> See 2000, *A Better World for All: Progress towards the International Development Goals*, jointly issued by the IMF, Organization for Economic Co-operation and Development, the United Nations, and the World Bank Group (Washington, D.C.: International Monetary Fund, 2000), available at [www.parais21.org](http://www.parais21.org).

<sup>20</sup> See *Interim Poverty Reduction Strategy Papers (I-PRSPs): Guidance on I-PRSPs and Joint Staff Assessment of I-PRSPs, Joint Note to World Bank and IMF Staff*, September 7, 2000.

<sup>21</sup> It is expected that, after July 1, 2002, IDA CASs presented to the Bank's Board would normally be based on a PRSP, which would provide the context for all IDA lending and non-lending activities. See *Poverty Reduction Strategy Papers (PRSPs) 3/4 Progress in Implementation*, (SecM2000-0487), August 14, 2000, and *Poverty Reduction Strategy Papers (PRSPs) 3/4 Progress in Implementation*, (DC/2000-18), September 7, 2000. After an initial period of build-up in the pipeline of PRSPs and PRSCs, it is expected that PRSCs would normally be finalized and presented to the Board after the consideration of the PRSP and JSA.

- The medium-term program supported by a PRSC series (Medium-Term Program) principally draws from and elaborates on the country's PRSP or I-PRSP<sup>22</sup> and takes into account the JSA's analysis of the adequacy of that strategy. It is set out in the government's Letter of Development Policy (LDP) and multiyear matrix of policy and institutional reforms, with results-focused monitoring indicators and progress benchmarks.<sup>23</sup> The time horizon of the PRSC series ideally corresponds to the PRSP (or I-PRSP) and CAS periods.
- A PRSC series may include single-tranche as well as multi-tranche operations.<sup>24</sup> It is expected that single-tranche PRSCs may normally be appropriate for countries with a relatively strong track record of performance, whereas two-tranche operations may normally be appropriate for countries without an adequate track record, or where close monitoring is useful in the implementation of the program.
- Each individual PRSC in the series is made based on (a) the receipt of an acceptable LDP; (b) a satisfactory macroeconomic framework;<sup>25</sup> (c) the up-front completion of a set of specific social and structural reform measures ("prior actions"), agreed at negotiations and set out in the LDP/multiyear matrix, and focused on priority actions that are critical for the success of the Medium-Term Program and are expected to have a substantial impact on sustainable growth and poverty reduction; and (d) on satisfactory progress in carrying out the Medium-Term Program, based on a review and assessment by staff, against the CAS triggers and the overall set of social and structural actions set out in the LDP/matrix. In this review and assessment, staff also consider the results-focused indicators and benchmarks for monitoring the overall implementation of the poverty reduction strategy set out in the LDP/matrix.
- To the extent practicable, individual PRSCs are normally phased in line with the borrowing government's annual budget and policy cycle. The documentation for each individual PRSC clearly indicates how that operation is linked with preceding or subsequent PRSCs in the series (if any)—including the prior actions that have been completed, and the prior actions expected to precede and the policy areas expected to be covered in subsequent PRSCs.<sup>26</sup> The second and any subsequent PRSCs in the series build on the previous ones; their prior actions (and any tranche conditions) are formulated and agreed when they are negotiated, drawing on the Medium-Term Program set out in the preceding PRSC. They each include an updated LDP and multiyear matrix, which reflect the evolving Medium-Term Program and specify the agreed prior actions and any tranche conditions. In moving from one PRSC to the next in

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<sup>22</sup> The Medium-Term Program may be based on an I-PRSP when the I-PRSP describes a nationally owned broadly framed poverty reduction strategy considered adequate in the Joint Staff Assessment. In this case, the Medium-Term Program will likely be revised in the full PRSP, and the design of the series of PRSCs will also be reviewed and adjusted as appropriate.

<sup>23</sup> Depending on the coverage and specificity of the PRSP, it may serve as the primary vehicle for setting out the substance of the country's Medium-Term Program for poverty reduction to be supported by the PRSC, and the government's LDP can become a short cover letter referring to the attached PRSP.

<sup>24</sup> Floating tranches may be considered.

<sup>25</sup> A satisfactory macroeconomic framework includes domestic and external debt sustainability.

<sup>26</sup> For HIPC countries, the triggers for subsequent PRSCs would be consistent with both the CAS triggers and the triggers for the HIPC completion point, which is expected to follow one annual progress report on the implementation of the PRSP. (For the few retroactive HIPC countries, the completion point could be reached with the preparation of a full PRSP and thus could roughly coincide with a first PRSC.)

the series, if progress is found to lag behind expectations, a judgment is made on whether to adapt the Medium-Term Program, to reduce the amount of the subsequent PRSC operation, or to delay the next operation until further progress has been made.

- Some PRSCs may focus mainly on economywide policy or institutional issues, such as broad public sector reform; they are governed by the operational policies for structural adjustment credits. Other PRSCs may cover policy or institutional issues in key sectors such as infrastructure, health, education, or rural development; they are governed by the operational policies for sectoral adjustment credits. All PRSC series are also governed by the Bank's guidelines on programmatic adjustment lending.<sup>27</sup>

4. **CAS and ESW Underpinnings.** Two ex-ante integrative analyses are key inputs to the CAS and are expected to underpin the development of a PRSC program in a country: (a) a cross-cutting assessment of the country's social, structural, and key sectoral development policies, which covers the policy reform and institutional development priorities for sustainable growth and poverty reduction—including for enhancing positive and mitigating 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. These two integrative analyses normally constitute core diagnostic Bank ESW, drawing as needed on poverty assessments, public expenditure reviews, country procurement and financial accountability reviews, environmental and social analysis, and other more in-depth work carried out by the Bank, clients, and other development partners. Other ESW (such as sector-based institutional analysis) may also underpin the PRSC as appropriate. Where possible, such integrative analyses and other ESW should be undertaken through a close working partnership with the country in order to further capacity-building goals and broad understanding and ownership. This knowledge informs the Bank's advice to the country in its preparation of the PRSP/I-PRSP, and the Bank's assessment in the JSA. It also informs the development of reform actions in the PRSC from the underlying PRSP/I-PRSP. For all IDA borrowers the CAS assesses the adequacy and vintage of the stock of knowledge from Bank ESW and other country and development partners' work, indicating how any gaps are to be addressed. Building on the CAS, the President's Report for each PRSC explains how the program for filling identified gaps will feed into subsequent PRSCs. As part of the costing of CASs, adequate resources are expected to be identified to cover the costs to the Bank of any needed analytic work associated with PRSCs.

5. **Social Impact.** The PRSC relies on an ex-ante analysis of the social (including gender) and poverty reduction impact of the Bank-supported reform program, typically undertaken in the context of the preparation of the PRSP and reflected in the JSA, and informing the integrative assessment of the country's social, structural and key sectoral development policies. Where the JSA, core ESW, or similar analyses identify weaknesses in this area that would likely impede the effective achievement of the country's poverty reduction strategy, the CAS would typically

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<sup>27</sup> See Operational Directive (OD) 8.60, *Adjustment Lending*, December 1992. See also the Operational Memorandum *Clarification of Current Bank Policy on Adjustment Lending*, June 5, 2000, and the Operational Memorandum *Guidelines for Programmatic Adjustment Loans/Credits*, February 11, 2000, which are available at <http://wbln0011.worldbank.org/Institutional/Manual/OpManual.nsf>.

specify how the Bank's assistance program would help address such weaknesses, including through the PRSC or other Bank supported operations. Drawing on the social impact analysis underpinning the PRSP/I-PRSP, and (as appropriate) on additional work supplementing this analysis, the PRSC documentation describes the likely social impact of the policy and institutional reforms supported by the Bank (and of the associated macroeconomic policies), the alternative reforms considered, and the measures the authorities are taking to enhance positive and mitigate adverse impacts. It also lays out in detail the country's arrangements and benchmarks for monitoring progress in achieving the poverty reduction objectives supported by the PRSC, and the regular reporting that is part of Bank preparation and supervision work.

6. ***Environmental Impact.*** The appropriate treatment of environmental issues in PRSCs depends on their coverage and focus. If the PRSC is a structural adjustment credit, the requirements of Operational Directive (OD) 8.60 apply.<sup>28</sup> When relevant, staff review environmental policies and practices in the country, take account of any relevant findings and recommendations of such reviews in the design of structural adjustment programs, and identify positive and negative linkages between the various reforms proposed and the environment. If there are negative linkages, staff devise specific measures as appropriate to counteract the possible negative effects, or explain how mitigation is otherwise being achieved. If the PRSC is a sectoral adjustment credit, the requirements of Operational Policy (OP) 4.01 also apply.<sup>29</sup> In this case, the findings and any recommendations of the environmental assessment (EA) are reflected in the Medium-Term Program and in PRSC conditionality, if and as required by OP 4.01. As early as possible in the preparation process, a working group including the Quality Assurance and Compliance Unit of ESSD, LEG, OPCS, and PREM gives guidance on the classification of a proposed PRSC as a structural or sectoral adjustment credit and, where applicable, further EA actions. For all PRSCs, the relevant environmental work may, where possible, be done upstream, as part of the PRSP and CAS processes.

7. ***Fiduciary Assessment.*** As noted, the PRSC relies on an ex-ante fiduciary assessment of the country's public expenditure, procurement, and financial management systems. Such assessment is expected to normally focus on:<sup>30</sup> (a) the comprehensiveness and transparency of the budget, with an appropriate focus on poverty-focused public spending; (b) the adequacy and transparency of systems to guide and monitor budget implementation, including procurement; and (c) the adequacy and transparency of systems for monitoring, reporting on, and auditing public financial flows, including the adequacy of the arrangements for disbursement, reporting, and auditing of PRSC proceeds.<sup>31</sup> Where the public expenditure review, fiduciary assessment,

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<sup>28</sup> See OD 8.60, *Adjustment Lending Policy*, op. cit., and the Operational Memorandum *Clarification of Current Bank Policy on Adjustment Lending*, June 5, 2000.

<sup>29</sup> See OP 4.01, *Environmental Assessment*, January 1999. See also the Operational Memorandum *Clarification of Current Bank Policy on Adjustment Lending*, op. cit.

<sup>30</sup> For a more detailed possible list of indicative public expenditure management and financial accountability issues and benchmarks that could be the subject of fiduciary diagnostic work preceding a PRSC, see *Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries* (IDA/SecM2001-0052/1), March 28, 2001, Table 1.

<sup>31</sup> General procedures governing adjustment lending are covered in OD 8.60 *Adjustment Lending Policy*, op. cit., and in the Operational Memorandum *Simplifying Disbursement Procedures*, February 8, 1996. Given the fungibility of resources, these procedures focus on the borrower's overall use of foreign exchange and budget resources, more than on the specific use of Bank funds. Disbursements are delinked from specific imports, and are made against a negative list of ineligible expenditures, based on satisfactory implementation of the adjustment

other core ESW, or similar analyses identify weaknesses in these areas that would likely impede the effective achievement of the poverty reduction strategy supported by the PRSC, the Medium-Term Program incorporates specific measures to address such weaknesses, including where appropriate as prior actions or conditions of tranche release of individual PRSCs, or as prior conditions for subsequent PRSCs in the series.

8. ***Relationship between PRSC and PRGF.*** Both the PRSC and the IMF's Poverty Reduction and Growth Facility (PRGF) provide support of the country's poverty reduction strategy articulated in the PRSP (or I-PRSP), and Bank and Fund staff closely coordinate in their preparation. The following principles have been agreed:

- Given the important complementarities between the macroeconomic and the structural and social issues, there is a presumption—but no guarantee—that, after a transition period of gradual build-up in the pipeline of PRSPs and PRSCs, the Bank will normally provide support through a PRSC when the Fund provides support through a PRGF arrangement.<sup>32</sup> When there are both a PRGF and PRSC, to the extent practicable they are negotiated on the same timeframe and proceed in parallel, building on the PRSP/I-PRSP and the JSA.
- The Bank regards the presence of an on-track PRGF arrangement as adequate evidence that the macroeconomic framework is appropriate. When a PRSC is under consideration or performance under a PRSC is being reviewed without a companion PRGF in place, Bank staff ascertain whether the Fund has any major outstanding concerns about the adequacy of the country's macroeconomic policies. Fund staff aim to communicate this assessment to the Bank in time to be reflected in Bank reporting to its Board.
- Similarly, the Fund regards the presence of an on-track PRSC as adequate evidence that the social and structural program is appropriate. When a PRGF is under consideration or performance under a PRGF is under review without a companion PRSC, Fund staff will consult with Bank staff to ascertain whether the Bank has major outstanding concerns about the adequacy of the country's poverty reduction strategy, the social impacts of the macroeconomic policies supported by the PRGF, or the country's performance in meeting structural and social conditions in the areas of competence of the Bank. Bank staff aim to communicate this assessment to the Fund in time to be reflected in Fund reporting to its Board.<sup>33</sup>

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program, including compliance with tranche release conditions and the achievement of a satisfactory macroeconomic framework. The Bank also reserves the right to audit a borrower's deposit accounts in its central bank into which the proceeds of the loan or credit are disbursed.

<sup>32</sup> Reflecting the often short-term nature of macroeconomic reforms and often long-term nature of social and structural reforms, it is expected that in a number of countries there will be a transition period in which a PRGF supporting an initial predominantly macroeconomic program will be in place, while a full structural and social program to be supported by a PRSC is still being developed. Similarly, it is expected that for some countries, after a PRGF has supported effective macroeconomic stabilization, future PRSCs may support continuing structural and social reforms without a parallel PRGF, but with continued IMF monitoring and technical assistance.

<sup>33</sup> See IMF, *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues* (SM/99/293), December 13, 1999. That paper states: "For social policies, most poverty-reducing measures, and other structural

- The Bank/Fund Joint Implementation Committee provides a mechanism to coordinate Bank and Fund efforts in assisting countries with PRSPs or I-PRSPs, preparing JSAs, and coordinating/reconciling differences on PRSCs and PRGFs, as needed.

9. ***Management and Board Review.*** Proposed PRSCs are reviewed by the Bankwide Operations Committee before appraisal.<sup>34</sup> The Operations Committee reviews the social, environmental, and fiduciary aspects of a proposed PRSC and provides guidance to the task team on their treatment. For all proposed PRSCs scheduled before a first Management review and Board discussion on the experience with PRSCs, a Technical Briefing will be held to inform the Board early on about the planned PRSC. The responsible Managing Director signs off on the final documentation prior to presentation to the Bank's Board of Executive Directors. Each individual credit in a PRSC series, like all other adjustment credits, is presented to the Board for its review under regular procedures.<sup>35</sup>

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policies within the Bank's primary mandate, the Fund staff should ascertain whether the Bank staff has any major outstanding concerns about the adequacy of implementation before the Fund staff and management make their own assessment of whether to recommend Board approval of a PRGF arrangement or completion of a review. It is expected that the views of the Bank staff would be given heavy weight in the assessment of progress in these areas. Furthermore, the views of the Bank staff regarding the implementation of the elements of the PRSP within their mandate would be included in each PRGF staff report."

<sup>34</sup> For guidelines on the Operations Committee, see [http://sec/mdops/oc/ocguidelines\\_operations.pdf](http://sec/mdops/oc/ocguidelines_operations.pdf).

<sup>35</sup> Information on Board document processing can be found on the website of the Bank's Corporate Secretariat:

<http://Ints022/html/corpsec.nsf/boardnav?opennavigator&Subject=BoardOperations-Advice>.