

PRSCs

experience from PRSCs 1-5 &
workplan for PRSCs 6-10

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23 June 2006

What is a PRSC?

(for Poverty Reduction Support Credit)

A new generation of budget support instruments:

- Aligned with a nationally-owned reform strategy
- Not involving explicit policy conditionality
- But rewarding progress in reform implementation
- With predictable annual operations
- And a mechanism to decide on the next operation

Vietnam is ahead

PRSC operations so far:

Operation	Tranche	Date
PRSC 1	First	May 2001
	Second	Dec. 2002
PRSC 2	Single	June 2003
PRSC 3	Single	June 2004
PRSC 4	Single	June 2005
PRSC5	Single	yesterday!

But PRSCs have evolved

A broader strategy

(CPRGS (Vietnam;s PRSP) , its infrastructure chapter, WTO accession...)

A widening focus

(from structural adjustment to comprehensive reform)

A larger group of donors

(from mere co-financing to substantive participation)

A more effective coordination mechanism

(a PRSC secretariat with strong convening power)

The strategy

Mainly the CPRGS, approved in 2002 and "expanded" to infrastructure in 2003

And subsequent policy breakthroughs (drive for WTO accession, anti-corruption...)

The 5-year plan 2001-5 was not based on:

- clear development goals
- policies aimed at attaining those goals
- extensive consultation
- alignment of resources to policies
- proper monitoring and evaluation

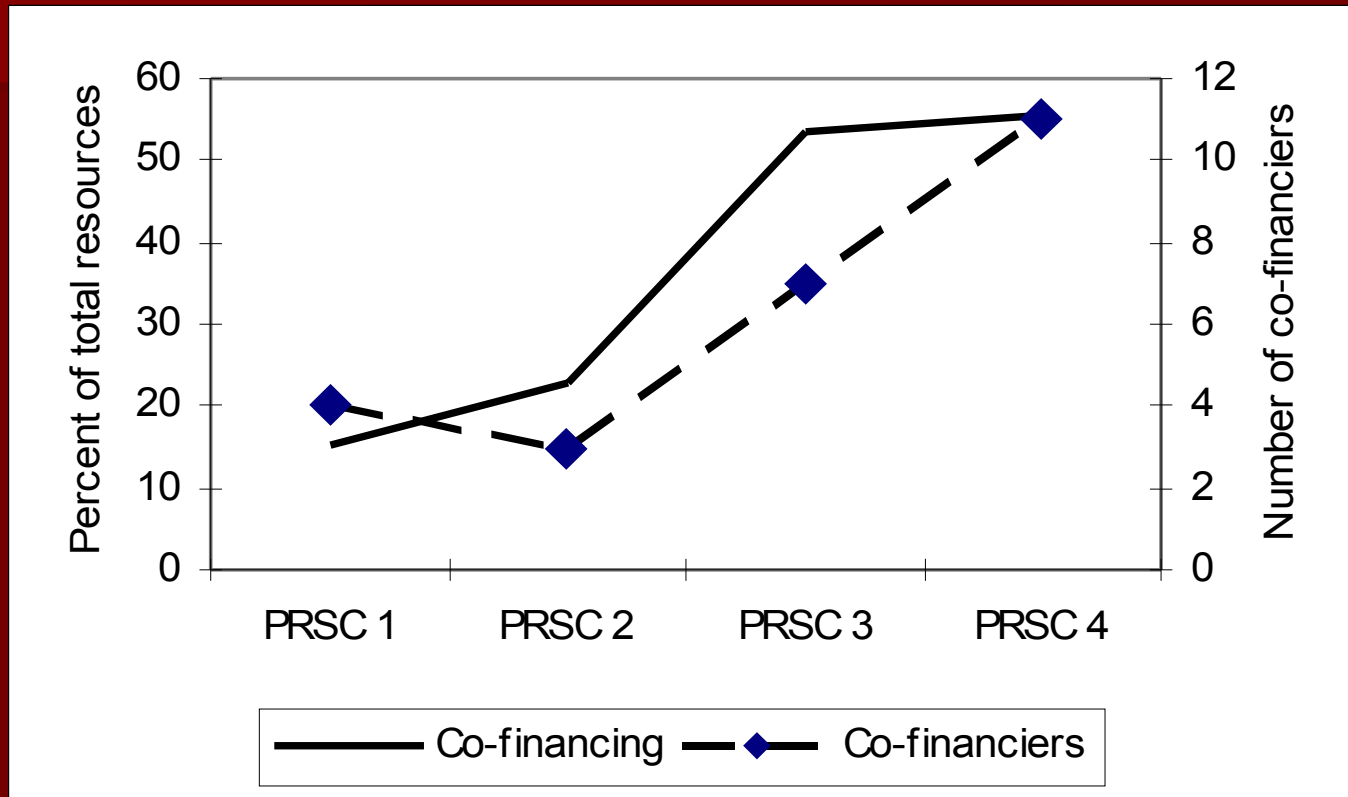
The focus

From PRSC 2 onwards, a reform agenda organized around three main pillars:

- Completing the transition to a market economy
- Keeping development inclusive and sustainable
- Building modern governance

Key components of the reform agenda in almost all policy areas can be supported through the PRSC process

Donor support



Donors participate in the policy dialogue in their areas of interest, regardless of the amount contributed

The coordination mechanism

From a dialogue involving the World Bank, the IMF and key reformers in government to a well-running secretariat at the State Bank of Vietnam (SBV):

- ✚ Under the authority of the first Deputy Prime Minister
- ✚ Linking 24 ministries and agencies in a timely way
- ✚ With the World Bank as a convener on the donor side
- ✚ With participation by 16 donors and document sharing

PRSC strengths

- Rapid disbursement, directly to the budget
- Setting priorities, sequencing and keeping the pace
- A flexible programmatic approach
- Reducing donor coordination costs for Government

Strengths: disbursement

- No donor procedures (e.g. procurement) involved
- Appropriations decided by National Assembly
- A predictable flow of resources
- Justified by the budgetary cost of key reforms

Made possible by a long-term involvement in strengthening public financial management

Disbursement sequence

Operation	World Bank	Co-financiers	Year	World Bank	Co-financiers
PRSC 1 First	150	21.6	2001	150	0
PRSC 1 Second	100	23.1	2002	100	21.6
PRSC 2	100	29.7	2003	100	23.1
PRSC 3	100	113.1	2004	100	106.1
PRSC 4	100	125.0	2005	100	?

Figures represent gross amounts, at exchange rate of approval date.
Allocation to calendar years is based on disbursement to the budget

The cost of reforms

Some of the prior actions entail more spending

In million dollars	2002	2003	2004	2005	Total
SOCB recapitalization	307	292	101	0	701
Social safety net	2	34	83	95	214
Health care funds	0	29	45	86	160
Education budget	0	0	197	348	545
Total	309	355	426	529	1619

How big a contribution?

Not allowing to “buy” policies but covering a sizeable share of the cost of reforms

In percent	2002	2003	2004	2005
Government spending	1.8	1.2	1.1	1.6
Budget deficit	29.7	15.4	19.4	26.6
Cost of reforms	48.5	34.3	28.9	37.8

Strengths: priorities

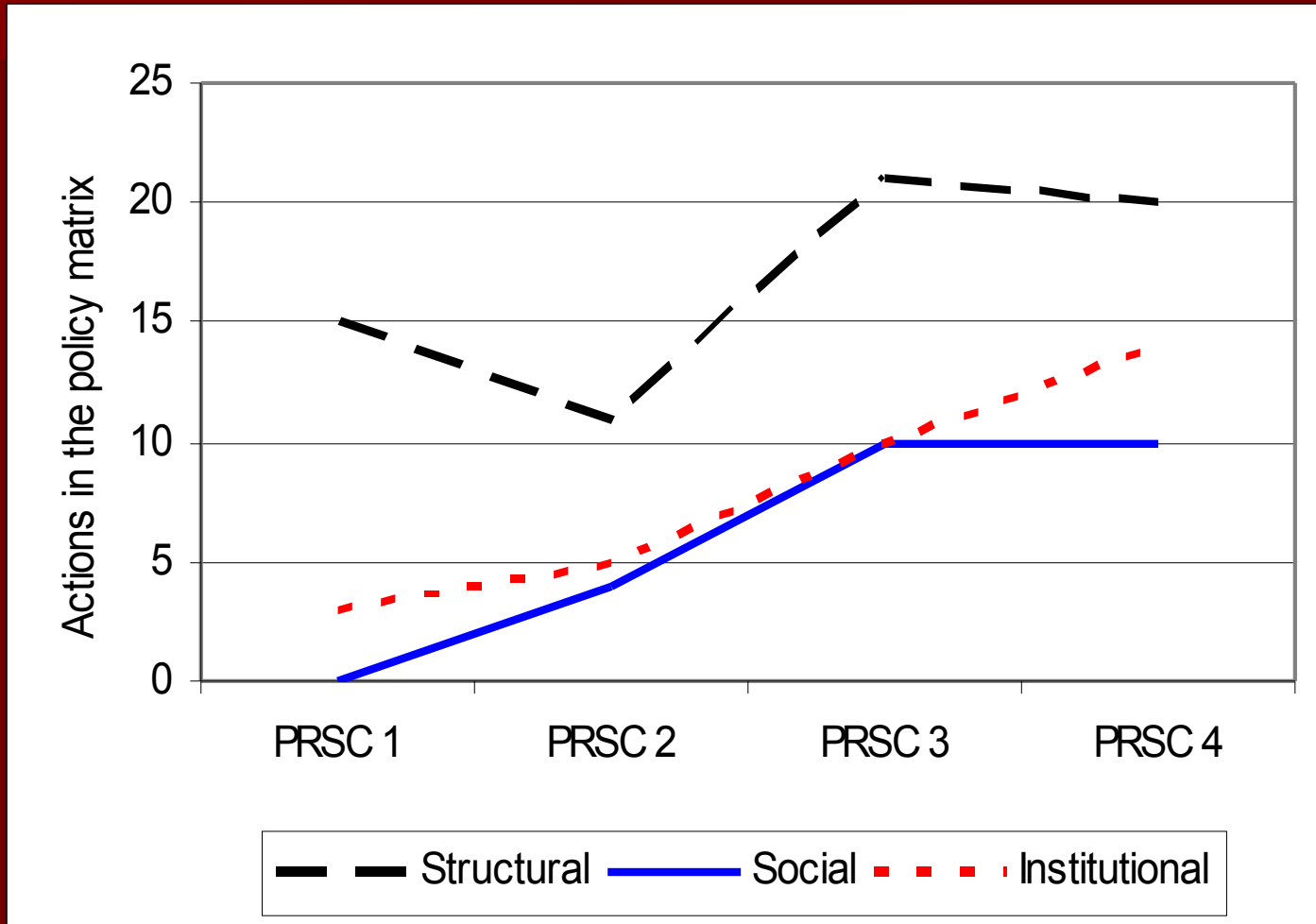
“Prior actions” for a PRSC must:

- Be based on a Government-owned strategy
- Make sense from an economic point of view
- Be strategic in their importance (above project level)
- Be measurable (policies adopted, outcomes achieved...)

This allows to translate complex strategies into one or a few key actions per policy area per year.

Prior actions must be completed before approval.

Priorities: actions by pillar



Does the number matter?

A reaction against conditionality and overburdened credits calls for fewer actions

Sustaining the reform momentum and donor engagement calls for actions across all policy areas

A compromise: the policy matrix as an agreement with Government on the contents of the dialogue

Each donor can choose a sub-set of the actions to justify its support to the operation

But actions not included in the policy matrix, or phrased differently, cannot be considered

Strengths: flexibility

The pace of reform is bound to be uneven across all three pillars and 20 policy areas

- Each PRSC rewards progress over the previous year
- And guides the policy dialogue over the next PRSCs
- The assessment of triggers determines the size of the credit
- From low case (nothing) to base (some) to high (a lot)

Triggers are not assessed one by one, from a legal point of view, but rather using a bottom-line approach

Strengths: coordination

- By now 20 teams organized by policy area
- With a clear focal point on the Government side
- Donors choose the teams they participate in
- Key concerns can be raised to senior leadership

PRSC weaknesses

- ✚ Not a good tool to engineer policy breakthroughs
- ✚ A very demanding pace of preparation
- ✚ Conflicting agendas and the risk of “hijacking”

Weaknesses: breakthroughs

Examples: WTO accession in 2003, anti-corruption in 2004, banking reform in 2005

- ✚ No way for donors to impose their views
- ✚ Strong analytical work needed to make the case
- ✚ Usual PRSC counterparts cannot take the initiative
- ✚ The Party often needs to be involved

Difficult to do this using the same broad coordination mechanism used for PRSCs

Weaknesses: pace (1)

Example: the preparation of PRSC 4

Date	Step in the process	Donor involvement
May 12 (2004)	Agreement on triggers for PRSC 4	High
Sept. 13	Launching meeting for PRSC 4	High
Oct. 12	Identification of focal points by area	Medium
Oct.-Dec.	Compilation of first policy matrix	Negligible
Dec. 14	First policy matrix to Government	
Jan. 17 (2005)	First meeting with Government	High
Jan.-Feb.	First round of meetings by area	High
Feb. 21	Revised policy matrix to Government	
Feb.-Mar	Second round of meetings by area	High

Weaknesses: pace (2)

Date	Step in the process	Donor involvement
Mar. 21	Revised policy matrix to Government	
Apr-May	Third round of meetings by area	High
Apr. 30	Draft Program Document circulated	
May 9	Policy matrix for appraisal to Government	
May 16/17	Credit appraisal	High
May 19/20	Credit negotiation	Medium
May 23	Submission of credit documentation	
June 30	Approval of the credit	

Weaknesses: agendas

- Ministries have a diverse commitment to reform
- Donors may have different agendas
- There are “territorial” considerations
- There is a temptation to “hijack” PRSCs

Translating **SEDP** into **PRSCs** **6 to 10**: what will it take?

- Prioritising policy actions
- Clarifying their sequence and timing
- Assessing their possible cost
- And identifying ways of monitoring and evaluating their impact

The next VDR seeks to provide this analysis

Possible structure

- a review of the past, then...
- ...looking forward, using the 4 SEDP pillars, broken into 15 thematic areas

Each chapter analysing:

- Main development issues and challenges
- Objectives and strategy
- Policies and resources
- M&E

For NGOs to discuss

- Do you have any comments?
- Do you want to engage?
- If so, how would you like to do this? What's easiest and most effective for you?

Bear in mind there are many other stakeholders in this process. Will you engage with them from the start? Or have your own process and feed in the findings later?

Keep us posted

Let us know if you need more information,
have questions, need support

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