

**INTRODUCTION TO  
POVERTY REDUCTION SUPPORT CREDIT (PRSC)  
AND  
POVERTY REDUCTION GROWTH FACILITY (PRGF)**

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## **Background**

### **□ What is a PRSP?**

In September 1999, at their annual meetings, the IMF and World Bank, with donor support, agreed to increase the amount of debt relief on offer to eligible low-income countries through the Heavily Indebted Poor Country (HIPC) initiative. This was conditional on countries developing a Poverty Reduction Strategy Paper (PRSP), and as a short-term measure, an Interim PRSP. The World Bank and International Monetary Fund therefore lined up behind a proposal that “country-owned” poverty reduction strategies should form the basis for all Bank and Fund concessional lending and that these strategies would take the form of papers called PRSPs. Hence was born the PRSP process. It was also agreed that PRSPs would be required from all low-income countries not just the HIPC countries, as a way of increasing the quality and poverty reduction focus of IMF and World Bank support. The PRSP process was essentially a way to implement a set of principles the Bank had earlier adopted called the Comprehensive Development Framework (CDF)<sup>1</sup> - *an approach by which countries can achieve more effective poverty reduction. It emphasizes the interdependence of all elements of development - social, structural, human, governance, environmental, economic, and financial*

The concept of the PRSP was developed as an operational plan linked to CDF, consistent with and reinforcing the CDF. The PRSP initiative from the World Bank and the IMF operationalizes the CDF principles at the country level. PRSPs focus on poverty reduction as one of the objectives of the CDF. However the relationship between the CDF and the PRSP process is confusing, but it is probably appropriate to think of the Framework as the destination and the PRSP as the route selected.

PRSPs have become the key policy instruments through which the world’s major donors relate with low-income countries, countries undergoing economic crises and those emerging from protracted periods of conflict. Without a Bank-Fund approved PRSP, a low-income country can be virtually cut off from international aid, trade and finance.

The PRSP approach is now broadly accepted as the framework for bringing together national policies/public actions, donor support and development outcomes needed

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<sup>1</sup> - The Comprehensive Development Framework (CDF) was launched by the World Bank in early 1999 as a voluntary document providing a global framework for the design of economic development and poverty reduction strategies. It covers the principles of long-term vision, participation, partnership and coordination. In fact, the PRSP is based on CDF principles, and is its operational translation as an action plan.

to help low-income countries make progress towards the Millennium Development Goals (MDGs) i.e. the PRSP describes a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs. It is an instrument to increase poverty focus of public expenditures.

PRSP preparation should be a country led process with extensive participation from stakeholders and firmly based on the poverty situation in country. It is however used as a basis for decisions on debt relief under the Heavily Indebted Poor Country (HIPC) initiative and for concessional lending by the WB and the International Monetary Fund (IMF). It therefore needs to show how funds released through debt relief will be used to relieve poverty and to be endorsed (though not approved) by the Boards of the WB and the IMF in order to secure debt relief. PRSPs and debt relief are also seen as an important potential contribution to achieving international development targets<sup>2</sup>.

The PRSP's aims are to:

- strengthen country ownership of poverty reduction strategies;
- broaden the representation of civil society, particularly the poor, in the design of such strategies;
- provide a framework for donors assistance and improve coordination among development partners; and
- focus the analytical, advisory, and financial resources of the international community on achieving results in reducing poverty.

#### □ **Origins of PRSPs**

The aim of the PRSP approach is to focus development efforts on poverty reduction. This approach results from a sequence of decisions made by the IFIs that were preceded by acknowledgement that:

- ✓ IFIs conventional approaches have yielded limited progress in reducing poverty and inequality;
- ✓ Aid and debt relief have induced limited impact on poverty
- ✓ At the same time, a new paradigm stressing vulnerability, empowerment, and opportunity was developed.

#### □ **PRSP Core Principles**

The overall aim of a PRSP – to reduce poverty through more effective strategies – is rooted in six key principles within the CDF framework. PRSPs are expected to transform the principles of the CDF into an action plan for poor countries. According to the World Bank and IMF the PRSP is based on six core principles: PRSPs should be:

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<sup>2</sup> These are:

- ◆ A reduction by one half in the proportion of people living in extreme poverty by 2015
- ◆ Universal primary education in all countries by 2015
- ◆ Demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005
- ◆ A reduction by two-thirds in the mortality rates for infants and children under age five and a reduction by three-fourths in maternal mortality – all by 2015
- ◆ Access through the primary healthcare system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015
- ◆ The implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015

- Country driven representing the consensus in a country on what steps should be taken: Preparation and implementation is country-driven with broad-based participation from line ministries, civil society, development partners and partnerships developed for implementation
- Results oriented: It should be results-oriented with targets for poverty reduction that are tangible and monitorable; and firmly based on an understanding of poverty within the country and what are effective public actions
- Comprehensive in scope: Given that poverty is multidimensional, PRSPs should be comprehensive and cover all the key sectors associated with the poverty dimensions with variation from country to country. It should integrate structural and sectoral interventions into a consistent macroeconomic framework in such a way that the poor can benefit from economic growth. Basically, the scope of PRSPs should be aligned on the Millennium Development Goals. To that end, PRSPs should build on sector specific strategies and disaggregate poverty for rural and urban areas.
- Partnership –oriented: between government and other actors
- Participatory: all stakeholders should participate in its formulation and implementation
- Long term in perspective: focusing on reforming institutions and building capacity as well as short term goals

There is no formal blueprint for a PRSP; the above are the general principles. These principles underlying the PRSP approach are not new, but they are built fundamentally on research, experience, and most importantly, innovative and successful programs pursued by countries themselves.

#### □ PRSP Process

The process is characterized by an initial in-depth and comprehensive analysis of the country's poverty and its determinants, in order to choose a prioritized mix of strategies that have the highest impact on poverty reduction, which can be tracked through key outcome indicators. The PRSP should be prepared every three years, with regular monitoring and reporting on progress and annual updating of the strategies.

- There is no blueprint for building a country's strategy but they are key steps that characterize the process:
  - ✓ The participatory process designed to improve understanding of poverty issues and built support among all the stakeholders;
  - ✓ The poverty diagnostic which aims at understanding the features of poverty and the factors that determine it;
  - ✓ The priority public actions consist in choosing public actions which have the greatest impact on poverty and include them in the public expenditure program
  - ✓ The identification of goals, indicators of progress, and a monitoring and evaluation system.

#### Process Steps

##### □ Interim PRSPs (I-PRSPs):

- Used in case a full PRSP is not available must include a stock-take of a country's current poverty reduction strategy and lay out a road-map of how

the country is going to develop its full PRSP with indications about the timetable and the participatory process envisaged for its production.

❑ **Joint Staff Assessments (JSA):**

- Take an overall assessment for the Bank/IMF Executive boards as to whether or not the strategy presented in the I-PRSP constitutes a sound basis for concessional assistance from the Bank and Fund.
- Should state whether or not the I-PRSP takes into account results of the first round of participatory consultation.
- Provides constructive feedback to the country about how it might improve its strategy over time

❑ **Full PRSPs (See above)**

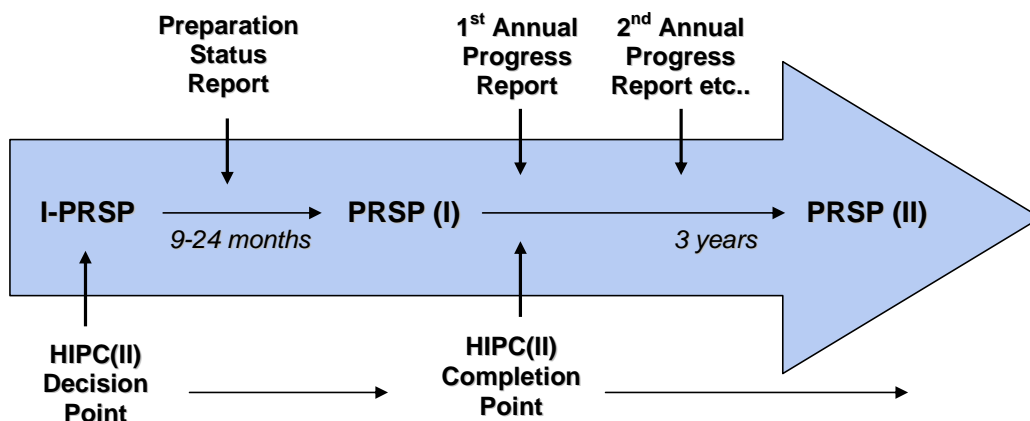
- Understanding poverty in the country
- Strategy design: choice of policy options and strategies
- Approval: by the government and parliament
- Work Bank/IMF Joint Staff Assessment
- Endorsement by the Executive Boards of the Bank and IMF
- Implementation
- Monitoring and annual progress report

❑ **Joint Staff Assessment (JSA) of full PRSP:** The JSA is an assessment of:

- Issues raised in the I -PRSP including governance and public sector management.
- The priority public actions over a three years horizon to be aligned to the government Medium Term Expenditure Framework (MTEF);
- The participatory process and the coverage of issues resulting from poverty diagnostic.

❑ **Annual Review:** Annual reviews assess progress toward PRSPs goals and intended policy/program reforms. An annual tripartite review of the poverty reduction strategy is organized by Governments within 12 months after preparation of the strategy. Reports of annual review allow governments to make adjustments to PRSP in response to changing macroeconomic conditions. Progress reports would be published as a short document to be circulated to the Executive Boards of the Bank and the Fund.

❑ **Updates/Revisions of PRSPs:** Strategy is a “rolling program” covering a 2-5 years horizon. Each country decides on how frequently to update PRSP.



## **PRGF and PRSC – IMF and World Bank credit instruments to support PRSPs**

### **Introduction**

The new approach of PRSPs has led to closer collaboration between the IMF and the World Bank. The institutions divide responsibility between them: the IMF focuses chiefly on macroeconomic strategy while the World Bank concentrates on developing poverty reduction strategies. The two have developed new credit instruments/lending facilities to support national poverty reduction and growth strategies of borrower countries i.e. countries implementing PRSPs. The IMF's instruments are called the *Poverty Reduction and Growth Facility* (PRGF) which focuses on the macroeconomic (i.e. inflation, exchange rate) and budgetary (budget deficit, composition of spending) frameworks; the World Bank's instrument entitled the *Poverty Reduction Support Credit* (PRSC) deals with structural issues (sectoral strategies, privatization). These are the successors of previously structural adjustment lending instruments: ESAF (Enhanced Structural Adjustment Facility – IMF) and the Bank's SECAL (Sectoral Adjustment Loans).

The main purpose of these lending facilities is to support the implementation of the priorities identified during the PRSP process. The facilities are also the main drivers of the macro-economic and structural agendas followed by donors and infact the main drivers of donor funding (especially the PRGF which is a condition for other donor funding).

### **□ The World Bank's PRSC**

Poverty Reduction Support Credits (PRSCs) were introduced in May 2001 and are designed based on the goals of the PRSP. PRSCs will be the "anchor" for the World Bank's support to low-income borrowing countries. According to the World Bank's Development Committee, the Poverty Reduction Support Credit (PRSC) is a Country Assistance Strategy (CAS)<sup>3</sup> - 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 CDF and the international/millennium development goals. PRSC focus on poverty reduction as the central objective of development assistance with the goals of enhancing country ownership, facilitating partnerships with other institutions, and building on rigorous analytical underpinnings for fiduciary, social, structural, and sectoral reforms.

According to the World Bank's Interim Guidelines for Poverty Reduction Support Credits, the Bank starts with the country's own vision as outlined in the PSRP, which sets 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

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<sup>3</sup> The Country Assistance Strategy (CAS) is a programmatic agreement with a national government borrowing to IDA and IBRD. It describes the Bank's strategy based on an assessment of priorities in the country, and indicates the level and composition of assistance to be provided. The CAS is prepared with the government in a participatory way, but is not a negotiated document. However, the trend is toward consultation with other stakeholders and more publicizing of the document. It is expected that, after 2002, CASs presented to the Bank's Board would normally be based on the PRSP, which would provide the context for all IDA lending and non-lending activities (World Bank website).

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 and JSA feed into the Country Assistance Strategy (CAS) and PRSC processes, which will increasingly be synchronized. 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."

The Poverty Reduction Support Credits (PRSCs) have increasingly become a major route for increased adjustment lending. These loans are provided from the International Development Association (IDA – of the World Bank), and are provided with no interest, with a 0.75% service charge, a grace period of ten years, and then repaid over forty years. As such, almost 70% of these loans are, in effect, a grant.

They generally involve a series of one-year, single tranche operations....within a medium term framework (e.g. three years) i.e. the PRSC is a series of three loans based upon a revolving, three-year medium-term program (MEP). The MEP is drawn from and elaborates on the country's PRSP 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 a multiyear matrix of policy and institutional reforms, with results-focused monitoring indicators and progress benchmarks. According to the draft Guidelines on PRSCs, the PRSC would be presented to the Board of the World Bank "simultaneously with or shortly after the PRSP/I-PRSP, JSA and CAS i.e. the time horizon of the PRSC series ideally corresponds to the PRSP and CAS periods. The first PRSC is designed to support reforms in health, education, and water and sanitation sectors. PRSC II and PRSC III are expected to support rural development, private sector development (PSD), and post-primary education.

Annual disbursements are based on the completion of reform actions drawn from the country's PRSP.

The PRSC program is being introduced gradually through the deliberate application of the following eligibility criteria:

- completion of the integrative fiduciary and social, structural, and sectoral analyses;
- a satisfactory macroeconomic framework; and
- the completion of prior actions and satisfactory progress in implementing the medium-term program of policy and institutional reforms, including specific measures, as appropriate, under the proposed operation to address weaknesses in the country's public financial accountability, social, and environmental policies and institutions.

In contrast with the World Bank's traditional instruments, the PRSC provides direct support to the state budget and combines the different goals of the bank's traditional lending instruments. The support, which can be equated with budget support, is for use in improving public resource management. Irrespective of whether a country is to be granted a PRSC or not, the bank's traditional lending instruments will continue to be used in parallel with the PRSC as and when necessary. An example might be when measures over and above the structural reforms allied to a PRSC become necessary in a specific sector. Achieving a

satisfactory balance in the institutional arena may, for instance, require an additional investment loan.

PRSCs have the following key features:

- The possible use of PRSCs for a country is set out in the Country Assistance Strategy (CAS). A PRSC program is expected to consist of a series of operations, typically two or three, which together support IDA countries' medium term policy and institutional reform programs to help implement their poverty reduction strategies. Its specific structure depends on country circumstances, including the objectives and nature of the country's reform program and the timing of the requirement for assistance.
  - The medium-term program supported by a PRSC principally draws from and elaborates on the reform measures and policy actions set out in the poverty reduction strategy paper (PRSP). The time horizon of the PRSC ideally corresponds to the PRSP and CAS periods. After a transition period of initial build-up in the pipeline of PRSPs and PRSCs, it is expected that PRSCs would normally be finalized and presented to the Board together with or shortly after the PRSP, Joint Staff Assessment (JSA) and CAS. The program, along with results-focused indicators and progress benchmarks for monitoring the overall implementation of the poverty reduction strategy, is set out in a multiyear matrix of policy and institutional reforms. Each individual credit in a PRSC series, like all other adjustment credits, is presented to the Board for its review under regular procedures.
  - Each individual PRSC in the series is focused on completed priority actions. Each subsequent PRSC builds on the previous one(s); its prior actions formulated and agreed on when it is negotiated draw on the progress benchmarks laid out at the outset as part of the medium-term framework. In moving from one PRSC to the next in the series, if progress is found to lag behind expectations, a judgment is made on whether to (a) adapt the medium-term program, (b) reduce the amount of the subsequent PRSC operation, or (c) delay the subsequent operation until further progress has been made. For each individual PRSC, the government prepares a Letter of Development Policy (LDP) and multiyear matrix of policy and institutional reforms, with results-focused monitoring indicators and progress benchmarks.
  - PRSCs are normally based on two analyses: (a) a cross-cutting assessment of the country's development policies (social, structural, and key sectoral), which cover the policy reform and institutional development priorities for sustainable growth and poverty reduction—including enhancement of positive impacts and mitigation of adverse impacts that the reforms being supported may have on poor people and other vulnerable groups and on the environment; and (b) an assessment of the country's public financial accountability arrangements, which covers its public expenditure, procurement, and financial management systems.
- ***Bank has put in place 5 'due diligence' tests.***
    - ***Full PRSP***
    - ***Social/structural diagnostic or review (SSR)***
    - ***PER, CFAA***
    - ***Poverty & social impact analysis***
    - ***Environmental assessment***

## □ The IMF's PRGF

The September 1999 Annual Meetings resulted in a clear new mandate for the IMF: to integrate the objectives of "poverty reduction" more fully into its operations in the poorest member countries.

The IMF has since claimed that the objectives of its concessional lending have been broadened to include an explicit focus on poverty reduction in the context of a growth-oriented strategy. A March 2001 IMF Fact Sheet explained, "The IMF will support, along with the World Bank, strategies elaborated by the borrowing country in a Poverty Reduction Strategy Paper (PRSP) which will be prepared with the participation of civil society – including the poor – and other development partners".

To reflect the broadened objectives, the IMF renamed its concessional lending facility, from the Enhanced Structural Adjustment Facility (ESAF) to the Poverty Reduction and Growth Facility (PRGF), which will be based on the PRSP, even as its macroeconomic policy advice remains the same. A PRGF is now the IMF's main tool for supporting countries that implement PRSPs.

The PRGF was a result of:

- Growing criticism against the ESAF, which was formalized through an external evaluation conducted in 1999
- The HIPC and PRSP process
- A growing pressure among the donor community to promote the ownership of reforms by all major stakeholders (i.e. CSOs, parliamentarians etc) and to focus donor interventions and money on poverty reduction

The primary function of the new PRGFs is "to provide advice on prudent macroeconomic policies; structural reforms in related areas, such as exchange rate and tax policy; and better fiscal management, budget execution, fiscal transparency, and tax and customs administration" (IMF).

PRGFs include a series of yearly credits tied to a number of benchmarks designated on the basis of the country's PRSP. Loans under the PRGF are for three years, and carry an annual interest rate of 0.5 percent, with repayments made semi-annually, beginning five-and-a-half years and ending 10 years after the disbursement.

The PRGF has seven 'key features':

- Broad participation and greater ownership
- Embedding the PRGF in the overall strategy for growth and poverty reduction
- Budgets that are more pro-poor and pro-growth
- Ensuring appropriate flexibility in fiscal targets
- More selective structural conditionality
- Emphasis on measures to improve public resource management/accountability
- Social impact analysis of major macroeconomic adjustments and structural reforms<sup>4</sup>

**Deleted:** Policy advice and lending from the IMF and World Bank are supposed to be derived from the country owned PRSP. This alters the design of IMF and World Bank support.

<sup>4</sup> 'IMF Lending to Poor Countries—How does the PRGF differ from the ESAF?' IMF, April 2000

## What does this mean for poverty reduction?

*Embedding the PRGF in the overall strategy for growth and poverty reduction:* The biggest difference between the PRGF and ESAF is that the aims and policies of the former are directly linked to partner countries' poverty reduction strategies as detailed in a PRSP. By contrast, the ESAF was tied to structural adjustment programmes and had a purer macroeconomic focus. Whereas before the IMF programmes were typically designed in Washington and then negotiated with country authorities, the PRGF is now supposed to be based on (or at least reflect) the economic strategy set in the PRSP.

*Social impact analysis of major macroeconomic adjustments and structural reforms:* Reforms involving distributional effects are to be preceded by a comprehensive assessment of their impact on the poor. In addition, the social impact of some macroeconomic targets (i.e. budget deficits) should also be assessed during programme design.

According to current PRGF regulations, measures and programmes undertaken under PRSPs with the aim of reducing poverty (e.g. social and sectoral policies, infrastructure projects and institutional reforms) must be costed, put in order of priority and integrated into the macroeconomic framework. This is highly significant. It means that these aspects of poverty reduction programmes are put on a par with macroeconomic policy and intended to influence it. The basic idea is that rapid, sustainable growth should be the core of all strategies for effecting a lasting reduction of poverty.

*Make budgets that are more pro-poor:* Promote the shifting of "non-essential" expenditures to poverty reducing spending in the budget (i.e. prioritize poverty related spending). PRGF is also supposed to allow flexibility in setting fiscal deficit targets-provided that the country has achieved a degree of macroeconomic stability and (donor) money is forthcoming-to allow for increased spending for poverty reduction. Poverty reduction programmes are financed by state budgets, which means it is important that measures are sustainable so as not to jeopardise macroeconomic stability. The fact that PRGFs are tied to a country's PRSP means the state budget should improve the financial situation of the poor and also generate economic growth. This requires a clear statement in government policy that state expenditure will be targeted at areas which have a direct or indirect impact on the poor. Moreover, ancillary fiscal reforms should be designed to foster greater economic efficiency and improved distribution of incomes.

*Streamlining conditionality:* The Fund recognizes it should limit its interventions to its core competencies (i.e. macroeconomic policy and financial sector reform) and reduce the number of conditionalities, especially if they can have negative social impacts (i.e. privatization of social services delivery). The prime focus is on taxation and exchange rate regimes, fiscal policy and transparency, and good budget, tax and customs administration. Great importance is attached to improving opportunities for holding individuals responsible for the administration of public money

**Deleted:** broad participation and ownership; ¶  
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emphasis on measures to improve public resource management and social impact analysis of major macroeconomic adjustments and structural reforms. ¶  
¶  
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## Issues

Many of the new features embodied in the PRGF look quite appealing. Their implementation, however, has been in many cases at best limited so that little departure from the unpopular ESAF is easily discernible on the ground.

Although the number of conditions have indeed been reduced in most programmes, the Fund still intervenes in areas in which it has little expertise. Independent assessments have shown that although there has been some progress in areas such as streamlining conditionality (reducing the number of conditions attached to PRGFs) the overall core of macroeconomic prescriptions remain unchanged. There has been virtually no entertaining of alternatives or a range of options given in terms of macro-economic policy in the PRGFs to date<sup>5</sup>.

**Deleted:** The IMF is committed, for instance, to supporting: ¶

The new system gives greater flexibility to finance budget deficits with loans, provided these funds are used for productive public expenditure and the country is regarded as having a stable external debt and macroeconomic conditions. In this way, the IMF's credit instruments are aimed at guaranteeing the partner country's ability to exert influence and create its own balance between different policies. However, this has proved difficult to achieve in practice. One example is the insistence of the IMF (and to a lesser extent of the World Bank) that partner countries liberalise their trade policies. Increased trade is good for these countries' development, but lowering tariffs also has consequences for domestic resource mobilisation. The structure of the IMF's proposed trade-enhancing taxation policy often results in the taxes and tariffs that are easiest to collect – and which often are the dominant source of fiscal income in the countries concerned – being lowered or abolished.

An important aspect in the PRGF is participation and ownership. The adoption of the PRGF has not changed fundamentally the nature of the policy dialogue between the Fund and the country authorities or other stakeholders. This is true in both the PRGF and PRSP process. Supposing that participation is possible then the question is who defines the framework for participation? Although this may be due to a lack of capacity (i.e. CSOs' capacity to analyse macroeconomic issues), the Fund's effort to promote informed debate about alternative policy choices or trade offs has been at best limited. There is no evidence that where analytical capacity exists alternatives would be accepted as being credible. In Uganda, there has been a running debate on macroeconomics and social sector spending ceilings, particularly in health. CSOs sought and obtained technical input from Professor Jeffrey Sachs, perhaps the authority in this area, which was dismissed because it was contrary to the advice given by the Fund and the Bank.

The PRSP-PRGF alignment: although the PRSP was supposed to form the base upon which PRGF programmes are designed, this has practically never been the case. This is partly due to the fact that the implementation of the PRSP and PRGF processes happened at the same time so that PRGF arrangements (loans) were sometimes signed before the PRSP had been finalised. However, even in countries where PRSPs were in place, there is no evidence that the design of the PRGF programmes appeared to have been influenced by the former process. (most

<sup>5</sup> 'PRGF Stocktaking Exercise on behalf of DFID' Adam, C and Bevan, D Department of Economics Oxford University October 2001

PRGFs have now been negotiated in advance of full PRSPs, and rather than following the PRSP, the opposite seems to be more the norm with the PRSP macro-economics policy in most cases mirroring the PRGF)

This is particularly worrying because it undermines the PRSP process itself since it means that the expenditure plans for poverty reductions made in PRSP bear little chance of being implemented if they do not fit the framework set by the IMF for the PRGF. Again, in Uganda, after years of flagging it as a success story, it has now come to light, that having followed or even anticipated the Fund and Bank's advice almost to the letter, Government has finally admitted that growth has not been enough and the poor are not the main beneficiaries. Infant mortality, which is the best measure of success, has not improved over the last years while the economy was supposedly growing very rapidly. More importantly, even if a 7% growth was to be achieved, the PEAP and MDG targets would still not be met. There seems to be a design problem.

PRGFs also place a greater emphasis on creating understanding of the effects of macroeconomic policy on the poor. What, then, are the links between poverty reduction and finance, monetary and exchange rate policies? There is no clear and open discussion of this.

#### □ **The Relationship between PRSC and PRGF**

The World Bank's guidelines on PRSCs states "both the PRSC and the IMF's PRGF provide support of the country's poverty reduction strategy articulated in the PRSP, and Bank and Fund staff closely coordinate in their preparation."

- When countries are negotiating both a PRGF and PRSC, there is an attempt to negotiate on the same timeframe and proceed in parallel, building on the PRSP and the JSA. 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.
- The Bank regards the presence of an on-track PRGF arrangement as adequate evidence that the macroeconomic framework 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.

Despite this, however, it should be kept in mind that the Bank continues to defer to the Fund on these matters, making an on-track PRGF much more important for a PRSC than the other way around; the IMF retains its prominent role as "gatekeeper" to the release of all lending from the Bank.

- The Bank/IMF Joint Implementation Committee (JIC) provides a mechanism to coordinate Bank and IMF efforts in assisting countries with PRSPs, preparing JSAs, and as needed, reconciling differences between PRSCs and PRGFs.

#### ❑ **Collaboration between the IMF and the World Bank**

Integration between macroeconomic, social and structural aspects enables the World Bank to support the implementation of a PRSP through a PRSC in co-operation with the IMF (and its PRGF). Though both institutions make their own lending decisions, the granting of a PRGF effectively is regarded by the World Bank as evidence of a satisfactory macroeconomic framework. The IMF, meanwhile, regards the granting of a PRSC as an approval of social and structural programmes (IMF, World Bank 2001). Such reciprocity underlines the importance of the roles the two institution play in the PRSP process. On the other hand, it also spotlights the limitations of the studies each conducts.

Whenever a government presents an I-PRSP or PRSP, these are assessed by a Joint Staff Assessment (JSA). A JSA is conducted jointly by IMF and World Bank officials and provides a framework for the institutions' respective boards to assess whether a proposed I-PRSP or PRSP constitutes a sound basis for the specific country to receive World Bank/IMF loans or HIPC debt relief. The JSA also determines both the size of the envisaged support and the format for the programmes supporting the country's poverty reduction strategy.

Although co-operation between the BWIs is ever more apparent, their respective areas of responsibility remain divided along traditional lines. The IMF focuses chiefly on planning macroeconomic strategy; the World Bank has the main responsibility for developing poverty reduction strategies. Responsibilities are shared where areas overlap. Examples include promoting a beneficial climate for private sector growth, trade liberalisation, financial sector development, and implementation and transparency of the state budget. That the two institutions have different responsibilities and remits heightens the need for close co-operation.

An important consideration is the need to avoid duplication. The IMF, moreover, needs to know about the World Bank's planned efforts in a particular country so it can formulate correct macroeconomic strategies. (The IMF also needs to receive corresponding information from other external actors, particularly bilateral donors.)

## The Relationship between PRSP, PRGF and WTO

The relationship between these three is not very well articulated. It is true that the World Bank is one of the world's most powerful advocates of removing of trade barriers and recently there is some work on "policy coherence" agreements with WTO, including a high-level WB/IMF/WTO meeting at the WTO General Council in May 2003. There is also work on expanding the joint Integrated Framework trade<sup>6</sup> capacity building programme. But the sheer and total absence of any analysis of the WTO impacts on country economies and their ability to meet the PRSP goals is strange. There are no studies on trade liberalization on domestic companies and jobs, trade is not in PRSPs, no analysis of the likely impacts of WTO rules in General Agreement on Trade in Services (GATS), Trade-Related Investment Measures (TRIMs), Trade-Related Intellectual Property rights (TRIPs), Agreement on Agriculture (AoA) or any of the "New Issues" such as WTO requirements on private investments in services such as water provisioning. Although, in theory, countries are supposed to decide which service sectors they willingly open to investors in GATS negotiations, in practice, there is a lot of arm-twisting and little support from the IFIs.

## Conclusion

The development of comprehensive poverty reduction strategies requires new forms of appropriate support. From their relative positions, the IMF and World Bank have both produced new, ambitious instruments. Both the PRGF and PRSC have been criticized. There is concern about the relationship between these lending instruments and the PRSP and in particular hope that the PRSP will lead the lending instrument rather than vice versa. "Poverty" is used as window dressing to peddle more or less the same Structural Adjustment Programmes (SAPs) to low income countries that led them into a state of chronic economic crisis. An examination of the PRSC and PRGF (in Uganda) displays how the World Bank and IMF have repackaged structural adjustment policies in the words "Poverty Reduction" and have claimed that these renamed loans will be based upon countries' poverty-reduction goals. However, the policy prescriptions do not lend themselves to poverty reduction today any more than they had over the last 20 years before they were renamed (Rick & Warren 2002). To portray them otherwise is dishonest spin. The PRGF has been targeted because it is based on the same premises as previous structural adjustment programmes. The criticisms levelled at the PRSC are that its benchmarks pay insufficient heed to the conditionality of institutional capacity-building and that participant governments lack adequate ownership. In most cases the development of PRSCs and PRGFs is still the work of IMF and World Bank representatives in consultation with small technical teams within finance ministries, and perhaps the central bank.

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<sup>6</sup> The Integrated Framework for Technical Assistance to the Least Developed Countries (IF) is a multi-agency initiative to coordinate national ministries, donors and multilateral agencies in the provision of trade-related capacity building. The IF is being touted as a model for cooperation in capacity building, with the World Bank taking a lead role in the diagnostic studies which make up the first phase of the work programme. These studies have been completed in six countries and are currently underway in six more. Some twenty-two further studies for both least developed and low-income countries are planned within the next two years.

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