

Public Expenditure Reform Credits and evolution toward PRSCs

**--Creating a New Partnership--
Experience in Bénin**

**Presentation to
SD Policy Lending Workshop
15 May 2001**

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Evolving Bank Environment

- CDF -- partnership
- HIPC -- debt relief to enlarge spending programs
- PRSP -- ownership, strategic public expenditures
- Fiduciary obligations
 - LACI -- aggregated financial accounting
 - CFAA, CPAR, PERs as due-diligence
 - Framework for adjustment lending
- New approaches to programmatic lending (PSACs)
- CDD, fiscal decentralization
- PER guidelines -- focus on institution building

What is a PERC?

- Contractual partnership implicit in PRSP
 - delegation against performance-based, ex post monitoring and accountability (environment of mutual trust)
 - predictable, fungible resource flows from donors
- Enhanced donor analysis and advice for PRSP formulation and implementation
 - program and policy design
 - public service delivery
 - budget management (especially accountability/safeguards)
- Consolidated donor financial transfers to government budget consistent with PRSP
 - annual transfers within government MTEF based on PRSP
 - reliance on national procedures and institutions

Why a PERC?

- Recognition of importance of strengthening capacity for public resource management
- Recognition of need to come to grips with fungibility of “project” aid

PERC's special focus on budgetary management

- Unified budget
- Strengthened sector spending programs
(multiyear program budgets with objectives, strategies, allocations and indicators)
- Delegated financial management
Sectoral and local spending responsibility with flexibility in resource use
- Ex post audits and controls
Tracking studies, user surveys, internal and external audits, publication of budget results

PERC eligibility criteria

- Sustainable macro-financial management
- Growth-oriented economic and sectoral policies
- Budgetary programs favoring development and poverty reduction
- Commitment to good budgetary management

Comparison with other kinds of budget support

■ SEP/SWAPs

- | focus on one sector only
- | cannot build transversal capacity for public financial management
- | often divorced from budget cycle

■ SACs

- | typically divorced from budget cycle ---> disruption
- | conditions typically unrelated to budget content or management

How PERC treats project aid

- Projects absorbed into *government* programs, implemented according to government procedures and institutions
- Projects financed via *government* budget -- directly or indirectly
- Government budgetary procedures govern management of *all* public funds, including “project” financing

Criteria for traditional project or adjustment financing

- Credits to autonomous public agencies, guaranteed by the Treasury (indirect on-lending)
- Public sector projects with significant procurement through ICB (certification function)
- Fiscal compensation for reforms not included in government budget (payment when needed)
- Emergency credits to deal with negative, external fiscal shocks (to facilitate orderly adjustment)

Actions required by the government

- Good macroeconomic and sectoral policies
- Budget favorable to poverty reduction
- Reform of budgetary procedures
- Program to strengthen capacity for budgetary management
- Better coordination of donors
- Full disclosure of budgetary information

Actions required of the Civil Society

- Discuss content and execution of budget
- Demand transparency & good governance
- Contribute to execution of budgetary programs

Keystone: Reinforce national capacity

To formulate, execute, monitor and evaluate public expenditure programs
(personnel, systems, procedures, institutions)

Greater responsibility = better motivation

Harmonized procedures = better utilization

Issues for discussion...

- Project work -- existing (transition) & new
- Periodic assessments of sector strategies
including in non-PERC ministries
- Carrying out annual budget assessments
criteria, organization of macro & sector work
- Leverage and remedies for nonperformance
triggers for sector ministries (capacity, budget strategy, policies)
- Other transversal issues
decentralization, civil service
- Institutional capacity, roles, incentives
MFE, Plan, sector ministries, external oversight, key skills

Recent evolution into PRSCs

- Series of single tranche, annual, budget support credits to support medium term government development and reform program to reduce poverty
 - | based on PRSP, and laid out in an LDP
 - | includes matrix of social & structural reforms, plus indicators & benchmarks
 - | phased with government's budget cycle
 - | usually in conjunction with a PRGF
- Each annual credit based on specific prior actions to implement social and structural reforms, plus maintenance of a satisfactory macro framework
 - | Actions include capacity building measures to improve implementation
- Requires an evaluation social impact of program & reforms, plus mitigation steps
- Requires substantial analytical underpinning, provided for in CAS
 - | Capacity and policies for growth and poverty reduction
 - | Public expenditure program
 - | Public expenditure management and accountability
- Considered as a SAC (if economy-wide) or SECAL (if sector focus)