

# GOOD PRACTICE NOTES FOR DEVELOPMENT POLICY LENDING

1.  
Designing Development Policy Operations

2.  
Using Poverty and Social Impact Analysis  
to Support Development Policy Operations

3.  
Financial Management Issues  
in Development Policy Lending

4.  
Environmental and Natural Resource Aspects  
of Development Policy Lending

5.  
Supporting Participation  
in Development Policy Operations

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### **ACRONYMS AND ABBREVIATIONS**

CAS	Country Assistance Strategy
CEA	Country environmental analysis
CFAA	Country Financial Accountability Assessment
ECA	Europe and Central Asia Region
ESW	Economic and sector work
EU	European Union
FMS	Financial management specialist
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
M&E	Monitoring and evaluation
MNA	Middle East and North Africa Region
NGO	Nongovernmental organization
OP	Operational Policy
PER	Public Expenditure Reviews
PFM	Public financial management
PRGF	Poverty Reduction and Grant Facility
PRSC	Poverty reduction support credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and social impact analysis
SEA	Strategic environmental assessment
SSEP	Social Sectors Expenditures Program

## FOREWORD

These Good Practice Notes are being issued in conjunction with the update of Operational Policy/Bank Procedure (OP/BP) 8.60, *Development Policy Lending*. Good Practice Notes 1 through 5 are intended to provide guidance to staff in the preparation of development policy operations and are not mandatory policy documents. Their contents will be updated periodically to reflect the lessons of experience. For further updates and other good practice notes, please check the Operations Policy and Country Services (OPCS) website under development policy lending or contact the Country Economics Unit in the OPCS Vice Presidency.

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# **GOOD PRACTICE NOTE 1— DESIGNING DEVELOPMENT POLICY OPERATIONS**

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# GOOD PRACTICE NOTE 1— DESIGNING DEVELOPMENT POLICY OPERATIONS

## I. INTRODUCTION

1. This Good Practice Note provides advice to World Bank staff and their government counterparts on designing Bank-financed development policy operations (which may be IBRD loans, IDA credits, or IDA grants)—and particularly on tailoring such operations to the circumstances of the country and to the particular reform program associated with the operations. Box 1.1 provides definitions for terms that will be used throughout this note.

### Box 1.1. A Vocabulary for Designing Development Policy Operations

**Actions** are the policy and institutional actions of the government that are expected to bring about desired outcomes. Actions usually involve *modifications* in policies or institutions. However, they may involve *sustained implementation* of policies or *analytic work*.

**Outcomes** are the desired changes directly resulting from the set of *actions* associated with the development policy operation. Generally outcomes are the effects on broader society of government action.

A **program** is the set of actions and outcomes supported by the development policy operation or, in the case of a programmatic operation, by a closely linked series of loans, credits, or grants.

**Conditions** are the actions that are deemed critical to achieving the outcomes of the program supported by the development policy operation *and* are included in the operation documents as legal conditions for disbursements under a Bank loan, credit, or grant. Conditions that must be met before presentation of a loan, credit, or grant to the Bank's Board are termed *prior actions*.

**Triggers**, as used in the context of programmatic development policy operations, are the planned actions in the second or later year of a program that are deemed critical to achieving the outcomes of the program and that will be the basis for establishing the prior actions for later operations. In other words, triggers are the expected prior actions for a subsequent loan, credit, or grant. The Bank evaluates the achievements with respect to triggers to decide on the scope, timing, and prior actions for each later operation in a programmatic series. The details of prior actions for a subsequent operation may differ somewhat from the triggers in the preceding operation due to changes in circumstances or information.

**Milestones** are progress markers of implementation of the program. A milestone can be an action or an outcome that is expected to be realized during the period of implementation, rather than at the end, of the operation. Milestones are *not* legal conditions for disbursement or triggers.

The **Program Matrix** summarizes all of the conditions, triggers (for a programmatic operation), milestones and outcomes of the program supported by an operation.

**Results** are the completed actions or outcomes of a program. **Indicators** are qualitative or quantitative measures of results. Well-defined indicators have baselines (the ex ante level of the indicator) and targets (the intended ex post level of the indicator). **Benchmarks** are the standards against which performance or achievements can be assessed; the standards refer to the performance that has been achieved in the recent past by comparable organizations.

2. **Operations Portal.** A web-based interface, known as the [Operations Portal](#), provides task teams with an easily accessible, integrated workspace to simplify day-to-day project preparation and management. The portal supports staff's efforts to compose task teams, plan operation

expenses and financing, and produce required documentation. Available on the site are operation calendars, references to similar operations, a list of staff with relevant backgrounds, country news, and operation press releases, along with online help, frequently asked questions, and a help-line contact telephone number.

## II. COUNTRY OWNERSHIP

3. The often complex policy and institutional reforms associated with a development policy operation can only be adopted and implemented if they have sufficient political support within the country—support within the relevant parts of the government and often among non-governmental stakeholders. It is important to understand some basic principles about ownership.

4. ***Ownership implies that the government can build and maintain an adequate coalition of political support for the program.*** Ownership does not require national consensus. Building and maintaining ownership is a dynamic process that often involves persuading new groups to support a reform program as its net benefits become clear, and it sometimes requires modifying the program to reflect evolving experience and changing circumstances.<sup>1</sup> The World Bank can contribute to this process through its policy dialogue and its analytic work.

5. ***Ownership is a necessary but insufficient condition for Bank support.*** The Bank should finance development policy operations to support reform programs that have adequate ownership and, in the Bank's judgment, contribute to the country's development goals. Collaborative analytic work and policy dialogue help define the set of reforms that meet these dual criteria.

6. ***Assessing ownership can be difficult.*** One strong indication of ownership is the endorsement of a specific reform in a publicly debated and approved national development strategy document, such as an IDA country's Poverty Reduction Strategy Paper (PRSP). However, in such strategy documents, the reference to a particular reform may be vague, and the reform program may not be well defined in terms of ends and means. Also policymakers may overestimate or overstate the political feasibility and sustainability of a reform, especially for the sake of securing a loan or credit. In most cases, assessing ownership requires thoughtful inquiry by Bank staff. Because ownership can change over time, periodic reassessment is necessary. A key risk in assessing ownership is mistaking agreement on general objectives for support of specific means or measures by which to pursue those objectives. Box 1.2 includes some useful indicators for assessing country ownership.

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<sup>1</sup> See Good Practice Note 5—Supporting Participation in Development Policy Operations.

**Box 1.2. Indicators for Assessing Country Ownership**

- The government has recently taken initial steps to implement elements of the reform program to be supported by the operation.
- The government has a good track record in implementing related reforms.
- The reform is specifically endorsed in the country's formally adopted national development strategy, PRSP, or similar document that has been widely discussed and formally approved.
- The government has taken the initiative in formulating the reform agenda and presenting it to the Bank.
- Key policymakers articulate their intellectual conviction that the reform is needed.
- Top political leaders have publicly stated their support for the reform.
- The government has undertaken efforts to build support for the reform among key constituencies.
- Relevant interest groups have been engaged in dialogue with the government about the reforms and have indicated general support. Potential beneficiaries have been mobilized, and the concerns of groups that might suffer losses from the reforms have been taken into consideration.
- The reform has been openly advocated during the campaign of an elected government.

7. ***Conditionality should complement ownership, not substitute for it.*** Conditions for development policy operations need to be agreeable to the government and the World Bank. When conditional lending is used to induce a government to undertake reforms that it does not wish to do, it is unlikely that these reforms will be fully implemented and sustained. Furthermore, the prospects for improving governance and the accountability of a government to its own citizens will likely be undermined.

8. ***A development policy operation can complement ownership in several ways.*** The process of preparing the Program Matrix of relevant actions and outcomes generates a dialogue among various parts of the government—and often with nongovernmental stakeholders—that can improve the design of the reform program and help build broader support for the reforms. Bank staff can play a useful role during the design phase by providing analysis and advice, drawing on experience in other countries, and facilitating communications among stakeholders within the country. Once agreement within the government and between the government and the Bank has been reached, the formal conditionality associated with development policy operations can complement country ownership:

- The Program Matrix can help keep the program on track during its implementation, in particular by creating a timetable and incentives for completing actions.
- The formal agreement to the conditions and triggers that are part of the Program Matrix signal to the broader government and to the public that the government is committed to carrying through the reform program, generating momentum in the reform process and strengthening expectations that the reform will be sustained. This is often important in inducing a positive private sector response to a policy change.
- The agreement between the government and the Bank on conditions and triggers also provides assurance to Bank Management and shareholders that the reform program will be sustained and will generate benefits that justify the loan, credit, or grant.

9. ***The way the policy dialogue is conducted can also build ownership.*** First, to ensure that conditions, triggers, and milestones both are owned by the government and reflect the best knowledge of country circumstances, the government is expected to take the initiative in drafting the Program Matrix. Presenting to the government a draft matrix that was prepared in Washington is clearly not good practice. Second, to avoid adversarial relationships and counterproductive bargaining, Bank staff may find it most productive to follow the basic tenets of “principled negotiation,”<sup>2</sup> in which all parties are encouraged to first identify their interests (rather than their positions) with respect to a particular issue, to encourage an open and creative exploration of options (without commitment), and to decide on positions only after a discussion of these interests and options. The interest of Bank staff, of course, is to agree on conditions for a program that, in their best professional judgment, serves the country’s long-term development needs and enjoys sufficient country ownership to be implemented and sustained. It is therefore counterproductive to view the dialogue and negotiation as an effort to extract unrealistic promises from government counterparts.

10. ***Public disclosure gives credibility to country ownership.*** The Bank recognizes the fundamental importance of transparency and accountability to the development process. Its disclosure policy provides that the Bank discloses the Program Documents for all poverty reduction support credits (PRSCs), and it presumes that borrowing governments will consent to Bank disclosure of the Program Documents for other development policy operations. The principle of country ownership of reform programs cannot be credible without such disclosure.

### III. LINKING TO THE CAS, ASSESSING THE MACROECONOMIC FRAMEWORK AND CREDIT RISK, AND COORDINATING WITH PARTNERS

#### A. Country Assistance Strategy

11. Designing a development policy operation is a two-stage process. First, the Country Assistance Strategy (CAS) sets the strategic context for all of the Bank’s individual lending operations in the country. It also defines the country outcomes, which the Bank expects to positively influence and to which the individual lending operations should contribute. In the CAS, the Bank exercises judgments about *country selectivity* in the allocation of Bank resources and about the broad conditions in which a development policy operation would be appropriate. Through the CAS and its updates, the Bank makes clear the general direction of the reform program to which the government should be committed prior to active preparation of each possible development policy operation.

- Inclusion of a development policy operation in a CAS base-case lending scenario reflects a judgment that such an operation is justified by the country’s current level of policy and institutional development, its needs for Bank financing, its creditworthiness, and its general commitment to move forward in appropriate reform areas.

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<sup>2</sup> Roger Fisher, William Ury, and Bruce Patton, *Getting to Yes: Negotiating Agreements without Giving In* (New York: Penguin Books, 1991).

- In some cases, a development policy operation may be included only in a high-case lending scenario—that is, after an improvement in specific dimensions of the country’s policy and institutional framework or a demonstrable increase in the government’s commitment to move forward with a reform program in specific areas.

12. When a government has achieved the relevant thresholds indicated in the CAS, including a sufficient indication of ownership of the associated reform program *in broad terms*, the country and Bank begin to design and negotiate the details of that operation. The amount and the timing of the operation may be adjusted relative to that envisioned by the CAS in response to (a) the quality and cost of the policy and institutional changes that the government decides to pursue, and (b) any significant changes in the country’s economic environment (such as terms of trade shocks that affect the fiscal balance).

## **B. Macroeconomic and Credit Risk Assessment**

13. Preparation of a CAS or CAS Progress Report always involves assessing the country’s macroeconomic framework and credit risk. Such an assessment takes into account the IMF’s views as well as the Bank’s own projections, as discussed below. Unless a development policy operation is presented at the same time as the CAS or CAS Progress Report, the Bank’s assessment of the macroeconomic framework has to be updated during appraisal of the operation to determine the following:

- Are the country’s macroeconomic policies likely to achieve sustainable external and fiscal balances over the medium term (i.e., have sustainable debt dynamics);
- Will the development policy operation (including its associated reform program *and* its financing) support, rather than undermine, those macroeconomic policies;
- Should the amount of the loan or credit be reconsidered in response to shocks, taking into account the guidelines provided in the CAS on phasing, composition, and amounts of lending; and
- Can the Bank accept the credit risk associated with the operation, taking into consideration the country’s updated macroeconomic outlook and the risks arising from potential external and internal shocks.

14. **IMF Role.** In making its assessment of the macroeconomic framework, the Bank takes into consideration the views of the IMF, and normally regards the presence of an on-track IMF program as adequate evidence that the country’s macroeconomic policies are likely to achieve sustainable balances over the medium term. If there is no formal IMF program, in the early stages of preparation of a development policy operation Bank staff should ascertain whether Fund staff have any major outstanding concerns about the country’s macroeconomic framework. Before finalizing the operation, the Bank will request an assessment letter from the IMF that provides a factual overview of the country’s macroeconomic framework. The Bank will take this letter into consideration in forming a judgment about the appropriateness of Bank lending at that time.

15. **Projections.** In projecting the country's medium-term macroeconomic outlook and judging the sustainability of its fiscal program and the balance of payments and of the associated debt dynamics, the Bank country economist normally uses a macroeconomic consistency model. (These projections are often prepared initially for and presented in detail in a country economic memorandum or similar report.) The country economist needs to construct scenarios to assess the risks and estimate the robustness of the current country outlook under alternative assumptions. Such scenarios should consider possible changes in domestic economic variables and in the global economic environment (including commodity price fluctuations, which could affect the country's terms of trade; shifts in G7 output growth and exchange and interest rates, which may affect export demand and debt servicing costs; and changes in investors' attitude toward country risks, which could affect access to capital markets). In assessing the sustainability of a country's medium-term macroeconomic framework, particular consideration should be given to the following:

- **Fiscal and debt sustainability risks.** The robustness of the fiscal outlook should be evaluated comprehensively, using broad definitions of the public sector and including contingent liabilities wherever possible. The assessment should highlight possible threats to public debt sustainability arising not only from different fiscal, growth, and interest rate and exchange rate paths, but also from financial sector crises, uncovered pension liabilities, or financial assistance to public or private corporations during sharp economic downturns. A detailed public sector financing plan may be needed to evaluate the sustainability and risks to the public sector accounts over time.
- **Balance of payment vulnerabilities.** The robustness of the current account projections should be assessed against potential risks from global trends and domestic economic and structural factors. Capital account vulnerabilities are often linked to large debt rollover requirements, high levels of short-term debt, high shares of floating rate debt, or high levels of portfolio investment relative to foreign direct investment. A detailed external financing plan may be needed to evaluate the sustainability and risks to the external accounts over time.
- **Monetary and exchange rate risks.** The assessment should evaluate whether monetary and exchange rate policies are supportive of macroeconomic stability and identify risks that may arise from any inconsistencies between monetary and exchange rate policies.
- **Risks of policy instability.** The credibility of the government's current policy framework and its macroeconomic stability may be threatened by the risk of policy instability, which may arise from political instability. Also, the government's political capacity and willingness to repay its creditors, particularly the Bank, are important factors to evaluate.
- **Financial sector risks.** Vulnerabilities in the financial sector and their potential effect should be assessed, since financial sector crises could pose a threat to macroeconomic stability.

- **Corporate sector risks.** Corporate sector vulnerabilities, such as high leverage or unhedged net foreign exposures, should be evaluated since they can trigger domestic crises that might threaten fiscal and debt sustainability.

16. **IBRD Exposure.** The evaluation of country credit risk should give particular attention to the projected levels of IBRD exposure and the projected debt service obligations to IBRD and other official creditors. In projecting the Bank's exposure, it is necessary to take into consideration estimated future levels of lending and disbursements, including those arising from a planned series of development policy operations. IBRD exposure in a country should normally conform to the following guidelines: the ratio of IBRD debt service to public debt service should be no more than 20 percent; the ratio of preferred creditor debt service to public debt service should be no more than 35 percent; and the ratio of IBRD debt service to exports of goods and services should be no more than 4 percent, 5 percent, and 6 percent in cases of high, medium, and low risk, respectively. Also, total IBRD debt outstanding to any IBRD borrower cannot normally exceed the single borrower exposure limit set by the Bank's Board of Executive Directors in accordance with IBRD's risk-bearing capacity—currently at US\$13.5 billion. The CAS normally addresses Bank exposure issues, but any additional issues that arise as a consequence of a development policy loan should be explicitly discussed in the Program Document.

17. **Including Macroeconomic Policy Measures within Development Policy Operations.** If the development policy operation is undertaken in a country whose policy framework is already well designed to achieve medium-term sustainability of the macroeconomic framework and well suited to managing the country's macroeconomic risks, the reform programs associated with the operation should be designed to accelerate and improve the quality of economic growth and poverty reduction, but they need not include measures intended to correct weaknesses in the macroeconomic policy framework per se. However, if the assessment of the macroeconomic framework indicates that a country's fiscal program or balance of payments and associated debt dynamics are not sustainable in the medium term, or that the risks to sustainability are excessively high, then the country's reform program should include corrective macroeconomic policy measures. In many cases, such measures are associated with a formal IMF program, and this should normally satisfy the Bank. But if they are not, the Bank needs to be satisfied that corrective measures are being undertaken. In such situations, the basic principles of country ownership, country selectivity, and conditionality still apply.

### C. Coordinating with Partners

18. When a government invites several partners to support its reform program, all partners—the government, the Bank, and the others—must share a clear understanding about the modalities of their cooperation with a view toward minimizing transaction costs and avoiding inconsistencies in the conditions associated with the support from the various partners. The government might prefer joint support from several partners for a common program. In that case, all of the participating partners could agree to joint supervision missions and to accepting a common reporting document from the government. Alternatively, the government might want specialization among its partners, asking each to be engaged in different parts of the overall reform program.

19. ***World Bank and IMF Partnership Agreement.*** The World Bank and the IMF have an agreed framework for coordination intended to ensure that each institution is separately accountable and focused on its areas of special competence and that each is fully informed of the conditions associated with the other's programs. Under that agreement, "conditionality would be duplicated only when a policy measure was considered critical for the success of the programs supported by both institutions. In such cases, conditionality would be harmonized, using identical dates and benchmarks to the extent possible."<sup>3</sup> Furthermore, the Board documents of each institution include a Bank-Fund annex that describes the division of labor and the conditionality of the other institution in its programs for that country.<sup>4</sup>

#### IV. CHOOSING THE COMPONENTS AND STRUCTURE OF THE OPERATION

##### A. Components

20. Governments often pursue policy and institutional reforms concurrently across a wide spectrum (for example, fiscal and monetary policy, civil service organization and rules, the judicial system, decentralization, trade, and specific sectors). A key task—which begins at the CAS stage and continues through the detailed design of a particular development policy operation—is to decide which components of the government's overall reform program the operation should support, and how the conditions associated with the operation will be helpful to the government's overall program. Decisions about coverage also need to take into consideration the quality of the analytic underpinnings of the program. Some of the important considerations in choosing the components of a particular development policy operation are as follows:

- ***The strategy and results framework set out in the CAS.*** The strategy and results framework of CAS provide guidance on which reforms the Bank should be supporting and how that support should be provided.
- ***The potential benefits or costs of conditionality.*** Linking a particular reform to a Bank loan can often help the government design and implement the reform. However, such linkage should be avoided in circumstances when it would only stimulate opposition and suspicion that the government does not really embrace the reform.
- ***The magnitude of expected developmental benefits, especially poverty reduction.*** The Bank aims to help the government pursue the reforms that are expected to have the greatest impacts on sustainable growth and poverty reduction.
- ***The quality of the analytic underpinnings.*** Reform programs can be designed in detail only when there is adequate diagnosis of the problems to be solved and sufficient clarity about promising solutions. In particular, poverty and social impact

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<sup>3</sup> IMF and World Bank, "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality," Washington, D.C., 2001.

<sup>4</sup> World Bank, "Staff Guidance Note on Operationalizing Bank-Fund Collaboration on Country Programs and Conditionality," 2002.

analysis (PSIA) and, where relevant, environmental impact analysis should underpin important policy measures.

- ***The institutional capacity for implementation.*** Even important and well-understood reforms cannot succeed without adequate institutional capacity.
- ***The need to improve public expenditure management systems.*** Among the many elements of good governance, better public expenditure management systems are especially important in creating the basis for lending through development policy operations. Government ownership is particularly critical for the successful implementation of such measures. Countries with weak public expenditure management systems and inadequate ownership of measures to improve them are poor candidates for development policy operations.
- ***Opportunities to strengthen the voice of the poor.*** In the design and implementation process, the voice of the weakest, least organized stakeholders may not be heard. The Bank's involvement may be able to strengthen these voices.
- ***The Bank's comparative advantage.*** The Bank can be most useful in helping the government to design and implement a reform when it can make available Bank staff who combine the right expertise and country knowledge.
- ***The activities of other partners.*** Several development partners may be able to work together in the same areas, or specialization may be preferable.
- ***The need for risk mitigation measures.*** Measures to reduce the likelihood of adverse impacts from certain elements of the reform program—or to compensate those whose interests might be damaged by the reform program—should be an integral part of the overall program.
- ***Opportunities for Bank support through other vehicles and at a later time.*** The development policy operation is not the only possible modality of Bank assistance. Sometimes important support to a reform can be provided through an investment loan, technical assistance, or analytic work. Or the Bank's engagement in the reform process might be more productive at a later stage in the country's efforts to build support and implementation capacity.

## B. Structure

21. Once the decision is made about which components of the government's overall reform program the development policy operation will cover, but before specific conditions are designed, the Bank and the government should agree on one of the following structures for the lending operation:

- ***Programmatic approach.*** A series of single-tranche loans, credits, or grants is usually the best approach for supporting a well-specified, medium-term program. Each Program Document indicates the prior actions that have been taken in advance of that

loan, credit, or grant as well as the triggers for subsequent operations in the series. A series normally involves three annual operations. This approach captures the medium- to long-term nature of most significant reform efforts but allows flexibility to adjust to new information and changing circumstances during implementation and to change the scope of the operation over time. A programmatic approach is especially useful when the government's implementation capacity is uncertain, and it can be a useful means to manage risks associated with the program.

- ***Multitranche operation.*** The conditions for each tranche are specified at the beginning of the operation. This approach is appropriate only when the details of key steps in a medium-term reform process are already well understood. A multitranche operation may be especially useful if the government wants to use the conditions of the development policy operation as a signaling device. In choosing between a multitranche operation and a series of programmatic single-tranche operations, the borrower needs to be aware that the commitment fee of the multitranche operation means a higher financial cost. If the policy and institutional actions of one component of a multitranche development policy operation can proceed independently of those in other components, the tranches can be “floating” (i.e., each tranche can be disbursed as the specific conditions for that tranche are fulfilled). This may be appropriate for discrete actions with uncertain timing (e.g., privatization of a specific state enterprise). If both the details and the desired sequencing of the key steps in a reform program are well understood, the sequencing of the tranches can be fixed in advance.
- ***Single tranche operation.*** The conditions for the loan or credit are met fully before the operation is presented to the Board (i.e., all conditions are prior actions), but there is no expectation of a series of loans/credits. In most cases, the reforms associated with the operation should be part of a reasonably well-defined, medium-term program. However, a single tranche operation may be appropriate in a crisis or a “turnaround” situation, in which the government needs financial support to deal with a short-term situation even though the medium-term program is not yet well specified.

## V. DESIGNING CONDITIONS, TRIGGERS, AND MILESTONES

22. Once the government and the World Bank have agreed on the components of the program and the structure of the operation, the task is to design a set of conditions, triggers, and milestones that will be most helpful in clarifying, implementing, and monitoring the overall reform program supported by the development policy operation (see Box 1.3). This program is reflected in a Program Matrix that blends actions and outcomes. The creation of the appropriate conditions, triggers, and milestones can be difficult. It helps to bear in mind a few good practices:

- (a) ***Select a limited number of conditions and triggers.*** Conditions and triggers should receive priority attention during implementation. If a condition is not realized, normally the Bank does not disburse the associated tranche, or the Board must specifically waive the condition. If a trigger is not achieved according to the agreed timetable, the government and the Bank need to evaluate whether ownership of the program is

**Box 1.3. Selectivity for Conditions and Triggers: Examples*****Good examples***

- A reform supported by a programmatic operation involves an institutionally complex set of measures to improve public resource management and civil service performance. Of the 44 measures expected before the second annual credit, only 9 are triggers and the others are milestones. This indicates prioritization among the measures.
- As a condition for an agriculture sector operation, “A Law on Cadastre and Property Registration has been approved by the parliament, and a Cadastre Agency has been created.” These are reasonably well-defined actions that are critical to successful implementation of land titling.
- As a trigger for the next programmatic loan, “the Auditor General has completed final audits on all central government ministries within 12 months of the end of the fiscal year.” This was regarded as the most critical step to improving public expenditure management systems.

***Bad examples***

- The program matrix for a programmatic loan has 25 pages of “triggers” for the second proposed loan without specifying those that are really critical to implementation.
- As a condition, “Approval by the Council of Ministers of a draft Trade Practice Proclamation to address anti-competitive practices, unfair trade practices, and consumer protection.” This is a weak condition because it requires approval only of a draft document rather than final approval by Parliament.
- As a condition, “Prepare an Irrigation Sector Development Strategy.” This would be better as a milestone since the preparation of a strategy *per se* is not critical to successful implementation.

weakening or implementation capacity has been overestimated, and the timing or the amount of the Bank’s continuing financial support may need to be reconsidered.

- *Do* use only the highest-priority actions as conditions and triggers. Prioritization requires limiting the set of policy and institutional measures to those that are essential and practicable given financial, institutional, and political constraints.
- *Don’t* use outcomes (i.e., monitorable effects of actions) as conditions or triggers unless their realization is largely under the control of the government.
- *Don’t* exaggerate the importance of measures to expand the set of conditions and triggers. Some reform processes require many relatively small policy and institutional changes but have only a few measures that are critically important. In such cases, it may be possible to define a condition or trigger on the basis of a short-term outcome that captures the expected impact of many small changes.
- *Do* remember that, in the context of programmatic operations, triggers are the *expected* prior actions for a subsequent loan, credit, or grant. The Bank evaluates the achievements with respect to triggers to decide on the scope, timing, and prior actions for each later operation in a programmatic series. The details of prior actions for a subsequent operation may differ somewhat from the triggers in the preceding operation, but any changes need to be fully justified by changes in circumstances or information.

- *Do* include the approval of a new law as a condition or trigger when it is critical to achieving policy and institutional change, but remember that implementation of a law requires institutional capacity and often involves follow-up regulations.
- (b) ***Define many milestones and use them flexibly.*** A large number of milestones can be useful to the government and the Bank in defining the specific elements of the reform program and monitoring its implementation (see Box 1.4). Given the uncertainties inherent in the implementation of a complex reform program, it is expected that actions selected as milestones may not be achieved according to the initial timetable. And given imperfect knowledge about the relationship between actions and outcomes, it is expected that outcomes selected as milestones may not be realized as predicted.
- *Do* define milestones that will help track progress in implementing the reform.
  - *Do* use outcomes as milestones to monitor the short-term results of policy and institutional changes.
  - *Do* modify milestones in programmatic loans from year to year in response to new information and circumstances.
  - *Don't* include milestones that are not related to the components of the reform program covered by the operation.
  - *Do* include necessary analytic work as a milestone.

#### **Box 1.4. Good Milestones**

- As a milestone for the government's three-year strategic plan to reduce the level of tax arrears, "Reduce the percentage of collectible debt in 2001 to 8% of total tax collections (1998: 9%)."
- As a prior action for the first credit in a programmatic PRSC, the government launches a national recruitment campaign for teachers, and the third PRSC in the series includes a milestone that "all districts fill at least 95% of their established teacher staffing ceiling."
- As a milestone for analytic work: "Complete a study of market for raw hides and skins which estimates the overall impact of transforming the export ban into a tariff and is conducted by Steering Committee which includes representatives from farmers, traders, processors, and the tanneries." This not only defines the specific policy option to be studied but also describes a structure for undertaking the study that includes various stakeholders.

- (c) ***Find a balance between new measures and sustained implementation of previous measures appropriate to the country circumstances.*** In the early stages of a specific reform program, most conditions, triggers, and milestones should involve policy and institutional changes (i.e., actions) that constitute the key steps for implementing the reform program. When the reform program in a particular area is more advanced, sustained implementation, monitoring and evaluation, and modest adjustments to previous policies and institutional arrangements become increasingly important. The right balance between change and sustained implementation will vary significantly according to country circumstances. When a country is initiating major reforms in a new area or adjusting policies to a macroeconomic shock or other change in circumstances, an operation would appropriately focus on policy and institutional changes. For countries

which are already well-advanced in reforms across a broad front and which face stable conditions, the emphasis should be on sustained implementation.

- *Don't* establish a condition or trigger that specifies a policy or institutional change that is not well grounded in prior analytic work.
- *Do* use conditions, triggers, or milestones to reinforce the importance of sustained implementation of key policies and institutional behaviors.

(d) ***Be as specific as possible about what, by whom, and when.*** Specificity—meaning clarity, not excessive detail—is a key attribute of good conditions, triggers, and milestones (see Box 1.5). Poorly specified conditions or triggers may give rise to disputes about whether the key elements of the reform program are on track.

- *Do* indicate what actions are to be done, by which agency(ies) of the government, and approximately when.
- *Do* use the active voice as appropriate to clarify who is responsible for the action.
- *Do* use quantitative indicators, including baselines and targets, whenever possible.
- *Do* cross-reference another table or even other documents when the Program Matrix includes very complex, multi-faceted actions—such as agreement on a Medium-Term Expenditure Framework. For the sake of transparency and monitorability, refer only to documents that are in the public domain.
- *Don't* avoid specificity in milestones just because their achievement is uncertain since realization of milestones is, by definition, regarded as a lower priority than the achievement of conditions and triggers.
- *Don't* try to be very specific if the underlying analytic work is still weak.

**Box 1.5. Specificity of Conditions, Triggers, and Milestones: Examples**

***Good examples***

- “The government will reduce the fertilizer import tariff from 50 percent to 25 percent by January 1, 2000.”
- “Increase allocation in the 2002 Budget Law for non-salary operational expenditures in the education, health, and public works ministry by at least 10 percent over the allocation in the 2001 Budget Law.”
- “Satisfactory implementation including (i) operational and financial audit of customs operations, (ii) a census of customs personnel; and (iii) a survey of users’ perceptions of service.” Although “satisfactory implementation” of an action plan is by itself a poorly specified condition, in this case there is further elaboration of the criteria by which implementation will be evaluated.

***Bad examples***

- As a second-tranche condition: “Draft legislation completed redefining the roles and responsibilities across the three levels of the public administration.” This is not specific about what constitutes completion of the draft (e.g., approval by cabinet or submission to Congress) and does not indicate the principles according to which the roles and responsibilities should be redefined.
- As a milestone, “Improved social indicators” is too vague to be useful.
- “A system for auditing public sector bodies for compliance with requirements for identifying and resolving cases of conflict of interest is developed and implemented.” This milestone is not adequately specific about which agencies of the government bear responsibility.

(e) ***Include conditions or triggers that the government considers useful for signaling its commitment and for keeping implementation on schedule (see Box 1.6).***

- *Do* use conditions or triggers to establish a deadline when this might encourage the government bureaucracy to come to closure.
- *Don't* include conditions and triggers that might only stimulate political opposition before the government leadership can build its case and strengthen support for a particular reform.

**Box 1.6. Conditions that are Useful for Signaling Commitment**

- As a condition of Board presentation, “Since July 1, 2001, the territorial entities have received no bailouts or guarantees of their debt in accordance with Law 617/00.” This may help the government avoid pressures to circumvent its new law that imposes greater fiscal discipline on sub-national governments. It also serves as a signal to sub-national governments of the government’s commitment, and this may help affect their behavior.
- As a tranche release condition, “Agreed budget transfers for the Social Sectors Expenditures Program (SSEP) have been made in the second half of 2000; the government has budgeted for the SSEP in 2001 the highest of: (i) 15% of its central government (CG) budget or (ii) the amount specified in the SSEP; and the Government has budgeted at least 20% of its CG budget for total social sector expenditures.” This helps lock in a government commitment to protect social sector expenditures during a fiscal crisis.
- As a condition of second-tranche release in an agricultural sector loan, “The 2002 budget does not provide for credit or fertilizer subsidies and does not increase existing direct or indirect agricultural subsidies, in real terms, as compared to subsidies in effect on January 1, 2001.” This commitment may help agricultural producers anticipate and adjust to future policy and thereby may help the government avoid political pressures for its reversal.

(f) ***Include outcomes in the Program Matrix.*** Some development policy operations mistakenly focus almost exclusively on the actions without giving much attention to their intended outcomes. A results orientation requires the definition and monitoring of desired *outcomes* to determine whether the actions are having the expected effects (see Box 1.7). This permits learning during the process of implementation and, if necessary, making mid-course corrections in the reforms. However, many outcomes take some time to be realized, and there are often lags between their realization and the capacity to monitor or measure them. Therefore, particular attention should be given to finding both short-term outcomes that can be used as milestones to monitor effects during program implementation as well as outcomes that can be expected at the end of the implementation of the program.

- *Do* include at least one end-of-program outcome for each component of the program.
- *Don't* try to identify a separate end-of-program outcome for each action. Usually a set of actions may be needed to achieve each outcome.
- *Do* include as milestones short-term outcomes that are reasonably good proxies for longer-term outcomes that cannot be achieved quickly or monitored frequently.

- *Don't* include outcomes that are beyond the time frame of the program. The Program Document should indicate how outcomes beyond the time frame of program will be monitored, including through the CAS.
- *Do* try to identify outcomes that reflect the intended effects of a diverse set of actions that are rather “process-oriented”.
- *Do* check that the operation’s outcomes are consistent with and drawn from those in the CAS (this will become increasingly relevant as the Bank mainstreams results-based CASs).
- *Don't* use outcomes as conditions or triggers unless their realization depends largely on factors within the government’s control.
- *Don't* include outcomes that are not directly influenced by actions that are part of the program.

**Box 1.7. Examples of Appropriate Uses of Outcomes as Conditions, Triggers, or Milestones**

- |  |
|--|
| <ul style="list-style-type: none"> <li>• As a trigger for the next loan in a series, “Net public sector debt to decline to 46.5% of GDP by the year 2001.” This outcome is largely in the government’s control and can therefore be used as a trigger.</li> <li>• “Achieve on average, for a period of three consecutive months, the following milestones for port clearance of containerized merchandise in the main port: seven working days for imports and two working days for exports.”</li> <li>• Related to the objective of matching staffing profiles and numbers to new functional requirements of the civil service and containing the cost of government, the program sets a milestone that “30,000 government officials elect early retirement.” This provides a basis for evaluating progress in the implementation of the prior year’s approval of government-wide guidelines for rightsizing programs.</li> </ul> |
|--|

(g) ***Build on national strategies.*** To ensure transparent country ownership of the program, the Program Matrix should draw from the actions and targets in a national strategy document (see Box 1.8). However, such strategy documents seldom include all of the relevant actions and outcomes appropriate for a particular reform program, and often they are insufficiently specific for a program supported by a development policy operation. Hence, the Program Matrix actions are typically more elaborate than those in the national strategy document.

- *Do* use the same words and quantitative targets as in national documents, whenever they are sufficiently clear and still endorsed by the government.
- *Do* cross-reference the relevant material with the national document to demonstrate ownership.
- *Don't* feel compelled to use the typical Bank terminology if it deviates from the language in the national document.

**Box 1.8. Building Conditions and Triggers on Measures in National Strategy Documents****Good examples**

- National strategy document states that education's share in total government expenditures will increase from 20 percent in 2000 to 25 percent by 2010 without specifying annual targets. A trigger for the third credit in a programmatic series is that education's share will reach 22 percent by 2004.
- A national strategy for better governance includes a general commitment to improve public procurement based on a recently approved procurement law. The subsequent development policy operation, reflecting further discussions within the government about detailed steps, includes a condition that the cabinet approves a new procurement procedure manual by end of 2003, and a milestone that the auditing office reviews 30 percent of all procurement (by value) in 2005 to check compliance with the new law and procedures.

**Bad example**

- The national strategy document includes a general commitment to improve the efficiency of urban water companies. The development policy operation includes a condition to privatize the urban water companies even though there is no evidence of country ownership of this means to pursue the goal of improved efficiency.

(h) **Show the linkages among actions, milestones, and outcomes.** A well-designed Program Matrix should capture the entire logical chain of cause and effect, to the extent possible, within the timeframe of the program (see Box 1.9).

- *Do* try to include at least one milestone for each action that is used as a condition or trigger.
- *Don't* include milestones and outcomes that are unrelated to actions within the program.

**Box 1.9. Linked Actions, Milestones, and Outcomes**

From a programmatic loan covering pension system reform:

- Condition for first loan: "Parliament has adopted legislation to create the second tier of the pension system."
- Trigger for second loan: "Implementation of the second-tier has been satisfactorily initiated."
- Milestone at end of second loan: "All three tiers of the pension system are in place."
- Outcome at the end of the program: "Pension system deficit is reduced, savings increased, and equality of treatment within age cohorts has improved."

(i) **Ensure monitorability.** A key attribute of good conditions, triggers, and milestones is that their status can be monitored at reasonable cost. In every case, consideration must be given to *how* the status of each condition, trigger, and milestone can be monitored and *who* is responsible for such monitoring. The difficulty of monitoring may limit choices for conditions, triggers, and even milestones. Monitoring usually requires choosing a measurable *indicator* that is a proxy for the status of the action or outcome itself. Many of the changes in institutional behavior within the government and responses by nongovernmental actors are difficult to observe, and many outcomes are difficult to quantify and hard to monitor. For that reason, it is often necessary to choose indicators that provide only partial and approximate measures of the desired action or outcome (see Box 1.10).

- *Do* make note of the means for monitoring of each condition, trigger, and milestone in the program matrix or in a separate table.

- *Do* specify which government agencies are responsible for monitoring each major element of the program.
- *Do* include in the program measures to strengthen the government's capacity to monitor its implementation, evaluate its outcomes, and feed those evaluation results into the decisionmaking processes for improving the program.
- *Do* identify quantitative indicators whenever possible.
- *Don't* use indicators that might distort incentives and induce institutions to focus on the wrong outcomes.
- *Don't* define conditions, triggers, or milestones that are too vague or too expensive to monitor.

**Box 1.10. Examples of Conditions, Triggers, and Milestones that are Too Vague to Monitor**

- As milestones for the final credit in a series, "Reduction in the role of the state in the economy" and "improved competition."
- As a trigger, "Cases of judicial corruption are resolved in a satisfactory and impartial way."
- As a milestone for the second loan in a series related to decentralization, "Three levels of government complying with the newly defined roles and responsibilities."

(j) ***Allow adequate time for the completion of the various steps in the reform program.*** The set of conditions, triggers, and milestones should reflect realistic judgments about the time likely to be required to complete actions and for those actions to bring about their intended outcomes, especially when changes in the behaviors of large institutions are involved. Excessive initial optimism might lead to unwarranted judgments that the program is failing.

- *Do* allow enough time for parliaments to consider and act upon proposed legislation.
- *Don't* underestimate how long it takes most bureaucracies to change internal procedures.

(k) ***When appropriate, allow for the gradual implementation of a reform program in different parts of the country.*** Initial implementation of a reform program in only a select set of provinces or cities, or among a select set of government institutions, can focus the program on areas or institutions that have the strongest ownership and institutional capacity for implementation, demonstrating its benefits while capacity and support are being built elsewhere.

- *Do* consider "piloting" the program in selected areas and institutions so that, with good monitoring and evaluation, improvements in program design can be made before its wider application.

- *Don't underestimate the differences in institutional capacities or political support among different parts of the country.*
- (1) ***Remember that year 1 is not really year 1.*** Policy and institutional reforms are long-term processes, and many development policy operations build upon earlier phases of a government's overall reform efforts. The Program Matrix might include follow-up actions to policy changes that were made before the operation itself and that sustain implementation of previous reforms. In identifying possible conditions, triggers and milestones, it might also be useful to look at the recommendations from previous analytic work.

## VI. MANAGING RISK

23. Every development policy operation should identify risks, present a strategy for mitigating those risks to the extent possible, and explain why the remaining risks are worth taking in terms of developmental benefits. Every Program Document should include a Risk Management Matrix. Annex 1.A provides a template with a checklist of risk factors. Broadly speaking, two categories of risk should be considered:

- ***Development impact risk.*** The operation fails to achieve the expected development impacts (for example, because of suboptimal implementation, lack of sustained country ownership, or weak institutional capacity), or it will have unanticipated adverse impacts on vulnerable groups or on the environment. These risks concern both the country and the Bank.
- ***Financial and reputational risk for the Bank.*** The operation damages the Bank's long-term ability to mobilize support and resources for its mission. Included in this is the risk that the country will lack sufficient capacity to service its Bank debt and that the program will damage the Bank's reputation among its member governments and other stakeholders. These risks are primarily of concern to the Bank, although borrowers also share an interest in the Bank's continuing financial strength and reputation.

24. ***Principles of Risk Management.*** Risk management is a process of deliberate, well-informed, risk-taking—not risk avoidance. Taking calculated risks in lending operations is essential to the World Bank's development effectiveness, and risk management should be an integral part of operational design. A few elements of risk management—in particular, country credit risk—involve unilateral Bank decisions, but most aspects of risk management require joint analyses and decisions by the Bank and the government. Similarly, most elements of a risk management strategy—in particular, mitigation measures—cannot be successfully implemented without country ownership. Following are some good practices for identifying and mitigating the risks associated with a development policy operation:

- (a) ***Early and continuing identification is essential.*** Perform an initial risk assessment at the beginning of the preparation process, and refine it as new information becomes available. The initial assessment should focus on identifying all risks in all categories, leaving mitigation strategies for later. The initial risk assessment should be reported fully in the

operation's Initiating Memorandum or Concept Note, and refinements should be included in the draft Program Document.

- *Do* assess risks broadly. Consider what might go wrong in terms of the strategic effectiveness of the operation and its operational efficiency and how that might affect the Bank's stakeholder support and financial soundness.
- *Do* include government counterparts. Secure country ownership of the risks by including representatives in the initial risk assessment and all subsequent phases of risk management.
- *Do* use existing documents that address risk management issues. Draw on risk assessments in the CAS and in Bank analytic work (poverty and social impact analyses, environmental assessments, the Country Financial Accountability Assessment, and the communication needs assessment) to help identify country-specific risks that might affect the operation.<sup>5</sup> The CAS normally includes an analysis of many types of risks, especially those related to macroeconomic and political stability and implementation capacity. This assessment may need to be updated to reflect developments that are more recent as well as the impacts of the specific operation.
- *Do* perform continuous risk assessments. Use the initial risk assessment to identify and initiate more detailed analyses of the most important risks.
- *Do* identify separately the likelihood and the magnitude of impacts of possible risks. Focus attention on those events with the highest expected adverse impacts.
- *Do* note resource implications. Specify staff resources or expertise required to mitigate risks and seek appropriate budget.

(b) ***Incorporate risk control and mitigation into the design of the reform program.*** Details of program design affect the likelihood and magnitude of risks.

- *Do* use measures designed to control or mitigate risks as conditions, triggers, and milestones for the operation.
- *Do* ensure government ownership of risk management strategies and measures so that they are implemented. When a risk mitigation measure is necessary to meet Bank expectations as stated in OP 8.60, remind the government that this helps to sustain stakeholder support for the Bank and is therefore in the interests of all Bank member countries.
- *Do* focus on risks to vulnerable groups, particularly through measures by which the government can reduce or compensate for any adverse impacts of the program

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<sup>5</sup> See Good Practice Note 2—Using Poverty and Social Impact Analysis in Development Policy Operations.

on such groups. These measures should have committed fiscal resources, be an integral part of the program, and be included in the Program Matrix.

- *Do* include a communications strategy if there is a significant risk that political support for program implementation might be jeopardized by public misunderstanding of its intent or impacts.

(c) ***Integrate strategic communication interventions to address risks that might arise from political, social, and cultural dynamics related to the operation.*** A systematic communication intervention will help mitigate possible risks that are linked to issues such as ownership, political support for the operation, consensus building, public awareness, effective participation of stakeholders (both government and nongovernment), etc.

- *Do* integrate a communication program that includes a communication strategy and comprehensive action plan with short, medium, and long-term goals.
- *Do* ensure that the communication objectives are linked to the overall program objectives and also to the risk factors.
- *Do* conduct a communication needs assessment in order to develop a realistic and appropriate strategy and action plan; stakeholder analysis to identify their position, influence, advantage and disadvantage, etc.; and communication research focusing on knowledge, opinion, perception, and attitude of the stakeholders as necessary.

(d) ***Consider risk management issues when choosing a structure for the operation.***

- *Do* consider the programmatic approach if the risk assessment suggests that the operation will need to respond to unfolding events during implementation. A programmatic approach is especially useful if implementation capacity is uncertain or if political support for certain elements of the program might shift.
- *Do* use a multitranche operation if the government wants to use the operation's conditionality to mitigate the risk that the public will underestimate government commitment to the medium-term reform program.
- *Do* use floating tranches within a multitranche operation if there are significant risks that would affect the timing of key policy measures.

(e) ***Define a contingency plans for important risks.*** Certain events—for example, a major change in the country's terms of trade and hence its fiscal resources—would require adjustments in the scope or pace of program implementation.

- *Do* develop with the government a general understanding of how the program might be adjusted if the fiscal position deteriorated significantly.
- *Don't* try to have contingency plans for everything.

- (f) ***Use existing Bank resources for improving risk management.*** The Bank has many institutional resources to improve risk management. Task teams can select peer reviewers experienced in risk management. The Bank's Credit Risk Department can help assess the macroeconomic framework and evaluate the country credit risk and Bank exposure. The optional Quality-at-Entry Reviews by the Quality Assurance Group bring risk assessment expertise to task teams. Regional operations can call on the Development Communication Division in External Affairs to advise and provide technical assistance in designing a comprehensive communication program, and supervise the implementation and management of the communication activities associated with the operation. A strategic communication intervention will address the potential political, social, and cultural risks.
- (g) ***Ensure that the amount of the loan or credit reflects the country's current country credit risk.*** Development policy operations are typically included in the most recent CAS, which sets the approximate size of the loan amount on the basis of considerations of country credit risk and Bank exposure. However, as the operation is developed, Bank staff should revisit the country credit risk and Bank exposure in light of the most recent macroeconomic performance and outlook and a current analysis of political risks. This is especially important for IBRD loans.
- (h) ***Ensure that the operation's monitoring and evaluation program will signal manifest risk and evaluate the effectiveness of mitigation measures.*** A good monitoring program will provide early warning that a potential risk is becoming more likely or has in fact occurred so that the government can mitigate it or pursue contingency plans. The program should evaluate the effectiveness of these measures so that improvements can be made. This feedback loop is essential because risk management is a dynamic process that should continue throughout implementation of the program.
- (i) ***Include a full explanation of the operation's risk assessment in the Program Document.*** Full disclosure of identified risks and mitigation strategies is necessary for Management and the Board to evaluate the Bank's risk-taking.
- *Do* differentiate between risks that can be reduced through mitigation measures that are part of the program and risks that cannot be mitigated.
  - *Do* include in the Program Document a full discussion of the assessment of the macroeconomic framework, including country credit risk, and any issues related to Bank exposure.
  - *Do* indicate whether the Bank should commit extraordinary staff resources during implementation to assist the government's risk management strategy.
  - *Do* ensure that the country has exercised its right under the revised disclosure policy to delete sensitive material before the Bank discloses a Program Document.
  - *Do* use informal channels to communicate particularly sensitive risks to senior Bank Management.

## VII. PROGRAM MATRIX AND PROGRAM DOCUMENT

25. The government and the Bank must agree on a Program Matrix that summarizes the conditions, triggers, milestones, and end-of-program outcomes associated with a development policy operation. Annex 1.B provides a good model of a Program Matrix *for programmatic lending*. Key features of the Program Matrix are:

- The matrix covers the full-time period of the operation. For a programmatic operation, it typically presents conditions, triggers, milestones, and outcomes over a three-year horizon. For a programmatic operation, triggers and milestones may be less specific in the second and third year, since greater specificity will be achieved as each annual loan/credit is prepared and negotiated. The first-year program is more likely to include analytic work that will provide the foundation for more specific program elements in subsequent years.
- The broad components of the program are described briefly in a row of the matrix, and all of the actions and outcomes that are logically linked are presented in that section of the matrix.
- The matrix includes conditions, triggers, milestones, and end-of-program outcomes. Conditions and triggers are indicated by bold type, as a note at the top of the matrix explains, and are also listed separately in the Program Document.
- The left-most column provides a succinct statement of the qualitative issue or problem addressed by each component of the reform program, and the right-most column indicates the desired outcome (quantified, if possible) expected at the end of the time period covered by the development policy operation (or by a series of programmatic operations).

26. The Bank's Program Document should be written as a complement to the Program Matrix, providing background material and a comprehensive explanation of the matrix. Other important components of the Program Document are:

- A discussion of the relationship between the CAS and the operation, explaining any changes in the operation's content or amount relative to that envisioned in the CAS.
- An update of the Bank's macroeconomic and credit risk assessment (unless the operation is presented to the Board together with a CAS).
- In the case of a programmatic operation, a table that compares the triggers as originally formulated in the preceding loan with the conditions—that is, prior actions—specified for the current loan.
- A discussion of arrangements for monitoring and evaluation of the reform program supported by the operation.

### VIII. RELATED READINGS

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## RISK ASSESSMENT TEMPLATE FOR LENDING OPERATIONS

<i>Risk Factors</i>	<i>Description</i>	<i>Mitigation measures</i>	<i>Rating<sup>a</sup> prior to mitigation</i>	<i>Rating<sup>a</sup> of residual risks</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>
<b>Country and sector factors</b>				
	Macroeconomic policy framework			
	Sector policies and institutions			
	Political stability and governance			
	Borrower and other official ownership			
	Beneficiary and civil society ownership			
	Institutional capacity (project agency and country)			
<b>External factors</b>				
	Economic (market) developments			
	International NGO concerns			
<b>Social and environmental factors</b>				
	Compliance with Bank safeguard policies where applicable			
	Country social/environmental protection systems			
<b>Fiduciary factors</b>				
	Compliance with Bank fiduciary guidelines			
	Country public financial accountability systems			
<b>Communication Factors</b>				
	Nature and extent of stakeholder participation (ownership, consensus, support)			
	Availability of and access to information (channels, disclosure policy)			
<b>Internal and other factors</b>				
	Staff skills (incl. stability in assignment)			
	Supervision resources			
	Other factors			
<b>Overall risk</b>				

<sup>a</sup> Rating on four-point scale according to probability of occurrence and magnitude of adverse impact.



ANNEX 1.B

**Sample Program Matrix: Conditions, Triggers, Milestones, and Outcomes for a Programmatic Development Loan or Credit**  
(Conditions for Loan 1 and triggers for Loans 2 and 3 are indicated in boldface type.)

<i>Issue</i>	<i>Operation 1</i>	<i>Operation 2</i>	<i>Operation 3</i>	<i>End-of-program outcomes</i>
<b>Component I. Macroeconomic Policy Framework</b>				
	<b>The Government has maintained an adequate macroeconomic policy framework</b>	<b>The Government maintains an adequate macroeconomic policy framework</b>	<b>The Government maintains an adequate macroeconomic policy framework</b>	
<b>Component II. Improving Fiscal Management</b>				
Allocations and actual spending for directly poverty-reducing expenditures are not yet consistent with priorities of the National Strategy for Growth and Poverty Reduction.	<b>In the annual public expenditure review, Government has completed MTEF for 2001-2003 with increased allocations to directly poverty-reducing expenditures as defined in national strategy and has executed 2001 budget through first two quarters consistent with the agreed allocations.</b>	<b>In the annual public expenditure review, Government completes MTEF for 2002-2004 with increased allocations to directly poverty-reducing expenditures as defined in national strategy and has executed 2002 budget through first two quarters consistent with the agreed allocations.</b>	<b>In the annual public expenditure review, Government completes MTEF for 2003-2005 with increased allocations to directly poverty-reducing expenditures as defined in national strategy and has executed 2003 budget through first two quarters consistent with the agreed allocations.</b>	Directly poverty-reducing expenditures as a share of actual expenditures increase from 24 percent in 1999 to about 36 percent in 2003.
Donor-funded projects are not included in the Public Investment Plan, limiting the utility of MTEF as a fiscal management tool.	<b>Ministry of Finance has integrated donor projects for education, health, and water in 2002-2003 MTEF.</b>	<b>Ministry of Finance integrates donor projects for at least two additional sectors in 2003-2005 MTEF.</b>	<b>Ministry of Finance integrates donor projects for the remaining sectors in 2004-2006 MTEF.</b>	Streamlined and simplified M&E arrangements as assessed by Ministry of Finance.
Lack of attention to and coordination in monitoring and evaluation (M&E).	Cabinet has approved the national M&E strategy.	Ministry of Finance <i>agrees on</i> common M&E arrangements across Government and donors.	Ministry of Finance <i>implements</i> common M&E arrangements across Government and donors.	
<b>Component III. Improving Governance</b>				
Pay systems and practices are inconsistent with sustainable capacity building and performance. Pay for professional and managerial staff is not competitive.	<b>Cabinet has approved and published the pay strategy consistent with MTEF and improved public service performance.</b>	<b>Ministry of Public Service effects salary adjustments consistent with the pay strategy and linked to performance.</b>	Ministry of Public Service contracts for independent survey of impacts of new salary structure on recruitment.	Government better able to recruit, motivate, and retain skilled staff as evidenced by independent survey of new staff and their qualifications.
Weak legal framework for and poor enforcement of procurement rules and regulations.	<b>Ministry of Finance has tabled new Procurement Bill in Parliament.</b>	<b>Parliament approves new Procurement Law.</b>	Auditor General carries out and publishes independent procurement audits covering at least 30% of the value of central government procurement during previous 12 months.	Increased transparency and reduced corruption in procurement as evidenced by independent audits.

	Ministry of Public Service has issued instructions to all ministries to establish procurement units with defined capacities.	Procurement units are created in all ministries. All staff receive training about the new law.	Share of misprocurement based on audits falls below 20% of value.	
Corrupt acts not exposed and sanctioned effectively.	Inspector General has proposed to Parliament a stronger follow-up mechanism for its reports.	Parliament approves and the Government begins implementing the stronger follow-up mechanism.	Share of open cases at year-end declines to 40% (from 60% in 2000). Inspector General reviews implementation and proposes changes, if necessary.	More effective follow-up of corruption cases as evidenced in part by declining share of open cases at year-end.
<b>Component IV. Increasing Agricultural Productivity and Sustainability</b>				
Access to and effectiveness of agricultural advisory services limited. Survey indicates that only 10% of farmers nationwide are satisfied with services.	Ministry of Agriculture (MoA) has contracted agricultural service providers in at least 10 districts.	MoA contracts agricultural service providers in at least 20 additional districts.	MoA contracts agricultural service providers in at least 40 additional districts.  Inspector General has conducted survey of farmer satisfaction with services, and MOA has conducted survey of agricultural productivity in these districts.	Improved quality of and access to agricultural advisory services, and higher agricultural productivity. At least 65% of farmers in the districts covered by new contracts report satisfactory services.
Agro-processing and marketing constraints inhibit domestic sales and exports of agricultural products.	Based on last year's study of constraints to agricultural exports, Ministry of Agriculture and Agency for Export Promotion have agreed on agro-processing and marketing strategies for strategic exports, which was endorsed in the National Strategy for Growth and Poverty Reduction.	Government implements strategy, including <b>eliminating the export tax on processed vegetables and fruits.</b>	Government continues implementing the strategy.	Agricultural exports increasing.
Implementation of the 1998 Land Act to address land tenure insecurity is being poorly implemented because of inadequate institutional capacity and defects in legislation.	<b>Cabinet has agreed on financial and institutional arrangements for strengthening the Land Administration Agency (LAA).</b>	National budget and MTEF include approved financing for LAA.	LAA grants new titles at a rate of 4000 annually. Ministry of Agriculture completes evaluation of previous year's performance by LAA in granting titles and adjudicating conflicts.	Increased agricultural productivity.
	Cabinet has submitted amendments to the Land Act to Parliament.	Parliament approves amendments to Land Act.		
Although expanding activities of the National Environment Management Agency (NEMA) is included in the National Strategy, NEMA budget is not within MTEF. Its budget allocations have been variable, impairing agency effectiveness and staff recruitment.	Ministry of Finance includes increasing funding for NEMA within MTEF 2001-2003.	<b>NEMA budget for 2002 increased by 25% over 2000.</b>	NEMA budget for 2004 maintained at least at previous year's level. NEMA extension agents provide training in at least 25 districts.	

