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Note: This BP and OP 8.60, *Development Policy Financing*, were updated on July, 2014, to reflect the recommendations in the document entitled *Enhancing the World Bank's Operational Policy Framework on Guarantees* (R2013-0206 [IDA/R2013-0298]), approved by the Executive Directors on December 3, 2013. As a result of these recommendations, OP and BP 14.25, *Guarantees*, have been retired and their content reflected in this OP and BP, OP and BP 10.00 as well as in the Bank Policy and Directive, *Financial Terms and Conditions*, and Bank Policy, *Lending Operations: Choice of Borrower and Contractual Agreement*.

Development Policy operations are governed by this OP/BP, and the following OPs and BPs (including any relevant Operational Memoranda and Instructions [internal use only]), as applicable: [OP 1.00](#), *Poverty Reduction*; [BP 2.11](#), *Country Assistance Strategies*; [OP/BP 2.30](#), *Development Cooperation and Conflict*; [OP/BP 3.10](#), *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits*; [OP 4.07](#), *Water Resource Management*; [OP/BP 4.20](#), *Gender and Development*; [OP 4.76](#), *Tobacco*; [OP 7.00](#), *Lending Operations: Choice of Borrower and Contractual Arrangements*; [OP 7.20](#), *Security Arrangements*; [OP/BP 7.30](#), *Dealing with De Facto Governments*; [OP/BP 7.40](#), *Disputes Over Defaults on External Debt, Expropriation, and Breach of Contract*; [OP/BP 7.60](#), *Projects in Disputed Areas*; [OP/BP 8.45](#), *Grants*; [OP/BP 10.20](#), *Global Environmental Facility Operations*; [OP/BP 11.00](#), *Procurement*; [OP/BP 13.16](#), *Country Portfolio Performance Reviews*; [OP/BP 14.10](#), *External Debt Reporting and Financial Statements*; [OP/BP 14.20](#), *Cofinancing*; [OP/BP 14.40](#), *Trust Funds*; [BP 17.30](#), *Communications with Executive Directors*; and [BP 17.55](#), *Inspection Panel*.

Questions on development policy financing may be addressed to the [OPCS Help Desk](#).

Development Policy Financing

Identification through Appraisal

1. *Identification*. At an early stage of preparation of a development policy operation, the Bank¹ consults with the IMF, IFC and MIGA. As appropriate, to establish a coordinated approach to the development policy program, the Bank in coordination with the Member Country solicits the views of the concerned regional development bank and other external donors on policy objectives.

2. *Concept Documentation*. After the program concept is defined the Bank prepares a concept Program Document (“PD”)² explaining the rationale for the proposed development policy operation, linking it with the Country Partnership Framework, and describing its objectives, expected results, and provisions. For a Bank Guarantee, it also includes an indicative term sheet. The Bank also prepares an initial program information document (“PID”) summarizing the main elements of the evolving operation.

Concept Decision. The concept Program Document and PID are reviewed and discussed at a Bank-wide concept decision meeting. The Bank decides at the concept decision meeting: (a) whether to proceed with the preparation of development policy operation; and (b) on the future preparatory work required. For a DPF in the form of a Bank Guarantee, the Bank also decides on the key features of the guarantee structure, and whether to proceed to initiate negotiations

1. The terms used in this BP have the meanings set forth in OP 8.60. If the DPF is to, or guarantees the debt of, a Political Subdivision, the requirements applicable to the Member Country also apply to its Political Subdivision, as relevant.

2. A template for development policy operations Program Documents is available in the [OPCS website](#).

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with the Member Country and potential lenders to further develop such key features.³ For proposed special DPF,⁴ the Region consults informally with the Board at an early stage of preparation, and thereafter as necessary.

3. *Program Document.* As policy discussions evolve, the Bank continues the preparation of the Program Document (“PD”), which includes the policy and results matrix.⁵ The PD clearly sets out the objectives of the proposed operation in terms of the specific results expected from the program being supported. The results have measurable indicators (with quantitative baselines and targets, whenever possible) for evaluating results on completion. In addition, the PD covers the considerations, design provisions, and fiduciary arrangements⁶ discussed in OP 8.60. Finally, it includes the proposed terms of the DPF.

4. *Decision.* Decision meetings for DPFs are at the corporate level.⁷ The decision meeting assesses the adequacy of the proposed program of prior actions to achieve its stated results and objectives and other considerations. On conclusion of the meeting, the Bank decides: (a) whether to authorize appraisal and negotiations of a DPF in the form of a Loan; or (b) whether to authorize appraisal and continuation of negotiations of a DPF in the form of a Bank Guarantee. It also specifies further actions required.

5. *Appraisal.* During appraisal, the Bank reviews the status of the prior actions and documentation supporting their execution. After appraisal, the Bank updates program documentation, including the draft legal agreements for a Bank Loan.

Negotiations through Effectiveness

6. *Negotiations of Bank Loans.* Management authorizes negotiations of a Bank Loan based on the relevant documentation. The Bank and the Member Country then conduct the negotiations and seek to finalize agreement on the relevant issues and documentation. If new substantive issues or significant changes in the design of the Bank Loan are raised during the negotiations, based on a consideration of these issues, Management decides whether to proceed.

3. Negotiations of a Bank Guarantee are normally an ongoing process, rather than a discrete step, and may be concluded following approval by the Executive Directors.

4. See [OP 8.60](#), *Development Policy Financing*, paras 24-26.

5. A template of the policies and results matrix can be found as part of the PD template in the OPCS website.

⁶ This includes a clear statement in the PD ascertaining that the General Government Budget is made available to the public in printed form or on an external website; or, in exceptional cases, that the authorities commit to publish the budget within 12 months.

7. Corporate level is carried out at the Regional Operations Committee or Operations Committee. See DPF Instructions.



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7. *Submission to Executive Directors.* After negotiations, the Bank finalizes the PD. If any information raises issues of confidentiality or sensitivity, or may adversely affect relations between the Bank and the Member Country, and is deemed relevant to the Executive Directors in their decision-making process, such information is not included in the PD, and is described in the Memorandum of the President (MOP) instead. The LDP and the Fund Relations Note are normally attached as annexes to the PD. When there are: (a) payments under any IBRD loan or IDA credit to or guaranteed by the Member Country that are overdue by 30 days; or (b) payments due by the Member Country under any Member Country Indemnity that are overdue by 30 days; the PD is not submitted to the Executive Directors unless exception is granted by Management.
8. *Bank Loan Approval.* For Bank Loans requiring approval by the Executive Directors, after all requirements for Board approval have been met, the Executive Directors decide whether to approve the proposed DPF.
9. *Bank Guarantee Approval.* Management may seek approval by the Executive Directors of a Bank Guarantee before negotiations have been completed. The PD will include the structure of the Bank Guarantee, the proposed risk coverage, and indicative terms and conditions of the Bank Guarantee. The terms and conditions of the underlying guaranteed financing and the Bank Guarantee may be finalized after approval. If the completion of negotiations results in substantial changes to the Bank Guarantee previously approved by the Executive Directors, Management resubmits the proposal to them for approval of the changes.
10. *Management approval.* Management decides whether to approve any DPF that does not require approval by the Executive Directors.
11. *Signing.* After approval of the DPF, the Bank arranges for signing of the relevant legal documents as soon as the relevant signing requirements are met. The legal agreements for a Bank Guarantee are signed after approval of the Bank Guarantee and completion of negotiations. If the legal documents for a Bank Loan are not signed within 6 months following approval, the Bank normally withdraws the offer of the DPF. If the legal documents for a Bank Guarantee are not signed within 12 months following approval, the Bank normally withdraws the offer of the Bank Guarantee. Exceptionally, Management may decide to grant additional time for signing to take place.
12. *Effectiveness.* The legal agreements for a Bank Loan terminate if the conditions for their effectiveness, if any, are not met by the date specified in the agreements. When warranted, Management may decide to extend the effectiveness deadline; the deadline is not extended beyond 12 months after Bank Loan approval. When the effectiveness deadline is extended, dated covenants, if any, whose dates fall before the new effectiveness deadline become additional conditions of effectiveness. Any decision by Management to declare the legal agreements effective or to extend the effectiveness deadline is taken before the expiration of the effectiveness deadline. Exceptionally, if the legal agreements have terminated for failure to



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become effective by the effectiveness deadline, Management may decide to reinstate such agreements with the Member Country's agreement. Legal agreements for Bank Guarantees become effective in accordance with their terms.

13. *Informing the Executive Directors.* For operations approved by the Executive Directors, Management informs the Executive Directors, as part of regular operational reporting, of the following: (a) withdrawals of the DPF offer; (b) legal agreements that terminate for failure to become effective; and (c) terminated legal agreements that have been reinstated.

14. *Extensions Following Changes in Conditions Prior to Signing or Effectiveness.* If an extension of the deadline for signing or effectiveness involves a substantial departure from the conditions under which the DPF was originally approved, the legal agreements are not signed or declared effective until Bank approval of the new conditions is obtained.

Deferred Drawdown Option

15. *Deferral Period.* Throughout the deferral period of a Bank Loan with DDO or Cat DDO option, the Bank maintains a close policy dialogue with the Member Country. As part of regular supervision and at least every 12 months, the Bank reviews the Member Country's continuing adherence to the overall program laid out in the LDP and, for a DDO, the adequacy of the Member Country's macroeconomic policy framework. If at any time during the deferral period, the Bank concludes that the Member Country no longer complies with the LDP program (or, for the DDO, no longer has an adequate macroeconomic policy framework), the Bank promptly notifies the Member Country, including the reasons for its determination; advises that if the Member Country requests a drawdown it will be subject to a full review of program implementation (and, for the DDO, of the macroeconomic policy framework); works with the Member Country to help it meet the relevant conditions; and notifies the Member Country when those conditions are again met.

16. *Drawdown and Renewal.* On the Member Country's request to draw on the Bank Loan, the Bank responds rapidly with the disbursement (for the Cat DDO, after confirming that the natural disaster condition has been met). However, if the Bank has previously advised the Member Country that it does not meet relevant conditions for the drawdown (set out in OP 8.60, para. 22) and the Member Country has not yet returned to compliance with those conditions, the Bank conducts a full review of the overall program implementation (and, for the DDO, of the macroeconomic policy framework) as early as possible on receipt of the Member Country's drawdown request. Once the Bank confirms that the Member Country has met the relevant drawdown conditions, the Bank proceeds with disbursement. DDOs and Cat DDOs can be renewed with approval of the RVP provided that the overall program continues to be implemented in a manner satisfactory to the Bank and macroeconomic policies are adequate.

Disbursement, Supervision, Monitoring, and Evaluation



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17. *Bank Loan Disbursement; Tranches.* After the legal agreements have been declared effective, the Bank disburses the proceeds of the Bank Loan in accordance with the terms and conditions of the legal agreement, including tranche release conditions. These conditions include Bank satisfaction with: (a) the program being carried out by the Member Country; and (b) the adequacy of the Member Country's macroeconomic policy framework. Each subsequent tranche of a multiple tranche operation is normally also conditioned on compliance with key actions included in the reform program supported by the Bank Loan.
18. *Tranche Release Document.* During the preparation of a Tranche Release Document ("TRD"), the Bank consults with the Member Country to identify any sections of the TRD that are confidential or sensitive, or that could adversely affect relations between the Member Country and the Bank if disclosed. As appropriate, the Bank makes adjustments to the TRD to deal with any matters raised by the Member Country.
19. *Tranche Release.* When the Member Country has, in all material respects, satisfactorily met the conditions for tranche release specified in the legal agreement, Management approves the tranche release and, for a Bank Loan approved by the Executive Directors, informs the Executive Directors accordingly. The MOP that accompanies the TRD may incorporate any information raising issues of confidentiality, sensitivity, or adverse relations between the Member Country and the Bank that Management wishes to convey to Executive Directors.
20. *Waivers of Tranche Release.* A waiver of the tranche release conditions for a Bank Loan approved by the Executive Directors, requires approval by the Executive Directors.
21. *Refunds of Excluded Expenditures.* If the Bank at any time determines that any amount withdrawn under the Bank Loan has been used for expenditures excluded under the legal agreement, the Bank requires the Member Country to refund the amount to the Bank. The amount so refunded is credited to the loan account and cancelled.
22. *Supervision, Monitoring & Evaluation.* Supervision of a development policy operation covers monitoring, evaluative review, reporting, and technical assistance activities as needed to:
- (a) ascertain whether the Member Country is carrying out the program with due diligence to achieve its development objectives in conformity with the legal agreements;
 - (b) identify problems promptly as they arise during implementation and recommend to the Member Country ways to resolve them;
 - (c) recommend changes in program concept or design in programmatic series, as appropriate, and as the program evolves or circumstances change;
 - (d) identify the key risks to program sustainability and recommend appropriate risk management strategies and actions to the Member Country; and



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- (e) prepare the Bank's implementation completion and results report ("ICR"), and draw lessons to improve the design of future operations, sector and country strategies, and policies.

23. In supervising a development policy operation, the Bank monitors the Member Country's overall economic performance and the timely adoption and effective implementation of the program conditions. For multiple-tranche operations, the Bank assesses the Member Country's progress toward meeting the conditions for release of the next tranche. For programmatic operations, the Bank assesses the Member Country's progress in implementing the expected actions for the subsequent operation in the series. The Bank also validates the Member Country's monitoring and evaluation findings on the progress and results of program implementation. The task team consults and coordinates with the IMF and any co-financiers in carrying out its supervision work.

24. *Changes to Programmatic Series.* For a programmatic series of development policy operations, if priorities or circumstances surrounding the program change during program implementation, it may be desirable to introduce corresponding changes in program objectives and/or design, to be reflected in subsequent operations in the series. On receipt of a written request from the Member Country for the change, the Bank determines whether the change is significant or minor. Significant changes—for example, revisions to the number of operations in a series or in the number or substantive content of triggers for subsequent operations—are vetted at the corporate level.

25. *Monitoring Bank Guarantees after the Guarantee Closing Date.* In the case of a DPF in the form of a Bank Guarantee, following the Guarantee Closing Date (which is commonly 12 months after the effectiveness date) and the preparation of the ICR, monitoring continues at the corporate level until the Bank Guarantee Expiration Date, focusing on the specific risks covered under the Bank Guarantee.

Supplemental Financing

26. Before considering supplemental DPF, the Bank explores with the Member Country other solutions, including identifying alternative sources of funds. Staff develop a concise Program Document, known as the Supplemental Financing Document ("SFD"), that explains why supplemental financing is needed and what measures have already been taken to deal with the situation. The SFD sketches the recent developments relevant to the program and shows that the criteria for the supplemental DPF have been met. It also describes any changes required in the loan documents. Supplemental financing is provided as a separate Bank Loan or Bank Guarantee and constitutes a new commitment. If the DPF was originally approved by the Executive Directors, the supplemental DPF is approved by the Executive Directors.

Cancellation; Closing Date; Recourse and Remedies



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27. *Suspension, Cancellation and Termination of a DPF.* Suspension, cancellation and/or termination of a DPF are effected in accordance with the relevant provisions of the legal agreements, and, in the case of Bank Loans, in accordance with the following provisions:
28. *Loan Cancellation.* The Member Country or the Bank may decide to cancel an unwithdrawn amount of the Bank Loan in accordance with the provisions of the legal agreements. When the Member Country decides to cancel an amount of the Bank Loan and gives notice to the Bank, the cancellation is effective as of the date of receipt of the notice. The Bank does not accept requests for retroactive cancellations.
29. If the Bank cancels an amount of the Bank Loan, the cancellation is effective as of the date of the notice, except in the case of cancellation of the remaining unwithdrawn balance of the Bank Loan after the Closing Date, in which case the cancellation is effective on the latest of: (a) the Loan Closing Date; (b) the final date for receipt of withdrawal applications by the Bank; or (c) the final date the loan account was charged for a disbursement or credited for a refund.
30. *Loan Closing Date.* During implementation of the operation, the Bank monitors the approach of the Loan Closing Date, which is commonly 12 months after the effectiveness date, and works with the Member Country to ensure that closing procedures as set out below are followed. Upon a request from the Member Country, the Bank may decide to extend the Loan Closing Date if the Bank Loan has an undisbursed amount and the program remains on track as approved.
31. *Closing the Bank Loan Account.* The Bank closes the loan account within two months after the deadline set by the Bank for receipt of withdrawal applications or, if no such additional period is granted, within two months after the Loan Closing Date. Any undisbursed balance of the Bank Loan is cancelled. The Bank notifies the Member Country of the final disbursement status of the Bank Loan account and the cancellation of any undisbursed balance.
32. *Suspended Bank Loan Disbursements.* If a suspension of disbursements is in effect on the Loan Closing Date, any unwithdrawn Bank Loan balance is normally canceled and the Bank Loan account is closed. Exceptionally, Management may decide to authorize a delay in canceling the balance and closing the Bank Loan account if suspension is likely to be lifted imminently and program and/or country circumstances warrant such a delay. Once the Bank decides to lift the suspension, Management may decide to approve an extension of the Loan Closing Date.

Evaluation

33. The Bank prepares an ICR on completion of an operation, due 12 months after the Closing Date.⁸ The ICR assesses: (a) the degree to which the program achieved its development

⁸ "Closing Date" refers, collectively, or as the context requires, singularly, to a Loan Closing Date and/or a Bank Guarantee Closing Date.

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objectives and results as set out in the Program Document; (b) other significant outcomes and impacts; (c) prospects for the program's sustainability; and (d) Bank and Member Country performance, including compliance with relevant Bank policies. It draws on the data and analysis to substantiate these assessments, and it identifies the lessons learned from implementation. For a programmatic DPF, a single ICR for the series is prepared on completion of the program, due 12 months after the Closing Date of the last operation in the series or the lapse of the series.⁹ Management may decide to authorize an extension of time for the completion of the ICR and its submission to Executive Directors.

⁹ A programmatic series is considered to have lapsed 24 months after the Executive Directors approval of the previous operations in the series.

These procedures were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.