

Consultations on Conditionality in World Bank Development Policy Lending and the Implementation of the 2005 Good Practice Principles

June 2007

In 2005 the World Bank undertook a review of conditionality in its policy-based lending. The process included a set of wide-ranging consultations during the first half of 2005 with borrowers, donors, and other stakeholders. The resulting conditionality review paper proposed a set of good practice principles for the application of conditionality, which were adopted by the Development Committee in September 2005. A first progress report on the application of these good practice principles was discussed by the Board of Executive Directors in December 2006. During this discussion, several Board members requested that another progress report be prepared within 12 months and include substantive engagement with borrowing countries.

Objective of consultations. The main objective of the consultations is to obtain substantive feedback on the recent application of World Bank conditionality in about 15 IDA countries from governments, parliaments, civil society, private sector, academia, donors, and other stakeholders. The 2005 conditionality review paper and the 2006 progress report will serve as main background papers for the discussion. In addition, a summary powerpoint presentation with *general and country-specific* background will be prepared for each consultation.

Main output. A summary report on the consultation feedback obtained will be prepared and attached to/distributed with the next progress report. It will help identify areas for further improvement in the application of conditionality in the paper expected to be discussed by the Board by end-November 2007. The summary of the consultations will also serve as background for exchanges with key IDA donors and Northern CSOs.

Timeline and process. The consultations will take place over the summer of 2007 and should conclude no later than mid-September. Consultations will be conducted in about 10 IDA countries with governments, parliaments, civil society, private sector, academia, donors/IMF, and other stakeholders. Written feedback will also be solicited over the Bank's external website at www.worldbank.org/conditionality. Dates and venues of consultation events will be posted and regularly updated on the website.

In-country consultation will build on an introductory presentation, customized to country circumstances introducing recent Bank policy-based support. It will draw on a set of identical guiding questions intended to elicit country experiences and perspectives on the Bank's policy-based lending interventions. The Bank would provide logistical support in preparing the introductory presentation, providing background papers, and issue invitations to an agreed list of about 20-30 participants per country, which could meet in different sessions with group 1 consisting of government/donors/IMF and group 2 parliament/civil society/private sector/academia (these groups would assume different levels of direct involvement in policy-based lending in guiding the discussion). The decision on the appropriateness of using a single group or several groups should be made

by the local Bank office in consultations with government, donors, and local CSOs. In all cases, the consultations should assure a balanced representation of the different stakeholders, and strive to find a set-up allowing a focused discussion on recent application of Bank conditionality. Different viewpoints and voices should find their way into the write-up by the rapporteur.

Facilitators/Chairs and rapporteurs for the sessions would ideally be selected by interested donors. Facilitators/Chairs will receive instructions to elicit a discussion based on the guiding questions organized along the 5 good practice principles and drawing on recent policy-based support by the Bank. Rapporteurs will prepare summaries of the consultation outcome using a standard format. These summaries will then be drawn together into a final report.

A preliminary set of IDA countries has been identified and will be listed on the website as consultations are being confirmed.

Preliminary list of guiding questions for consultations

Principle 1: Reinforce Ownership – Actively reinforce country ownership by relying on clear evidence of ownership informed by analytic work.

- Is the program the Bank is supporting through its policy-based lending operations/PRSC derived from a policy process indicating ownership (PRSP process with participation/consultation, electoral platform, parliamentary involvement in program design etc.) or are there indications of lack of ownership?
- Has the Bank given policy space to develop the program and understands the political economy for reforms supported under its policy-based operations/PRSC?
- Is there evidence of donor or government analytic work helping with the process of policy formulation, or is there evidence of analytic work undermining existing processes of policy formulation? Is analytic work available early enough and fed into the government's policymaking process?

Principle 2: Agree up front with the government and other financial partners on a coordinated accountability framework

- Is there an agreed accountability framework (e.g., policy matrix) between government and the Bank for measuring progress under the program supported by Bank lending toward commonly agreed objectives? What was the government's role in this process?
- Is the accountability framework harmonized across the donor community based on the policy platform provided by the government? Is aid coordinated and administered in a way that reduces transaction costs?

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances

- Is there evidence that any particularly sensitive policy reforms (privatization, trade liberalization, price and subsidy reform, user fees) supported explicitly by the Bank's policy-based lending/PRSC reflect country circumstances and priorities?
- Have particularly sensitive policy reforms (privatization, trade liberalization, price and subsidy reform, user fees) been backed up by analytic work and have different policy options been evaluated to ensure policies reflect local priorities and country circumstances?

Principle 4: Choose only actions critical for achieving results as conditions for disbursement

- Are prior actions and conditions for Bank policy-based lending/PRSC chosen from an agreed accountability framework?
- Is the use of conditionality in Bank policy-based lending/PRSCs limited to actions critical for the results of the government's program? Is there evidence that Bank conditionality focuses on actions that are effective in bringing about anticipated results? Can we observe some results linked to recent conditions?
- How are other actions contained in the policy matrix (actions that are not prior actions/conditions) being used in the policy dialogue? Are they seen as additional conditionality that influences disbursement decisions by the Bank or do they serve as a broader descriptive framework for the government's program?

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support

- Is there a regular cycle of performance review of the government's program that is linked to financial support by donors and Bank policy-based lending?

- Do performance reviews draw and reinforce the country's domestic accountability systems (budget reviews, internal feedback during policymaking processes, implementation reporting to parliament etc.)?
- Are reviews conducive to predictable financial support? Is the Bank's support aligned with the budget cycle where countries so request it? Are Bank's budget support volumes announced in time to be incorporated into the budget?
- Do review processes underpinning the Bank's support promote results focus for achieving the government's poverty reduction objectives?