

Conditionality in the World Bank's Development Policy Lending

Background for IDA
Consultations, July 2007



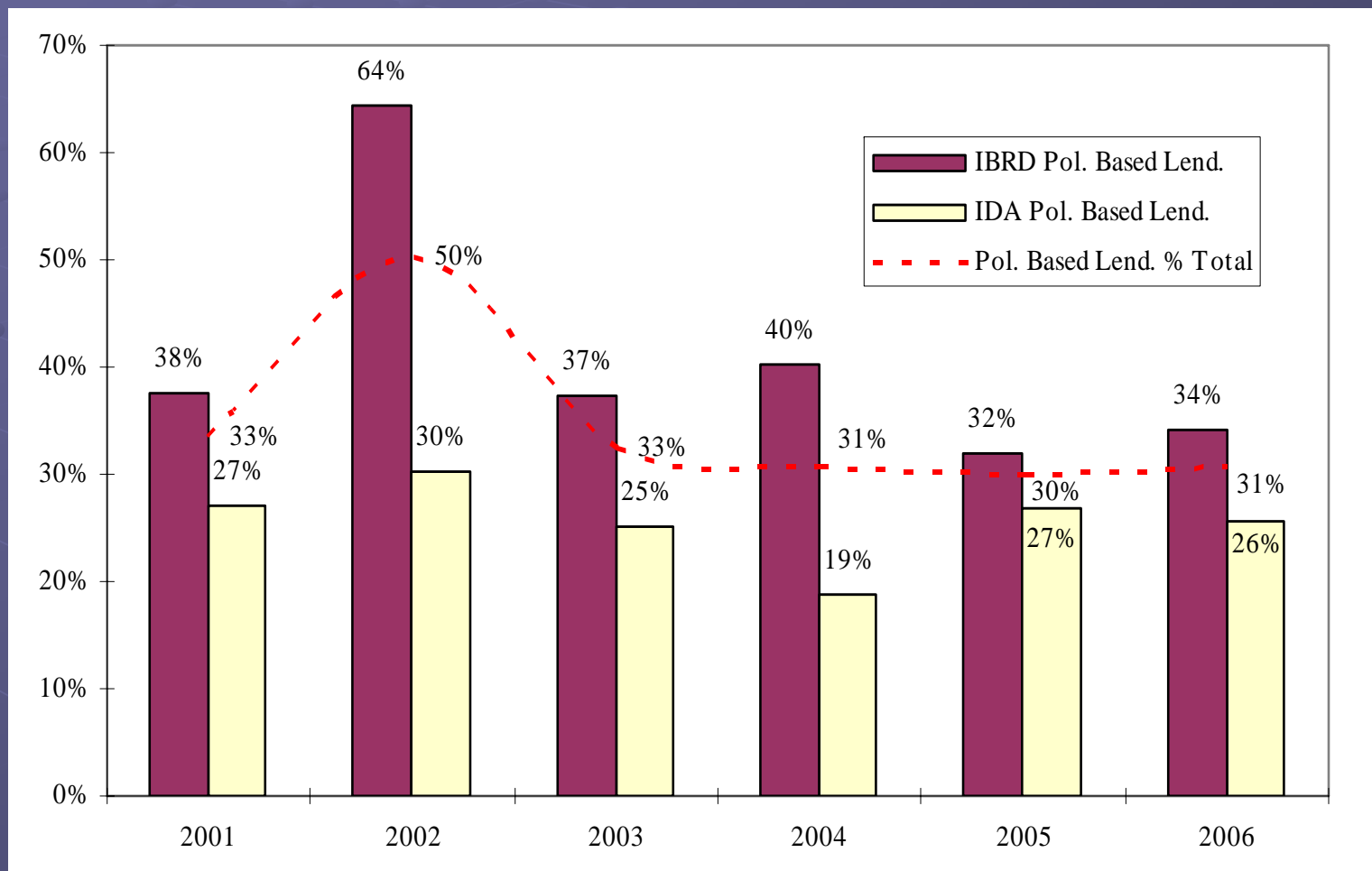
2005 Conditionality Review

- ❖ In October 2004, the Development Committee (a ministerial advisory forum of the WB and IMF) requested a review of the Bank's "policy and practice on conditionality" and a "report on the continued efforts by the Bank and the Fund to streamline their aggregate conditionality"
- ❖ The resulting *2005 Review of World Bank Conditionality* discussed the rationale for and modalities of conditionality in policy-based lending (now known as development policy lending), and looked at trends and key challenges in the application of conditionality

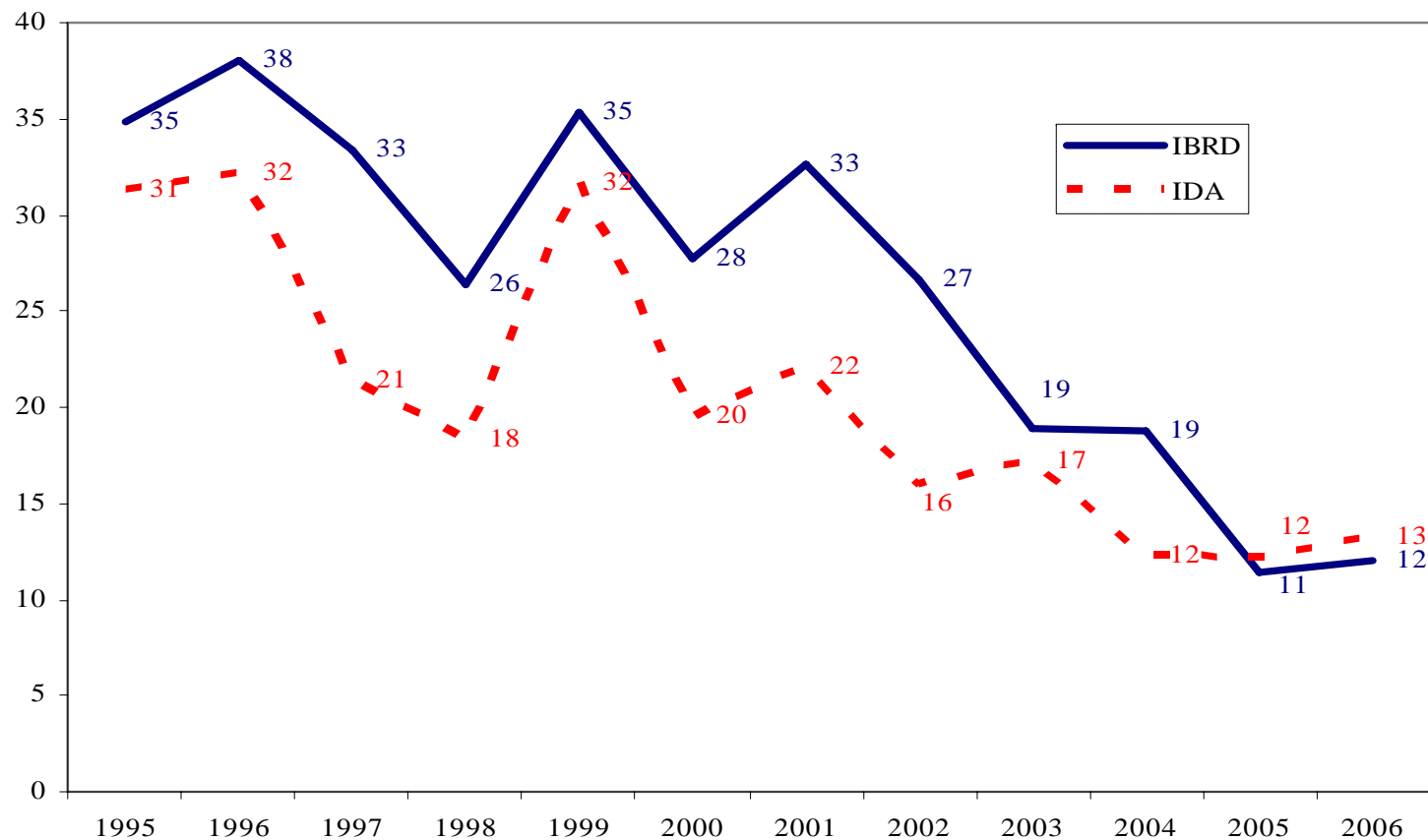
Conditionality - Terminology

- ❖ *Conditionality* comprises policy and institutional actions critical to achieve the results of the government's program. These actions are included in the World Bank's legal agreement and must be met to permit disbursements of development policy credits/grants.
- ❖ *Benchmarks* are other actions the Bank uses to describe a country's program it is supporting. They are not necessarily critical actions and are not intended to determine disbursements.

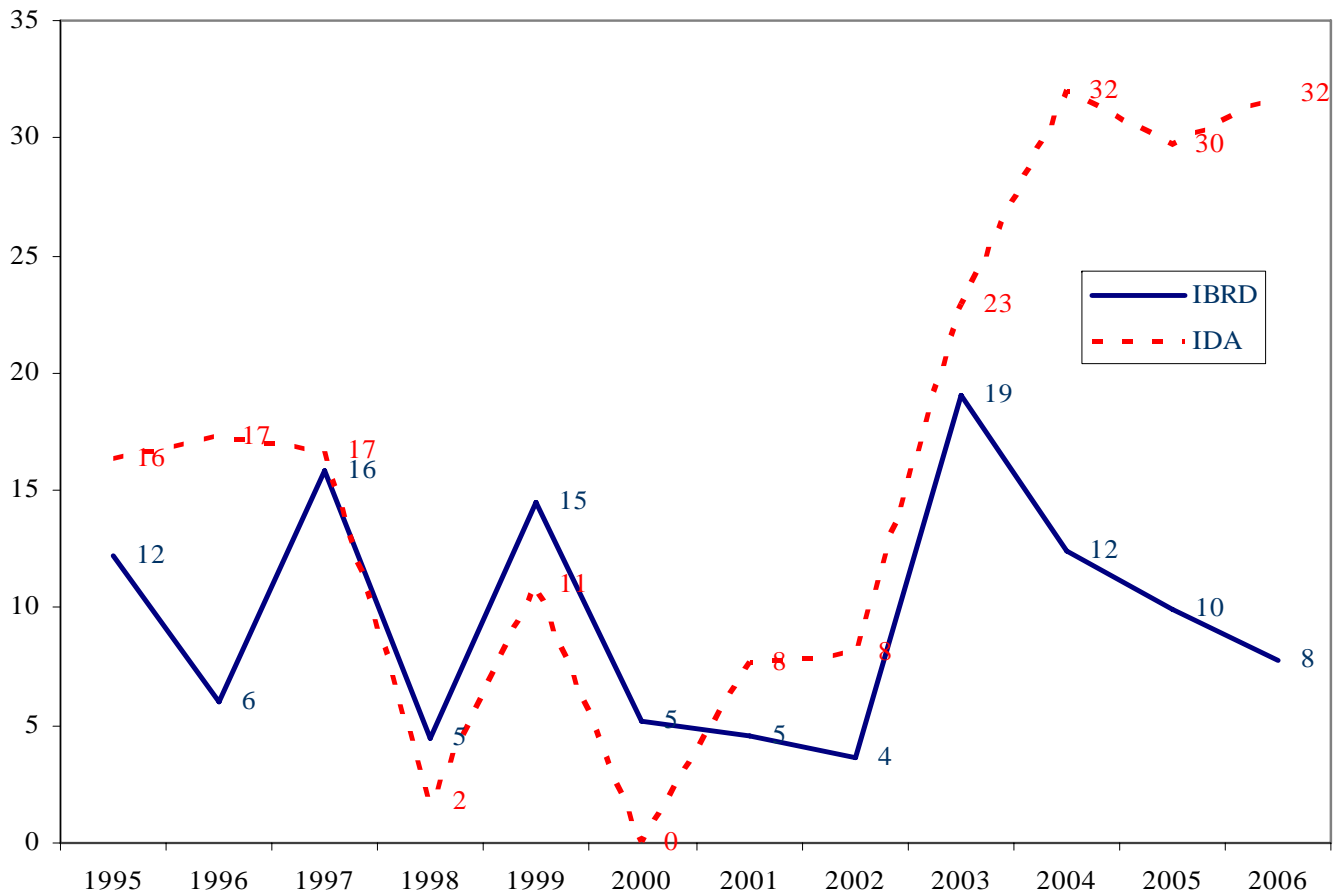
DPO Shares in Bank Lending FY01-06



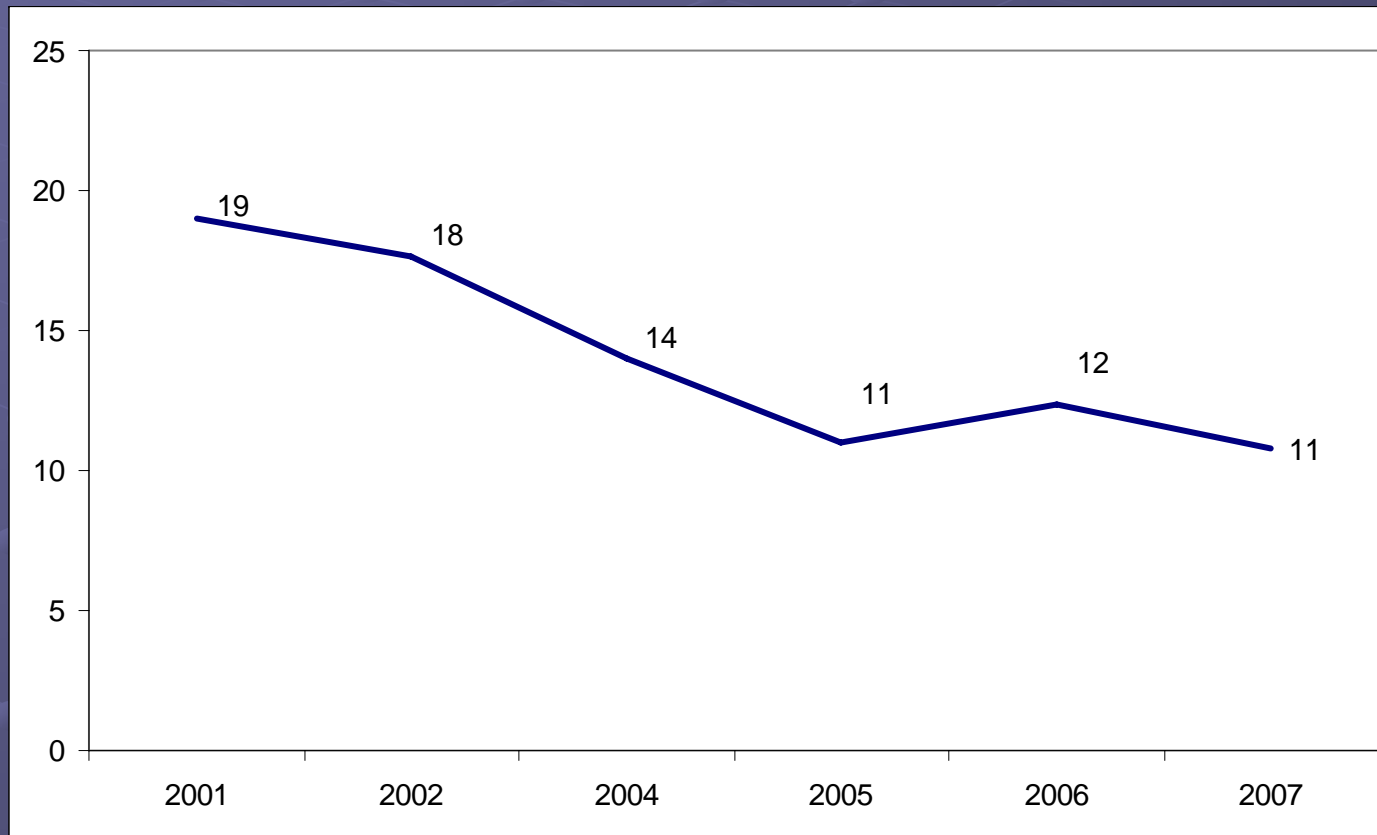
Recent Conditionality Trends in Bank DPOs



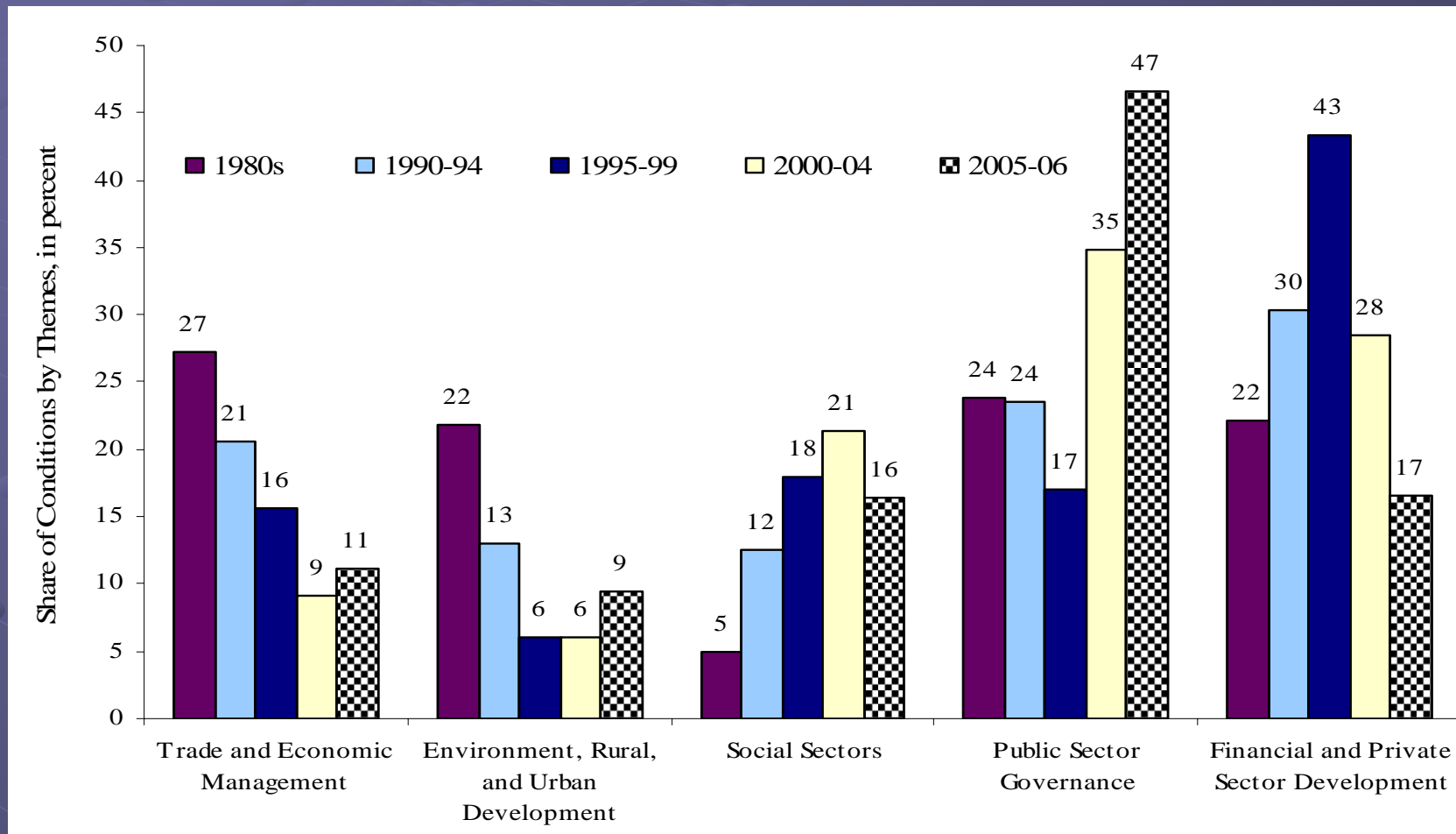
Use of Benchmarks in DPOs



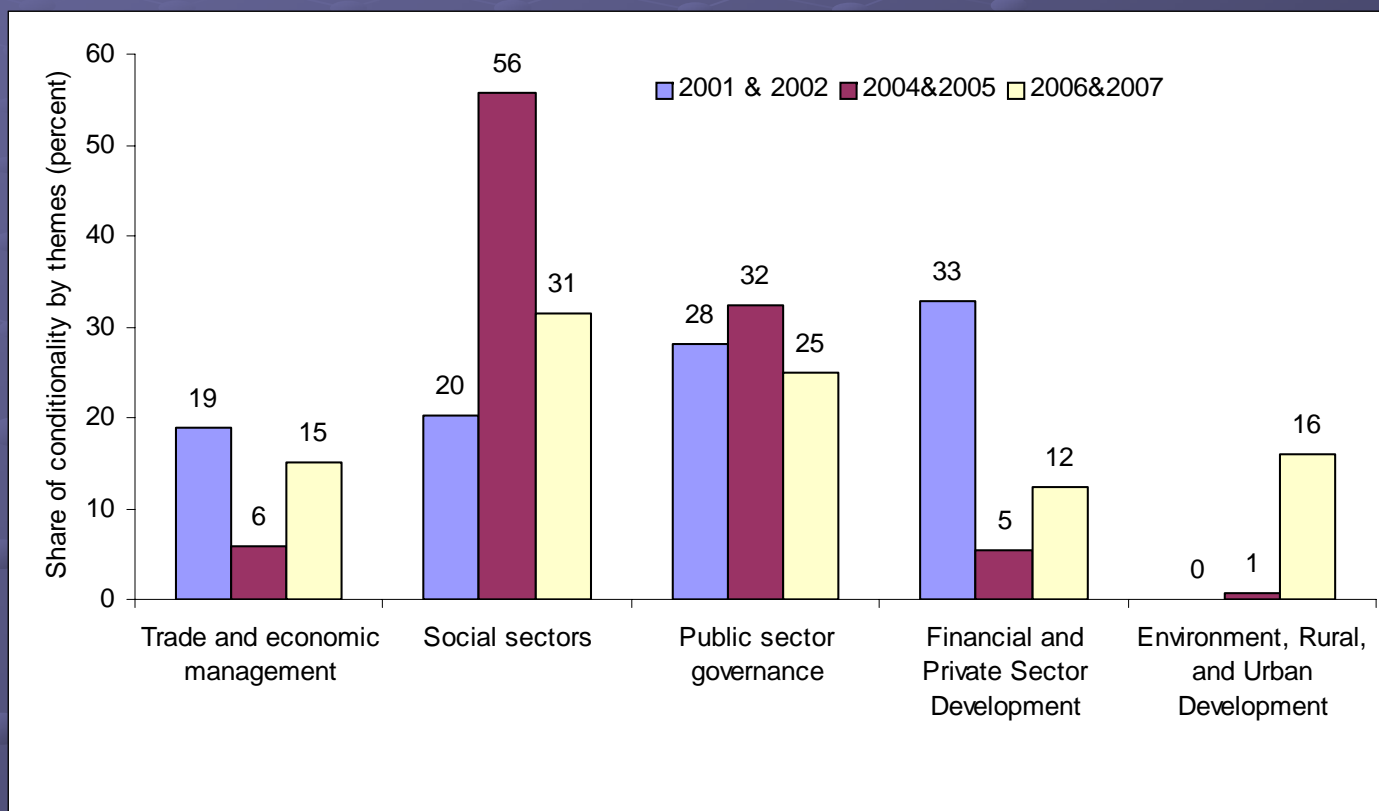
Conditionality Trends in DPOs in Pakistan are Similar



Thematic Content of Conditions: Shift to Public Sector Governance



Thematic Content of Prior actions in Pakistan: emphasis on social sectors & governance



Conditionality Review—Findings

In September 2005 the Development Committee endorsed the review's findings that the Bank's policy framework is robust and adopted five good practice principles for the application of conditionality:

- ❖ ***Ownership***: Reinforce country ownership
- ❖ ***Harmonization***: Agree up-front with the government and other financial partners on a coordinated accountability framework
- ❖ ***Customization***: Customize the accountability framework and modalities of Bank support to country circumstances.
- ❖ ***Criticality***: Choose only actions critical for achieving results as conditions for disbursement.
- ❖ ***Transparency and predictability***: Conduct transparent progress reviews conducive to predictable and performance-based financial support.

GPP1: Reinforce Ownership

- ❖ The Bank should draw on a government's expressed policy intentions (e.g., PRSP or sector strategies) and track record of reform to gauge the ownership of reform
- ❖ Bank support needs to understand the political economy dimensions of reform and give policy space for internal processes to mature
- ❖ Sound analytic should can play an important role in informing the debate and underpinning government policy choices

GPP2: Harmonization

- ❖ Under the lead of country authorities, Bank staff should reach understandings with the government and other partners on a single and internally coherent framework for measuring progress
- ❖ Responding to country circumstances, policy matrices should be used flexibly to achieve different levels of coordination – depending on the availability of other budget support donors and government preferences

GPP3: Customization

- ❖ Agreed accountability frameworks should be fully consistent with the government's internal accountability mechanisms and not be used to add policy actions to the government's agenda or leverage outside preferences.
- ❖ Support for sensitive policy reforms (privatization, power sector, trade liberalization, price reform, user fees) should be based on a good understanding of the country-specific circumstances and is warranted when they are part of a well-designed and owned government strategy

GPP4: Criticality

- ❖ Choose policy and institutional actions that are critical for achieving the results of the program
- ❖ Critical actions for future support should be clearly identified and policy matrices should set out actions, outputs, and outcomes
- ❖ Size of program matrices in Bank documents (notably number of benchmarks) should be managed carefully – no need to repeat entire government program if laid out elsewhere

GPP5: Transparency and Predictability

- ❖ Progress should be reviewed regularly and in line with a country's monitoring and evaluation cycle, drawing to the extent possible on internal accountability processes
- ❖ Financing decision should be announced early enough to be taken into account by governments in the budget cycle

Recent DPO Support to Pakistan

- ❖ Federal: SAC I & II (FY01, FY02); PRSC I & II (FY05, FY07)
- ❖ Provincial:
 - ❖ Punjab: Punjab Education DPC I-IV(FY04-FY07); Punjab Irrigation DPL I & II (FY06-07);
 - ❖ NWFP: NWFP SAC I&II (FY02, FY04); NWFP DPC I&II (FY06, FY07);
 - ❖ Sindh: Sindh SAC I (FY02); Sindh Education DPC I (FY07)

Recent DPO Support to Pakistan

❖ Key objectives of the programs:

- ❖ Macroeconomic stability; revenue mobilization
- ❖ Improvements in investment climate
- ❖ Infrastructure improvements: (institutional reforms)
- ❖ Financial management and procurement reforms
- ❖ Reforms in Education to improve quality and access
- ❖ Reforms in health sector
- ❖ Social protection

❖ Key development partners:

- ❖ IMF: SACs, PRSCs
- ❖ DFID: PRSCs
- ❖ Sindh Education DPC; ADB; EC; possibly Netherlands
- ❖ Punjab Education: ADB; Germany, UNICEF, potentially DFID
- ❖ NWFP DPC Potentially ADB; DFID, EC, Netherlands, Germany, Norway

Some Specific Policy Reforms: Federal

- ❖ Tax administration reforms: establishment of LTUs and MTUs;
- ❖ Unbundling of WAPDA through DISCO-specific tariff notifications;
- ❖ Reform of labor legislation to increase labor market flexibility;
- ❖ Notification of new procurement rules;
- ❖ Strengthening public health surveillance
- ❖ Piloting demand side interventions in education and health
- ❖ Increased funding for the Food Support Program

Some Specific Policy Reforms: Provincial

- ❖ Fiscal sustainability: tax revenue mobilization, improved expenditure prioritization, debt reduction; MTBF
- ❖ Education: Increased sector expenditures under an MTBF; stipends to girls; delivery of free textbooks; merit-based teacher recruitment; public-private partnerships; monitoring systems; partnerships with district governments.
- ❖ Health: Contracting out of management of primary health care; hospital autonomy
- ❖ Irrigation: Increases in O&M expenditures; decentralizing responsibilities to Farmers' Organizations
- ❖ Financial management: settling of "advance" audit paragraphs; improved expenditure monitoring systems
- ❖ Procurement: New procurement law; procurement Regulatory Authority; ex-post third party validations

Purpose of this Consultation

- ❖ Review progress in application of good practice for 2007 implementation report
- ❖ Listen again to partner countries (after 2005 review) to refine messages on conditionality
- ❖ Give voice to additional in-country stakeholders