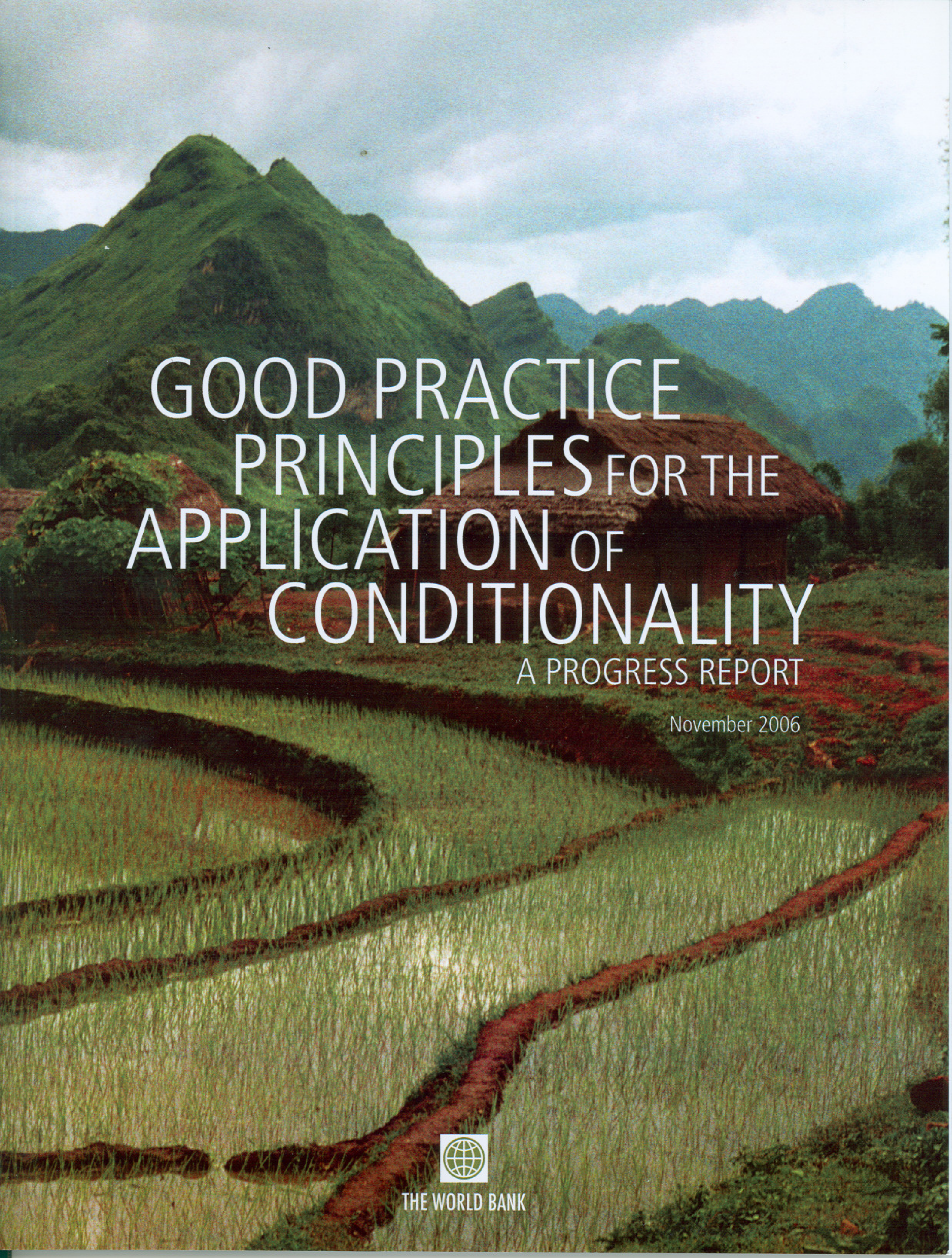

GOOD PRACTICE PRINCIPLES FOR THE APPLICATION OF CONDITIONALITY

A PROGRESS REPORT

November 2006

THE WORLD BANK

GOOD PRACTICE PRINCIPLES FOR THE APPLICATION OF CONDITIONALITY: A PROGRESS REPORT

OPERATIONS POLICY AND COUNTRY SERVICES
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ABBREVIATIONS AND ACRONYMS

DPL	Development policy lending
DPO	Development policy operation
GPP	Good practice principle
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
I-PRSP	Interim PRSP
MDG	Millennium Development Goal
OPCS	Operations Policy and Country Services
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty reduction strategy
PRSC	Poverty reduction support credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and social impact analysis
WTO	World Trade Organization

GOOD PRACTICE PRINCIPLES FOR THE APPLICATION OF CONDITIONALITY: A PROGRESS REPORT

CONTENTS

Executive Summary i

I. Introduction 1

II. Recent Trends in World Bank Conditionality 4

A. Number and Content of Conditions 5
B. Incorporating the Good Practice Principles into Bank Operations 7

III. Implementation of the Principles 8
A. Ownership 8
B. Harmonization 10
C. Customization 11
D. Criticality 17
E. Transparency and Predictability 19

IV. Conclusions and Recommendation 20

Boxes

Box 1. Good Practice Principles 2

Figures

Figure 1. Average Number of Conditions 5
Figure 2. Average Number of Benchmarks 6
Figure 3. Thematic Coverage of Conditionality in Policy-Based Lending 7

Tables

Table 1. Operations and Commitments (in US$) 3
Table 2. Select Policy Reforms Supported by World Bank Operations 13

Annexes

Annex A. Operation Reviewed and Commitment Amounts 23
Annex B. Review of Implementation of the Five Good Practice Principles 25

GOOD PRACTICE PRINCIPLES FOR THE APPLICATION OF CONDITIONALITY: A PROGRESS REPORT

EXECUTIVE SUMMARY

1. This report responds to the stipulations in the IDA14 Report with respect to additional contingent contributions to IDA. Under the IDA14 replenishment arrangements, donors could make contingent contributions tied to the fulfillment of certain agreed sets of actions, including a determination by IDA's Executive Directors that "satisfactory progress has been made in implementing the recommendations of the 2005 Review of World Bank Conditionality."[1] The report provides the necessary information to make such a determination.

2. ***Recommendation of the Conditionality Review.*** The 2005 conditionality review proposed five good practice principles to strengthen the quality of the Bank's application of operational policy for development policy lending (DPL), which are summarized below.[2]

Good Practice Principles	
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.***

3. ***Coverage***. This report reviews the application of good practice principles in development policy operations (DPOs) that have gone through a complete processing cycle since the Development Committee endorsed the findings of the conditionality review in late September 2005 and that were approved by the Board of Executive Directors before September 30, 2006. Among the 19 relevant operations reviewed here, 12 (63 percent) were for IDA-only countries and 7 (37 percent) for IBRD or blend countries.

A. Conditionality Trends

4. By historical standards, the number of conditions per operation continues to be low for both IDA and IBRD borrowers. The average number of conditions per policy-based operation declined from above 30 in the mid-1990s to about 11-13 in recent operations. The number of benchmarks—other policy actions that are not part of conditionality—in Bank-supported policy-based operations for both IDA and IBRD countries rose sharply with the introduction of programmatic lending in 1999. For the operations reviewed here in IDA-only countries, the number of benchmarks has declined to about 27 from an average of over 30 in operations approved before the good practice principles were adopted; the number has declined even further

[1] *Additions to IDA Resources: Fourteenth Replenishment. Working Together to Achieve the Millennium Development Goals*. Report from the Executive Directors of the International Development Association to the Board of Governors, March 10, 2005, Schedule B to Attachment I.

[2] *Review of World Bank Conditionality* (DC2005-0013), September 9, 2005.

(to 7 on average) in IBRD and blend countries. Conditionality content remains concentrated in the area of public sector governance (about 50 percent of conditions), followed by financial and private sector development and social sectors (15-20 percent each).

B. Implementation of the Good Practice Principles

5. The paper examines the implementation of the good practice principles in the 19 operations reviewed.

6. ***Ownership***. A realistic assessment of ownership relies on the government's expressed policy intentions and its track record of reform; it acknowledges the political economy dimensions that reforms may be owned by some constituencies and opposed by others who stand to lose from them. All of the operations reviewed here relied explicitly on government strategy documents in outlining the program supported by the Bank. In most cases, the Bank was also able to rely on the country's broader track record of reforms to gauge commitment to the program over the medium term. The operations show the Bank's capacity to give policy space where needed (as in Guyana), and to take into consideration the political economy of reform. Bank and other financial partners' analytic work has played an important role in underpinning policy choices, with a number of emerging good practice examples such as Ghana. However, as the DPL retrospective pointed out, early disclosure of such work would strengthen its inclusion in countries' policy dialogue and strategy development.

7. ***Harmonization.*** The conditionality review suggested that, 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 under the government's program. All the operations set out such accountability frameworks in the form of policy matrices showing policy actions and expected results. These can be joint frameworks (i.e., Ghana, Indonesia) or can serve to coordinate broader donor support, including technical assistance (e.g., Lao PDR). Broadly, it appears that accountability frameworks are being used flexibly to achieve different levels of coordination, responding to country circumstances.

8. ***Customization.*** The conditionality review stated that accountability frameworks should never be used to add policy actions to the government's agenda, or leverage outside preferences. It noted that any agreed accountability framework should be fully consistent with the government's expressed policy intentions and internal accountability mechanisms. Bank Program Documents in the operations reviewed here explicitly refer to the government program as the primary source of policy actions used to gauge progress. Although the core area of support is public sector governance, several programs support reforms that are considered politically sensitive and where governments may need to make hard choices about reform, such as privatization, trade reform, price liberalization, and user fee adjustments. In all of the operations that involved privatization (such as the privatization program in the Indian State of Orissa), the privatization measures derived from a government-led process of reform. In other countries—for example, Vietnam, the Bank supported the government in reforming public enterprises. Three operations had price reform and liberalization measures; in one of these cases it would have been more appropriate to highlight future reform steps rather than the liberalization as Bank conditionality, given the fragility of the policy environment and the limited policy space afforded the government. Trade reform measures in reviewed operations were largely linked to WTO accession, and were uniformly presented as important objectives in the government strategy

documents. User fee conditions (in Burkina Faso and Niger) focused on reducing or removing user fees to increase access to health care, particularly for poor and vulnerable groups.

9. ***Criticality.*** The 2005 conditionality review noted that in establishing the conditions for lending, Bank and country staff should choose from the agreed accountability framework policy and institutional actions that are critical for achieving the results of the program. Most actions identified as conditions in Bank programs reviewed were clearly critical to program objectives. However, further progress can be made in reducing or better explaining conditions related to processing steps (such as adoption of action plans). Managing the size of program matrices also remains a challenge, especially in harmonized donor settings, with different outcomes in different countries (e.g., Ghana with 40 benchmarks vs. Tanzania with no benchmarks).

10. ***Transparency and Predictability.*** The 2005 review suggested that in the context of medium-term Bank support, 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. All reviewed operations spelled out conditions, triggers, and expected results, although further progress is possible in avoiding vague formulations of triggers and in providing result baselines. Some programmatic series (Armenia, Burkina Faso, Vietnam), explicitly integrated a review of results into the next operation. When countries have voiced a clear preference for a review cycle aligned with government budget cycles, the Bank has generally responded. However, in some countries further progress in aligning joint donor reviews with budget cycles can be made and is already under discussion. Challenges for predictable support can also arise with new operations in fragile policy environments.

C. Conclusions

11. The Bank's recent practice in the use of conditionality is broadly consistent with the good practice principles: most Bank programs are well aligned with government priorities and customized to country circumstances, and they clearly spell out expectations. They make frequent use of opportunities for harmonization, generally highlight critical actions as conditions, and respond to government needs for predictability of financing decisions. Management is therefore of the view that the Bank has made satisfactory progress in implementing the recommendations of the 2005 Review of World Bank Conditionality. Further progress can be made in (a) disclosing analytic work; (b) avoiding conditions on sensitive policy areas if ownership is uncertain or the political environment is fragile, and avoiding duplication of IMF conditions; (c) avoiding process conditionality; (d) reducing benchmarks; (e) aligning harmonized review cycles with financing needs; and (f) providing baselines for results.

12. ***Next Steps***. Management will continue to use internal training and corporate review processes to further improve DPO design. The use of conditionality and the adherence to the good practice principles will be subject to regular monitoring under biannual development policy lending retrospectives, with the next retrospective planned for early FY09

13. ***Recommendations.*** On the basis of this review, Management recommends that, for the purposes of additional contingent contributions to IDA14, the Executive Directors make a determination that the Bank has made satisfactory progress in implementing the recommendations of the 2005 Review of World Bank Conditionality.

GOOD PRACTICE PRINCIPLES FOR THE APPLICATION OF CONDITIONALITY: A PROGRESS REPORT

I. INTRODUCTION

1. In October 2004, the Development Committee 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."[3] Responding to that request, during 2004-05 the Bank undertook an extensive dialogue with the Board, donors, civil society, and governments. The resulting *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.[4] In September 2005 the Development Committee endorsed the review's findings and the related good practice principles for the application of conditionality.

2. ***Main Findings of the 2005 Review***. The main findings of the review were as follows:

- The operational policy framework for development policy lending that the Bank adopted in August 2004 is robust and consistent with a view that conditionality is not coercion to undertake reform, and does not prescribe policy content.
- By historical standards, the number of conditions per operation—11-13—was low during FY04-05.
- Conditionality content has shifted away from such sensitive areas as privatization, trade liberalization, and user fees to public sector governance and social sectors.
- The Bank has fully recognized the importance of country ownership for development effectiveness but, like other development agencies, it is grappling with the practical challenges of assessing ownership and responding to changing policy environments.
- The Bank has made important strides in adapting its policy-based lending to complex reform programs and focusing on critical actions. However, it needs to avoid an increasing use of large and complex policy matrices, particularly in multisectoral operations and when coordinating with other donors.
- The Bank's loan conditions have typically been transparently disclosed and clearly defined. However, the flexibility of programmatic approaches, which allows adapting prior actions for subsequent operations, needs to be exercised cautiously to balance predictability with performance.

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3 *Development Committee Communiqué*, Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, October 2, 2004, para 7.

4 *Review of World Bank Conditionality* (DC2005-0013), September 9, 2005. Policy conditions in investment lending have since been reviewed in *Policy Conditions in Investment Lending: A Stocktaking* (SecM2006-0349), August 2, 2006. The report suggests that use of policy conditions in investment lending has declined and is rare. It also reinforces existing corporate guidance to avoid such conditionality.

- The Bank's approach is fully compatible with the goal of harmonizing financial support with that of other development partners while retaining the Bank's distinct accountability.

3. ***Good Practice Principles.*** The review proposed five good practice principles to strengthen the quality of the Bank's application of operational policy for development policy lending (DPL), which are summarized in Box 1.

Box 1. Good Practice Principles

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***.

4. ***Objective of this Report***. This report responds to the stipulations in the IDA14 Report with respect to additional contingent contributions to IDA. Under the IDA14 replenishment arrangements, donors could make contingent contributions tied to the fulfillment of certain agreed sets of actions, including a determination by IDA's Executive Directors that "satisfactory progress has been made in implementing the recommendations of the 2005 Review of World Bank Conditionality."[5] During an informal Board meeting in July 2006, Executive Directors reviewed early experiences in the use of the good practice principles in the context of the DPL retrospective.[6] Several Directors suggested that information based on broader and longer experience would be useful in reaching a definitive conclusion on the implementation of the principles. This report draws on a set of operations approved during FY06 and the first quarter of FY07 to provide that information in a systematic way, and seeks a determination by the Executive Directors that the Bank has made satisfactory progress in implementing the recommendations of the 2005 *Review of World Bank Conditionality*.

5. ***Coverage***. This report reviews the application of good practice principles in development policy operations (DPOs) that had their concept review since the Development Committee endorsed the findings of the conditionality review in late September 2005 and that were approved by the Board of Executive Directors before September 30, 2006.[7] Hence, in line with the Bank's common treatment of policy changes, this report covers all those operations that have gone through a complete processing cycle; but it excludes those operations that had already been conceptualized and partially processed at the time the good practice principles were adopted and where it may have been difficult to make adjustments. In total, the resulting set includes 21 DPOs (Annex 1); however, this report excludes two supplemental operations for Pakistan

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5 *Additions to IDA Resources: Fourteenth Replenishment*. *Working Together to Achieve the Millennium Development Goals*. Report from the Executive Directors of the International Development Association to the Board of Governors, March 10, 2005, Schedule B to Attachment I.

6 *Development Policy Lending Retrospective* (SecM2006-319), July 13, 2006.

7 In accordance with Bank Procedures (BP) 8.60, the preparation cycle includes a concept review and a corporate review, typically at the level of the Regional Operations Committee.

following the October 2005 earthquake since they financed an ongoing program and involved no additional conditionality. Among the remaining 19 operations reviewed here (Table 1), 12 (63 percent) were for IDA-only countries and 7 (37 percent) for IBRD or blend countries.

Table 1. Operations and Commitments (in US$)

Operation	Concept Review	Board Approval
Indonesia DPL-2	10/14/2005	12/15/2005
Armenia PRSC-2	11/01/2005	01/19/2006
Bangladesh Education-2	01/11/2006	03/07/2006
Guyana PRMPO-1	02/28/2006	04/27/2006
Lao PDR PRSC-2	01/30/2006	04/27/2006
Tanzania PRSC-4	12/12/2005	05/09/2006
Bhutan DPL-1	12/01/2005	05/25/2006
Pakistan North-West Frontier Prov.-1	09/27/2005	06/01/2006
Brazil Equitable Growth-2	02/13/2006	06/06/2006
Niger Rural and Social-1	12/20/2005	06/13/2006
Egypt Financial Sector-1	11/11/2005	06/15/2006
Ghana PRSC-4	03/13/2006	06/15/2006
Burkina Faso PRSC-6	02/15/2006	06/20/2006
Vietnam PRSC-5	03/01/2006	06/22/2006
Madagascar PRSC-3	03/30/2006	07/13/2006
Colombia Labor-3	04/17/2006	07/25/2006
Burundi Economic Reform	10/06/2005	08/01/2006
India Orissa Social-3	10/11/2005	08/01/2006
Guatemala DPL-2	07/05/2006	08/29/2006

Source: Business Warehouse.

6. ***Outside Views***. Conditionality issues have received and continue to receive attention by outside parties, notably civil society organizations. In recent months, reports published by Christian Aid in the United Kingdom, Eurodad, and Action Aid International addressed aspects of World Bank conditionality.[8] None of these reports directly addressed the application of conditionality in the set of operations reviewed here. However, they provide a perspective on how Bank conditionality is perceived and where and why outside observers are concerned about Bank conditionality. Among these reports, Christian Aid’s and Eurodad’s reports do not address the implementation of the good practice principles, and both largely interpret all supported policy action in sensitive areas as “imposed” without further review of government intentions or objectives. The Eurodad report furthermore considers all policy actions in policy matrices as conditionality, and suggests that because policy matrices have grown larger in subsequent operations of a Bank-supported programmatic series, conditionality in Bank operations has been rising (an issue discussed in the conditionality review and addressed in this paper). The report by ActionAid International directly reviews the good practice principles and considers them to be useful guidance, but suggests that the Bank is not making sufficient efforts to follow the principles.

7. ***Structure of the Report***. Section II discusses recent trends in the number and content of conditions in DPOs and summarizes the activities the Bank has undertaken to foster the

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8 *World Bank and IMF Conditionality: A Development Injustice*, Eurodad, June 2006; *Challenging Conditions: A New Strategy for Reform at the World Bank and IMF*, Christian Aid, July 2006; *What Progress? A Shadow Review of World Bank Conditionality*, ActionAid International, September 2006.

implementation of the good practice principles. Section III briefly discusses the objectives of the five good practice principles and reviews their implementation. Section IV summarizes early lessons, discusses areas for improvement, and provides a recommendation.

II. Recent Trends in World Bank Conditionality

8. As part of the regular review of its operational practices, the Bank monitors the number and content of conditions attached to its DPOs. The 2005 conditionality review analyzed trends through the end of FY05, and the recent DPL retrospective updated key figures through the end of FY06. This section briefly reviews the terminology attached to conditionality, summarizes trends through end-FY06 excluding operations with concept reviews after the adoption of the good practice principles, highlights the use of conditionality in the 19 operations approved during FY06 and FY07 that are being evaluated here, and discusses how the Bank has worked to incorporate the good practice into the operations it finances.

9. ***Definition of World Bank Conditionality.*** Conditionality in the World Bank context and for the purposes of this paper is defined as the set of conditions that, in line with the Bank's Operational Policy 8.60, para. 13 must be satisfied for the Bank to make disbursements in a development policy operation.[9] These conditions are (a) maintenance of an adequate macroeconomic policy framework; (b) implementation of the overall program in a manner satisfactory to the Bank; and (c) implementation of the policy and institutional actions that are deemed critical for the implementation and expected results of the supported program. Only these conditions are included in the Bank's loan agreements.

10. ***Typology of Conditionality.*** Policy-based loans are made available when the borrower[10] accomplishes critical policy and institutional actions, or *loan conditions* (see Operational Policy 8.60, para. 13). In the context of different loan designs, the Bank uses different terminology for conditionality. Actions to be met before an operation is approved by the Board are referred to as *prior actions* and are listed in a schedule to the legal agreement. All conditions for single-tranche operations are prior actions. In an operation with more than one tranche, the borrower complies with certain conditions after Board approval and effectiveness (in addition to any prior actions), termed *tranche-release conditions*. Unless all tranche-release conditions are met, a tranche may be released only if the Board approves a waiver of the unmet condition(s).

11. ***Triggers and Benchmarks.*** In addition to the critical policy and institutional actions that are recorded as prior actions or tranche-release conditions in legal agreements, the Bank uses *triggers* and *benchmarks* to review and describe progress under programmatic series of loans.

- *Triggers* represent critical actions for achieving and sustaining the results of the medium-term program. Achievement of triggers normally indicates sufficient progress to move from one operation to the next. Triggers offer greater operational flexibility than using tranche-release conditions, because triggers can be adapted more easily to a changing program environment. Bank operational documents are

[9] *Review of World Bank Conditionality: Legal Aspects of Conditionality in Policy-Based Lending*, September 2005, para. 9.

[10] For simplicity, the term *borrower* is used throughout the report independent of the financial terms attached to Bank support.

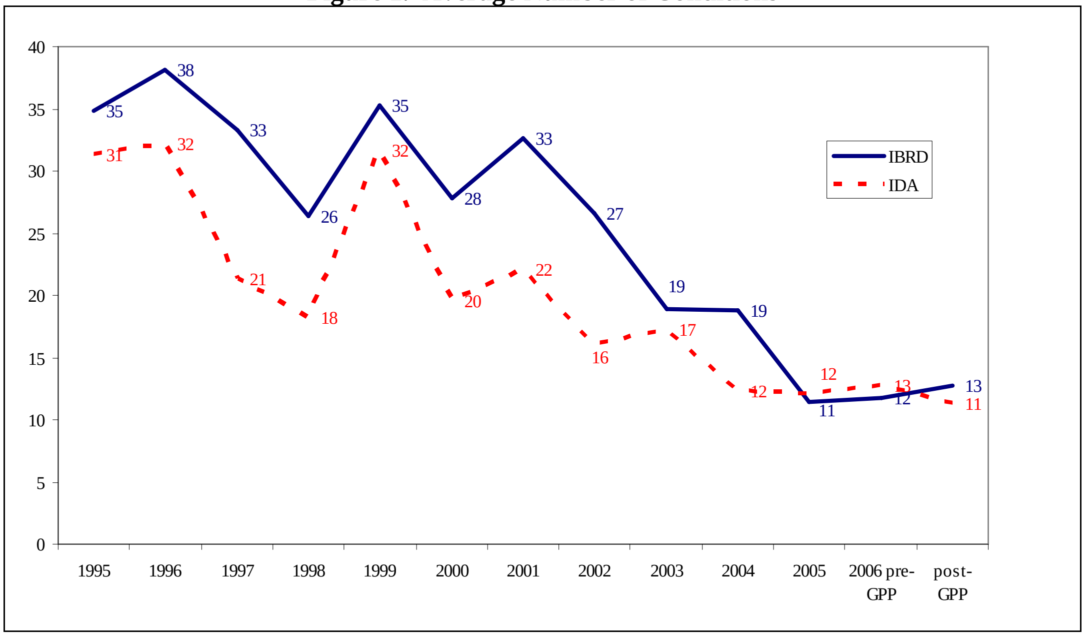
expected to lay out how triggers were adapted and modified to support program objectives before being converted into the prior actions of a follow-on operation.

- *Benchmarks* in program matrices describe the contents and results of the government's program in areas supported by the Bank. They are frequently used to describe small steps in a reform process that represent significant, though not necessarily critical, progress markers for the implementation of the program. Although they help define an area of the Bank's policy involvement, they are not intended to determine disbursements of Bank loans or grants.

A. Number and Content of Conditions

12. By historical standards, the number of conditions per operation continues to be low for both IDA and IBRD borrowers (see Figure 1).[11] The average number of conditions per policy-based operation declined from above 30 in the mid-1990s to about 12-13 in FY06 for operations whose concept review preceded the adoption of the good practice principles ("2006 pre-GPP"). Operations for which the concept review followed the adoption of the good practice principles in September 2005 are consistent with this trend ("post-GPP").

Figure 1. Average Number of Conditions



Source: Staff calculations.

13. ***Number of Benchmarks.*** The number of benchmarks in Bank-supported policy-based operations for both IDA and IBRD countries rose sharply with the introduction of programmatic lending in 1999 (see Figure 2). For IDA countries, the number of benchmarks increased from 5-10 in the mid-1990s to 32 in FY04, with a further increase in 2006 (pre-GPP). This trend is closely associated with the emergence of large policy matrices under multisectoral programs

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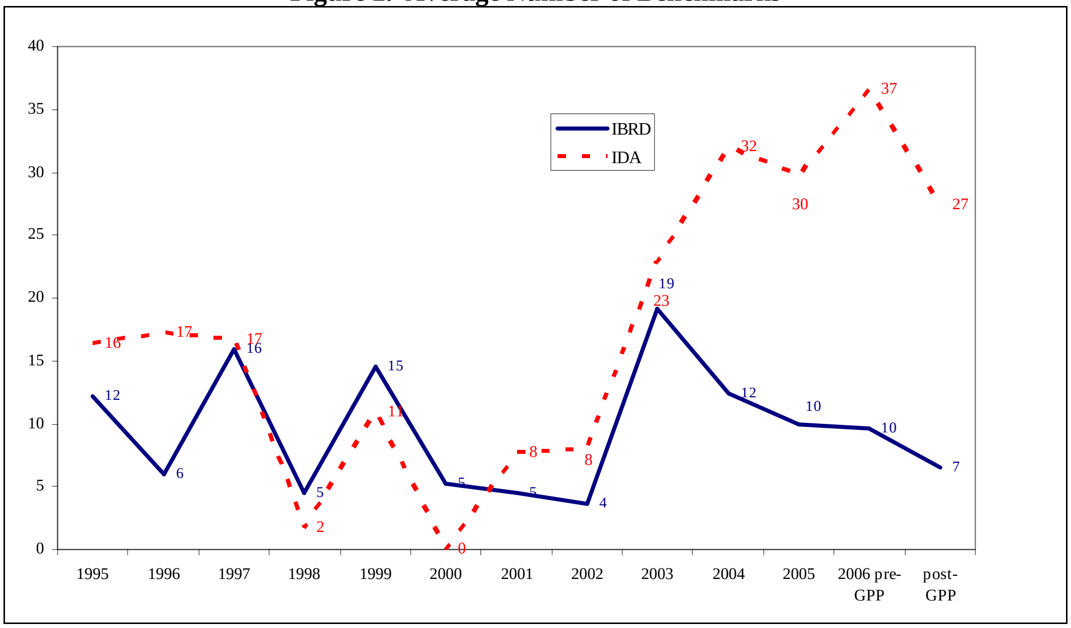
11 *Conditions* include prior actions, tranche-release conditions, and conditions of effectiveness (which are very rarely used in DPOs; indeed, their use is discouraged), all of which are set out in the Bank's legal agreements. The number of conditions is not a measure of the complexity of each action, which may vary greatly from condition to condition.

supported by a poverty reduction support credit (PRSC). The use of benchmarks for both IDA and IBRD borrowers declined compared to FY04-05 in operations for which a concept review was held since the adoption of the good practice principles (Figure 2, post-GPP). The declining use of benchmarks, to about 27, in the most recently processed post-GPP operations reflects in part the greater discipline under newly emerging programmatic series (such as Tanzania's PRSC-4). For IBRD operations, the declining use of benchmarks that began in FY04 has continued in FY06 and with most recent operations. This development largely reflects the greater ease with which teams in IBRD countries now use small policy matrices in lending documents that are focused on prior actions and triggers, leaving the description of the broader program to government documents or analytic underpinnings.

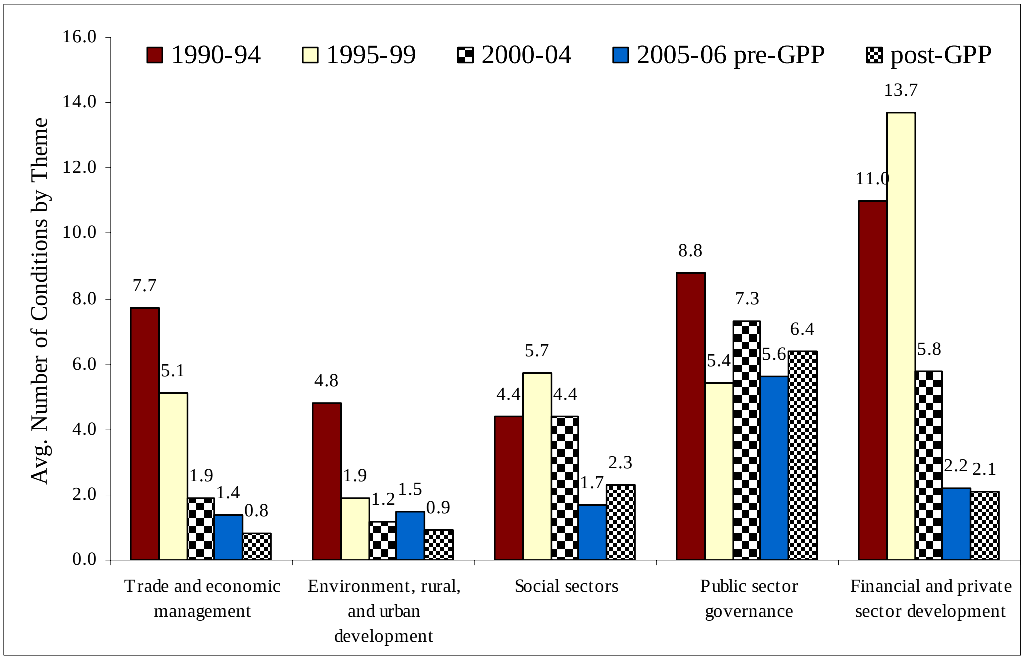
Figure 2. Average Number of Benchmarks



Source: Staff calculations.

14. ***Thematic Coverage of Conditionality.*** As the 2005 conditionality review highlighted, while overall conditionality declined, the weight of conditionality in recent years has shifted to public sector governance in response to stakeholder demand for more transparent and efficient use of aid and public resources. Public sector conditions, on average per operation, remained between 5 and 7 in recent years, with the decline in overall conditionality stemming from a fall in trade and economic management conditions and conditions related to private sector and financial sector development (including conditions related to privatization) since the early and mid-1990s (see Figure 3). This trend has continued for FY05-06 (2005-06 pre-GPP) and in operations reviewed here (post-GPP).

Figure 3. Thematic Coverage of Conditionality in Policy-Based Lending



Source: Staff calculations.

B. Incorporating the Good Practice Principles into Bank Operations

15. Since adopting the good practice principles, the Bank has begun to systematically use these principles in internal processes and external presentations as guideposts for quality in policy-based lending.

16. ***Internal Training***. The good practice principles have been fully integrated into the Bank's internal training on DPL design. In regular events, such as the "DPL Academy" and PREM week, which involved more than 100 DPL task team leaders and DPL task team members during FY06, presentations highlighted the Bank's corporate approach to conditionality. The principles were shared with Regional task managers through a range of events in late 2005 and were further disseminated through frequent presentations on operational issues in Network training events.

17. ***Corporate Review Process***. Since October 2006 the good practice principles have underpinned the corporate review process for development policy lending. Bank Procedures 8.60 require that each DPO be reviewed in a concept meeting (typically chaired by the Country Director) to authorize preparation of the operation, and that appraisal and negotiation be authorized by a Corporate Review (the Regional Operations Committee typically chaired by the Regional Vice-President or the Operations Committee typically chaired by the responsible Managing Director).[12] Concept reviews and Corporate Reviews, for which documents are copied to Bank-wide distribution lists, consider the benefits and risks of proposed operations and review their consistency with Bank policies. Since the adoption of the principles, the review meetings have allowed verifying consistency with the principles and provided guidance to teams on

12 Bank Procedures 8.60, para. 5.

strengthening the design of DPOs as regards prior actions and triggers, and on making disciplined use of benchmarks, particularly in multisectoral settings. Corporate review processes have also been used to advise teams on the use of policy matrices and related actions and indicators.

18. ***Outreach***. International events, such as the conference on harmonization in Bamako, Mali, in March 2006, and a conference on poverty reduction strategies in Vientiane Lao PDR in April 2006 gave Operations Policy and Country Services (OPCS) an opportunity for additional interactions with government officials and financial partners in which to communicate the Bank's approach to conditionality and receive further feedback on issues raised by the conditionality review. These discussions drew on good practice examples such as Mozambique to place particular emphasis on the role of government-led accountability frameworks to foster harmonization, arrive at a coherent and disciplined set of actions and indicators for monitoring progress, and ensure timely decisions on the volume and timing of financial assistance. On various other occasions, discussions were also held with bilateral donors, civil society organizations, and the press to clarify the Bank's approach to conditionality.

III. IMPLEMENTATION OF THE PRINCIPLES

19. This section describes the good practice principles and examines the extent to which each one was incorporated into the 19 operations under review.

A. Ownership

20. The conditionality review concluded that Bank operations and conditionality should actively contribute to broad ownership of the programs, policies, and institutional actions undertaken by the government. Therefore, the Bank's DPL should support only policies and programs for which there is some clear evidence of ownership, as described, for example, in a poverty reduction strategy (PRS) adopted by the government after broad-based consultations. The conditionality review also suggested that the Bank may need to allow sufficient time for country processes, such as parliamentary debate, to be completed before establishing the details of Bank support. Moreover, the review highlighted that the Bank and other donors should support the government in filling any relevant analytic gaps and should help feed such analysis into the country's policy-setting mechanism.

21. ***Assessing Ownership.*** In practice, the level of ownership is not easy to assess. Careful review of the country's political economy and of stakeholders' concerns is required to identify the scope for a sustainable reform program. Given the complexity of country situations, such an assessment goes beyond a simplistic notion of ownership that presupposes a uniform government position or a full consensus. It would not be sensible to suppose that all recipient countries respond to the interests of the majority of the population, avoid elite or foreign-interest capture, and maintain a stable course on reforms. A realistic assessment of ownership relies on the government's expressed intentions and its track record of reform; acknowledges the political

economy dimensions that reforms may be owned by some constituencies and opposed by others who stand to lose from them.[13]

22. ***Government Strategies***. All the operations reviewed for this report and their Program Documents relied explicitly on government strategy documents in outlining the program supported by the Bank (see Annex 2). In all IDA-only countries the government prepared a Poverty Reduction Strategy Paper (PRSP), or (in Burundi) an interim PRSP (I-PRSP). Although the preparation of PRS documents does not guarantee broad ownership of the government program, the disclosure of these documents and their participatory underpinning gives confidence that policy priorities have been debated inside the government and been the subject of exchanges with stakeholders. All IDA-only countries reviewed here, except for Burundi, also were evaluated as having taken steps toward developing a national development strategy in the context of the first indicator of the Paris Declaration on Aid Effectiveness, with Tanzania and Vietnam being evaluated as having largely developed toward good practice.[14] The government of Pakistan's North-West Frontier Province prepared a provincial strategy as part of the PRSP process. In some cases, as in Bangladesh, the Bank supported more detailed sectoral strategies underpinning the PRS. In IBRD and blend countries, the Bank relied consistently on government policy statements—such as the "Vamos Guatemala" program or Indonesia's government policy statement and annual action plan—which benefited from vetting through electoral processes as well as parliamentary involvement in implementation.

23. ***Track Record***. In most of the cases reviewed, the Bank was able to rely on the government's track record of policy implementation to gauge the ownership of the policies proposed in the government's strategy. It is noteworthy that 14 of the 19 operations reviewed were follow-up operations in a series of programmatic single-tranche operations, demonstrating that government programs largely were implemented as originally envisaged. A strong track record is typically a good indicator of the government's ownership and of its successful management of the processes needed to build broader support for potentially controversial policy measures. In four cases—Bhutan, Burundi, Guyana, and to some extent Niger—there was less of a policy lending track record on which the Bank could rely, and past Bank engagement gave less information to judge the broader ownership of the strategies and underlying policy actions.[15] In Burundi, this lack of track record was linked to the preceding conflict situation. (Subsection C on customization discusses the genesis and ownership of sensitive program measures in such situations.)

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[13] For a discussion of conceptual frameworks for assessing ownership, see World Bank, *Adjustment Lending Retrospective,* Report 22723, June 15, 2001, p.73; see also J. Johnson and S. Wasty, *Borrower Ownership of Adjustment Programs and the Political Economy of Reform*, World Bank Discussion Paper No. 4, Washington D.C., World Bank, 1986; and World Bank, *An Operational Approach to Assessing Country Ownership of Poverty Reduction Strategies*, OPCS, February 2005.

[14] *Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results, and Mutual Accountability* (R2005-0058), March 7, 2005. The evaluation of countries for the Paris declaration builds on the *2005 CDF Progress Report: Enabling Country Capacity to Achieve Results*, World Bank, July 2005. For the assessment of ownership of strategies, see *An Operational Approach to Assessing Country Ownership of Poverty Reduction Strategies*, World Bank, February 2005.

[15] One country—Egypt—did not have a track record from policy-based financing; the engagement there was the result of a long-standing policy dialogue on financial sector reforms.

24. ***Policy Space and Political Economy***. The conditionality review noted the importance of giving governments space for policy development and using political economy analysis to underpin Bank engagements. Some of the recently approved operations offered evidence that the Bank can work in a way that does not interfere with internal consensus-building processes. In Guyana, which has a complex political economy situation and difficult relations between the government and the opposition, the program set out under the Bank's first PRSC turned out to be too ambitious. Therefore, recently approved new grant did not add more conditions but rather was strategically focused on areas of broad consensus, such as fiscal transparency issues. Moreover, during grant preparation, opposition parties were actively consulted, with the government's consent, to ascertain that the supported agenda would not become hostage of "election politics" but would carry broader appeal. By contrast, less policy space than desirable may have been given to the incoming government in Burundi, where measures related to coffee sector liberalization were taken by the outgoing government, thus giving less confidence about the new government's ability to fully appropriate the agenda. In some cases—for example in Ghana and Tanzania—the Bank used analytic work to better understand the political economy of reforms. The Networks are encouraging and supporting more of this kind of work, and retrospective political economy analysis is being carried out for a few reforms in such sensitive areas as agricultural liberalization and water privatization.

25. ***Analytic Work***. Analytic work can play an important role in informing evidence-based policymaking and reinforcing ownership of such policies (Annex 2 illustrates the variety and magnitude of work that has been undertaken). Most recent operations explained how the broad set of analytic work supported by the government, Bank, or third parties was used in defining and evaluating policy options. However, the recent DPL retrospective highlighted that more could still be done to reinforce ownership through early disclosure of plans for analytic work—particularly for poverty and social impact analysis (PSIA)—to ensure that the analysis would feature in the broader policy debate. Ghana's PRSC-4 offered an example of how PSIA has been applied strategically and upstream to inform several sensitive policy reform areas—for example, the discussions on electricity tariff reform. In considering the reduction of petroleum subsidies in Indonesia, the Bank and other development partners offered some analytic support to identify options for mitigating the poverty impact of subsidy reform, but they avoided any appearance of being a party to the internal debate. Subsequently, the government was highly successful in communicating the need for reform and mitigating poverty impacts with the introduction of unconditional cash transfers for the poorest households.

B. Harmonization

26. The conditionality review suggested that, 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 under the government's program. Typically, such an accountability framework should comprise actions, outputs, and outcome indicators drawn from the government's own program over a medium-term period. The conditionality review also noted that in countries that receive support from many partners, the accountability framework should be used to foster coherent interventions: all financial partners would support a set of policies that aim at achieving a single set of results agreed under the accountability framework, possibly with a division of labor among them.

27. ***Accountability Frameworks***. All 19 reviewed operations set out clear accountability frameworks agreed with the government that contained policy actions and expected results. These frameworks, summarized in policy matrices, contained actions taken before approval of the operation and those expected for the future (see Annex 2 for a detailed review). All frameworks either specified the actions that would justify disbursement of a second tranche (Burundi, Orissa), or triggers that would justify preparation of a follow-on operation (all other reviewed operations).

28. ***Harmonization with other Financial Partners***. Operations' accountability frameworks serve as tools for different levels of harmonization with other financial partners. In some cases, such as Ghana, Indonesia, Tanzania, and Vietnam, the financing provided by the Bank and other partners is coordinated through the framework laid out in single policy matrix. In other cases, when there are few or no other budget support donors—for example in Armenia, Colombia, Egypt, and Lao PDR—there is close cooperation on supported policies. In these cases, bilateral partners frequently play a key role in providing technical assistance that is closely aligned with the supported policy reform program, as in Lao PDR, Pakistan's North-West Frontier Province and the Indian State of Orissa. Finally, when the Bank is the only financial partner offering policy-based financing, the accountability framework may play a limited role in harmonization—as in Brazil's operation in support of equitable growth. Broadly, it appears that the accountability frameworks are being used flexibly to achieve different levels of coordination with other financial partners, depending on country circumstances. Nevertheless, in cases such as Burkina Faso or Madagascar, additional progress in achieving closer harmonization with other budget support donors may be possible, including through streamlining or adapting policy matrices (see also subsection E on transparency and predictability).

C. Customization

29. The conditionality review stated that accountability frameworks should never be used to add policy actions to the government's agenda, or leverage outside preferences. It noted that any agreed accountability framework should be fully consistent with the government's expressed policy intentions and internal accountability mechanisms. Moreover, the detail, size, and frequency of review of progress under government programs are expected to fully reflect country circumstances, such as country capacity and readiness for reform; and the modalities and timing of support should respond to country- and program-specific needs. The review also highlighted that Bank support for sensitive policy reforms (such as privatization, trade liberalization, and user fees) should be based on an understanding of the country-specific political economy of reform and may be warranted when such reforms are part of a well-designed and broadly owned government strategy.

1. Alignment of Bank Support with Government Programs

30. In all reviewed cases, Bank documents explicitly referred to the government program as the primary source of the policy actions used to gauge progress (see Annex 2 for a detailed review). However, as the conditionality review also discussed, not all broad government programs and PRSPs lay out a detailed implementation plan on which policy matrices can draw to establish accountability frameworks—and thus many accountability frameworks are a summary of a variety of policy intentions mentioned throughout government strategy documents. Typically, the individual country circumstances determine the particular process that leads to the

definition of the accountability framework. In many countries with repeated Bank support and joint donor activities—such as Armenia, Burkina Faso, Ghana, Madagascar, Tanzania, Vietnam, and Bangladesh's education sector—the accountability framework (or, as in Tanzania, the performance assessment framework) is updated annually through a predefined government-led process that draws on the PRS progress reports.[16] In IBRD and blend countries—for example, in Brazil, Colombia, Guatemala, Egypt, Indonesia, Pakistan's North-West Frontier Province, and the Indian State of Orissa—the Bank typically draws on an explicit sector program or government policy statement. In Bhutan, Burundi, Guyana, and Niger, Bank support was newly defined through the DPO. Among these countries, the process in Guyana drew on the lessons of previous engagements and took into consideration the political economy background, ensuring broad support for the program measures supported by the Bank. In Bhutan, the government voiced strong interest in Bank support for its 5-year plan, and support measures were derived from this plan. In Niger, the government supported the new focus of Bank support on the social and rural aspects of its own program; and policy measures in the accountability framework derived from detailed sectoral documents (for public finance management reform, rural development, and long-term development strategies in health and education), that were either anticipated or endorsed in the PRSP Progress Report of 2004. In Burundi, Bank support was defined on the basis of an interim PRSP that preceded the government's coming to power in July 2005, and received the government's broad endorsement.

31. ***Core Areas of Bank Support and Conditionality***. Most Bank support (and conditions) in recent operations have focused on public sector governance and the social sectors. Under these broad areas, there is evidence of customized support—such as public financial management reform in Indonesia and Vietnam; improvements to customs administration in Armenia, Guatemala, and Madagascar; procurement reform in Ghana and Guyana; government pay reform in Tanzania; creation of a system to track government property in Burkina Faso; and improved public information on social programs in Colombia. These examples indicate broad-based Bank support for improvements in managing core government functions and financial accountability, in close alignment with a government's own program and priorities. Many of the reforms that are the focus of conditionality bring additional benefits: increased transparency of government activities, greater financial accountability (including to parliament and citizens), and increased quantity and quality of social expenditure.

2. Support for Sensitive Policy Reforms

32. As part of its overall support, the Bank may support area where governments have to make hard choices about reform, such as privatization and public enterprise reform, price liberalization and subsidy reform, trade reform, and user fee changes. The Bank may include such policy actions in conditionality and policy matrices if the government intends to take advantage of structural reforms to improve economic performance and reduce poverty (see Table 2 for a comprehensive summary of such reform). In the operations reviewed, 21 percent had a privatization-related condition (26 percent had privatization-related policy actions in the policy

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[16] The policy matrix for Armenia explicitly set out the links between policy areas and the PRSP. In Burkina Faso, the matrix drew on the priority action plan of the PRSP, and the budget support group is seeking to align the PRS and review cycle more closely in future years.

matrix).[17] At the same time, if privatization is not the government's priority, the Bank may support public enterprise restructuring; 16 percent of the reviewed operations had at least one condition in that area. One Program Document (Brazil's) explicitly stated that the government's program did not include controversial privatization or trade reforms since "reforms that impose too high costs in the short run (or that appear ideologically confrontational) may not represent an optimal growth strategy." Of the reviewed operations, 11 percent had conditions connected with price liberalization or subsidy reform, and 5 percent had conditions related to trade reforms. None of the supported programs included user fee increases, but 11 percent had measures to reduce or eliminate user fees or subsidize access to basic social services. These sensitive policy reforms are discussed further in the following paragraphs and summarized in Table 1.

Table 2. Select Policy Reforms Supported by World Bank Operations

Policy reform	***Countries***	***Operations with conditionality (percent)***	***Policy reform***	***Countries***	***Operations with conditionality (percent)***
Privatization	Burkina Faso, **Burundi, Egypt, India-Orissa, Pakistan NWFP**	21 (26)	Public enterprise restructuring	**Guyana, Lao PDR, Vietnam**	16
Price liberalization or subsidy reduction	**Burundi**, Ghana, **Indonesia**	11 (16)	Commodity price regulation or subsidy introduction	None	0
Trade reform, including tariff reduction	Armenia, Lao PDR, **Vietnam**	5 (16)	Tariff increase	None	0
User fee introduction or increases	None	0	User fee reduction or elimination	**Burkina Faso, Niger**	11

Note. Countries in boldface type are those with related conditionality. Parentheses indicate the percentage of operations with related conditions and/or benchmarks.
Source: World Bank staff review of program documents.

33. ***Privatization***. Of the 19 operations reviewed, 5 contained privatization or related activities. In most of these cases there is clear evidence of a government-led process and ownership; but in some, additional attention to criticality and overlap with IMF conditionality in structural areas would have strengthened Bank engagement further.

- In *Burkina Faso*, the latest PRS Progress Report includes three measures related to privatizing the telecommunications company, preparing the energy company for private sector management and preparing a minority private participation in the state petroleum import company.[18] These were included as benchmarks of PRSC-6. All of these actions are being implemented over several years and with signs of strong

[17] As Section II explained, 18 percent of conditionality is in the area of private sector and financial sector reform, including privatization.
[18] Burkina Faso PRS Progress Report for 2004, May 2005, paragraph 694 ff.

ownership. The government's strategy in the telecommunications sector builds on broad success in Africa with using privatization to increase competition in and access to telecommunications, and reducing prices. An earlier attempt to privatize a minority share in the state telecommunications operator ONATEL failed, and the government is now offering a majority share for sale, albeit recently with some vocal opposition from ONATEL workers, which the government is managing through an active dialogue with the unions. In the electricity sector, the government is interested in establishing a framework that would allow a private operator to manage the state electricity company in order to increase efficiency ahead of the interconnection with neighboring countries, which in turn is expected to reduce the cost of power generation. In both the electricity and petroleum sectors, the government is still undertaking due diligence measures for private sector participation, and delays in these processes compared with initial government intentions have not affected the timing or volume of Bank lending.

- In *Burundi* the November 2003 I-PRSP referred to the government's intention to launch a broad privatization program; it mentioned past opposition and noted the government's intention to work at a pace that would allow building consensus.[19] The Bank's grant included conditionality related to bringing two state companies (one for enriched food, one a pharmaceutical import company) to the point of sale (prior action) and to relaunching bids for the non-coffee-related assets of the coffee-sector board (second-tranche condition). A number of program benchmarks also called for adoption of a privatization strategy and activities supporting the privatization program. The Bank's documentation noted that the new government in August 2005 reiterated its commitment to the strategy laid out in the I-PRSP, but wanted to proceed with simple and noncontroversial transactions while conducting preparatory work for more complex privatization.[20] Overall, the conditionality related to privatization appears to have been based on the new government's clear commitment to these small and fairly noncontroversial privatizations under a broader government privatization program. However, the fact that these transactions are simple and the companies' impact on the economy is likely small (the importance of the actual transaction for the economy is not discussed in Bank documents) suggests that they may not be the most critical; thus their use as conditionality, especially for the second tranche, could be questioned.[21] In addition, the conditions were structural benchmarks under the second review of the IMF's Poverty Reduction and Growth Facility (PRGF), approved on July 27, 2005, and thus they were already covered under IMF conditionality before the new government was appointed and the Bank operation was prepared.[22]

- In the *Arab Republic of Egypt* the Bank supported the government's financial sector reform program, which included the privatization of the Bank of Alexandria and the

[19] Burundi Interim Poverty Reduction Strategy Paper, November 2003, paragraph 246 ff.

[20] Burundi, Economic Reform Support Grant, Report No. 36723-BI, July 6, 2006; paragraph 137.

[21] The Good Practice Note for Development Policy Lending and Program Conditionality in Fragile States also suggests a more streamlined and cautious approach.

[22] *Burundi: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, IMF Country Report No. 05/322, September 2005.

sale of government shares in several joint-venture banks. The government's program was designed on the basis of technical assistance, including a 2002 Financial Sector Assessment Program report, three Financial Sector Reform and Strengthening Projects, and assistance by bilateral financial partners. A program for 2005-08 was adopted after a lengthy process of consensus building and the appointment of a new cabinet in September 2004. The government restructured and recapitalized the Bank of Alexandria in the run-up to the privatization, and it has committed to job security for current employees. The anticipated benefits include improved financial services and greatly reduced financial risks for the government's budget. In spite of some public opposition, the government has repeatedly voiced strong commitment to the program. The bank was sold to an anchor investor in October 2006, and the privatization process yielded a firm bid at US$2.016 billion, exceeding expectations.

- In the *Indian State of Orissa*, the government initiated a public enterprise reform program focused on selling commercial businesses, closing loss-making enterprises, and privatizing viable units. The Bank's support focused on overall progress in improving the efficiency of the public sector and reducing government involvement in commercial activities in order to reduce fiscal exposure. The Public Enterprises Reform and Privatization Policy of 2002 included severance pay provisions and social safety net support for voluntarily separated workers to reduce potential negative effects. The program benefitted from technical support from donors, notably the UK Department for International Development. The government, which is establishing these policies as part of a broader reform program aiming at accelerating growth and poverty reduction under the Tenth Five-Year plan, has shown steady commitment to program implementation, and was returned to power in 2004 for a second term. Particular conditionality associated with the Bank loan included a general assessment of progress under the 2002 public enterprise reform program, including selling of assets of 2 closed enterprises, privatization of 2 enterprises (related to milling), and environmental audit of 20 further enterprises.

- In *Pakistan's North-West Frontier Province*, the government's strategy was laid out in a provincial document. As part of the program, the government divested a minority share in the Khyber Bank through a new emission to the public, an action that was also a prior action for Bank lending. In addition, the government used leasing arrangements to involve the private sector in a few small hydropower projects. These two actions were not considered controversial, and both were directly derived from the provincial government's priorities.

34. ***Public Enterprise Restructuring***. Three country programs included Bank support to improve functioning of public enterprises, all with strong evidence of a government-owned and –led program. In Guyana, the Bank supported the environmental due diligence surrounding the expansion of the government's Skeldon sugar factory; in Lao PDR, the government conducted diagnostic work and performance monitoring through annual international standard audits of selected large public enterprises and developed restructuring plans; and in Vietnam, the government program supported by the Bank through PRSC-5 included changes in management practices of state-owned enterprises to improve their performance.

35. ***Price and Subsidy Reform.*** Three of the 19 operations reviewed contained price liberalization, price reforms, or subsidy reform among their measures. In one case, conditionality could have been more appropriately directed to sector reforms than price liberalization.

- In *Burundi*, the (outgoing) government liberalized the pricing and marketing of coffee, the main export crop (first-tranche condition), under a sector reform program developed after the adoption of the I-PRSP. The new government committed to develop a detailed implementation action plan for coffee sector reform (second-tranche condition), including debt restructuring, setting of regulatory framework, crop financing, and privatization of coffee washing stations and accompanying social measures. As the Bank's documentation explained, the Bank's support for sector reform was intended to help the government define an appropriate legal, regulatory, and institutional framework for a liberalized and privatized sector in order to achieve sustainable increases in incomes for coffee farmers.[23] Key steps in the liberalization agenda taken in January and June 2005, the last months of the outgoing interim government, reduced the ability of the incoming government to determine the policy agenda. Most of the reform steps—including the Bank's prior actions—were also included as structural benchmarks under the second review of the IMF's PRGF-supported program, which had been approved in July 2005. The Bank's documentation noted coffee farmers' concerns about privatization and stakeholders' limited information about coffee sector reform.[24] Taken together, these facts suggest that it may have been more appropriate to focus Bank conditionality on activities (listed in para 113 of the Program Document) to achieve a successful sector reform, most notably the regulatory framework, financing, and information management, and measures to reduce possible negative effects on poor people. The Program Document also highlights the need to more fully develop the strategy for the planned privatization of coffee washing stations (a condition for the Highly Indebted Poor Country Initiative completion point), especially in light of the failure of the first attempt to sell two stations under the IMF's PRGF-supported program.

- In *Ghana*, one of the program benchmarks called for a review of the electricity tariff structure to ensure that tariffs adjust to the increased cost of energy generation (notably from imported oil) and to separate transmission charges from generation charges. These measures are incremental steps of a broader government reform agenda for the energy sector, summarized in the PRSP[25] and implemented with support from several donors. The review of the tariff structure was subject to a prior poverty and social impact study, which found that the old structure implied a higher unit tariff for consumers with the lowest consumption and that a minimum of 50 percent of lifeline tariff benefits accrued to nonpoor people.

- In *Indonesia*, the Bank's program supported the significant reduction of petroleum subsidies by adjusting petroleum prices to be closer to world market prices. Supported by poverty and social impact analysis, the government developed an unconditional cash transfer program for poor people that was rolled out in parallel

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[23] *Burundi*, *Economic Reform Support Grant*, Report No. 36723-BI, July 6, 2006; para. 113.

[24] *Ibid*., Annex 5.

[25] Growth and Poverty Reduction Strategy II, November 2005, p. 36.

with the price adjustments. This measure reduced the negative effects of the petroleum price jump on poor and vulnerable groups and avoided the potential destabilizing political fallout of the price adjustment.

36. ***Trade and Tariff Reform.*** Three of the operations reviewed contained conditions or benchmarks related to accession to the World Trade Organization (WTO). In Armenia, Lao PDR, and Vietnam, WTO accession has been part of the declared policy objectives of the government, with strong government ownership. In Armenia, WTO accession was included as progress indicator in the PRSP,[26] and a program benchmark for PRSC-2 concerned removal of reference prices. Similarly, in Lao PDR WTO accession was an explicit objective of the PRSP,[27] and two program benchmarks of PRSC-2 referred to related documentation and to implementation of commitments under the Asia Free Trade Association. In Vietnam, the Comprehensive Poverty Reduction and Growth Strategy made explicit reference to the objective of WTO accession.[28] Bank support under the fifth PRSC included a new intellectual property law in line with WTO requirements as a prior action and contains several program benchmarks related to the removal of quantitative import restrictions in line with WTO regulations, as well as identification of measures to counter the social and economic effects of WTO accession.

37. ***User Fees.*** In none of the reviewed operations did the Bank support increases in user fees. Instead, conditionality in the social sectors frequently included measures to reduce the cost of access and either remove or substantially reduce user fees for certain groups. (Two operations, in Colombian and Ghana, also included measures to create or improve health insurance coverage for poor people.) Although reductions in user fees generally have popular support, they may face opposition from vested interests. In the reviewed operations, the following included user fee reduction or elimination:

- In *Burkina Faso,* prior actions for PRSC-6 included lowering costs for obstetric care. This measure aimed at reducing maternal mortality rates, one of the Millennium Development Goals (MDGs).

- In *Niger*, to address the MDGs on maternal and child mortality, particular emphasis was placed on creating a scheme for free contraceptives, prenatal care, deliveries by Caesarean section, and child health care. Additional program actions chosen as conditions monitored the appropriate financing of these measures through the government's budget.

D. Criticality

38. The 2005 conditionality review noted that in establishing the conditions for lending, Bank and country staff should choose from the agreed accountability framework policy and institutional actions that are critical for achieving the results of the program. It also stated that triggers in programmatic operations should be clearly marked and identified to country authorities and in Board documents. It indicated that Bank operational documents should rely to the extent possible on the government's existing presentation of programs and policies, and it

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[26] Armenia Poverty Reduction Strategy Paper, November 2003, Box 6.1, p. 54.
[27] Lao PDR National Growth and Poverty Reduction Strategy, June 2004, Table 3.10.
[28] Vietnam Comprehensive Poverty Reduction and Growth Strategy, November 2003, p. 44.

noted that if the agreed accountability framework coherently sets out actions, outputs, and outcomes for the government program, there should be no need for the Bank's Board documentation to include more than a few conditions and results indicators.

39. ***Documentation of Conditionality***. All operations reviewed for this report showed clearly the program supported by the Bank, and the actions that served as prior actions or tranche-release conditions in Bank operations. The policy matrices in all these operations also clarified the sequencing of actions over time, simplifying the review of criticality. (See also the discussion below on transparency and results.)

40. ***Criticality of Conditions***. In the operations under review, most actions identified as prior actions, triggers, and conditions in the agreed accountability frameworks were clearly critical to program objectives, but there was still some conditionality related to small and less significant processing steps. (Annex 2 reviews in detail for each operation whether measures that have been identified as conditions can be considered to be critical.) For example, many operations contained conditions related to the adoption of action plans (Burkina Faso, Egypt, Indonesia, Lao PDR, Niger, Pakistan North-West Frontier Province), which are not obviously critical. Another problem in evaluating the criticality of conditions is vague formulations (such as a prior actions to "begin implementation of the recommendations of the sector review" in Madagascar). A good example of clearly formulated prior actions is Colombia's Labor and Social Reform Loan-3.

41. ***Number of Benchmarks***. As paragraph 12 and Figure 2 showed, since the adoption of the good practice principles the average number of benchmarks in operations has declined somewhat—to 27 in IDA countries and 7 in IBRD and blend countries. Despite this positive recent trend, the use of benchmarks will need to be monitored closely in the future, in particular in IDA countries, to ascertain that the trend continues and good practice is more consistently applied.

42. ***Matrix Size and Country Circumstances***. The challenge for Bank teams is how best to present multisectoral interventions when the PRSP or sector strategy process does not yield monitorable action plans. In such cases, as accountability frameworks are developed, joint donor or Bank support may end up being the focal point for the definition of "implementation road maps."[29] Whether such dialogue ultimately results in large matrices with many benchmarks may depends on country circumstances and the dynamics of the donor community as a whole. This is illustrated by Tanzania's and Ghana's fourth PRSCs, both of which are the first operations in a new programmatic series harmonized through budget support groups. In Tanzania, past experience with an unwieldy performance assessment framework resulted in a complete redesign for the second PRSP, which is focused on a few selective actions, sector reviews, and selected outcomes. The Bank no longer uses a separate matrix with "benchmarks." By contrast, in Ghana the government used the interaction with the multidonor budget support group as a device to define annual implementation plans, and the multidonor budget support matrix for the second

[29] It has also been suggested that it would be too much to expect the PRS process to deliver performance assessment frameworks that satisfy donor needs, that donors should recognize the tensions between recipient country and donor interests and find out what part of policy action monitoring can produce useful results and apply selectivity to conditions/actions based on such evidence. See David Booth, Karin Christiansen, and Paolo de Renzio, "Reconciling Alignment and Performance in Budget Support Programs," in *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*, Stefan Koeberle, Zoran Stavreski, and Jan Walliser (eds.), April 2006.

PRSP continues to contain about 40 benchmarks. Overall, these findings suggest that the donor community as a whole needs to be careful not to overload program matrices and to add to the complexity or burden of supported programs. However, the evidence shows that the Bank now tends to use benchmarks with greater discipline in most new programmatic series: the use of benchmarks in new programmatic series is significantly below those in countries at the end of programmatic series in FY06—such as Burkina Faso, Madagascar, and Vietnam—which began in FY04 or earlier.[30] As these countries now enter a new programmatic cycle, there is scope in FY07 for trimming policy matrices and supporting a further reduction in the use of benchmarks.

E. Transparency and Predictability

43. The 2005 review suggested that in the context of medium-term Bank support, 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. According to the review, any financial support decisions should be announced sufficiently early to be taken into account in the country's own decisionmaking and budget allocation processes, and performance reviews should actively promote a culture of results management and measurement.

44. ***Documentation of Programs and Results.*** In all the operations reviewed, the documentation spelled out all conditions, triggers, and expected results, laying the basis for a transparent evaluation of progress under the program in line with government priorities on financing, and jointly with other financial partners. As Annex 2 discusses in detail, weaknesses for transparent progress reviews in a few operations may arise from vague formulation of triggers, which may leave too much room for interpretation to be a useful progress gauge. In several operations results indicators lacked baselines, which reduced their value as indicators of progress.[31] At the same time several operations—such as the Armenia, Burkina Faso, and Vietnam PRSCs—are following best practice in simultaneously and consistently reporting on both program actions and related outcome indicators in each operation of the programmatic series.

45. ***Responding to Country Needs***. Among the 19 operations reviewed, when countries have voiced clear preferences for a review cycle consistent with regular annual financing, the Bank has generally responded to that demand and been fairly predictable. The operations in, Burkina Faso, Guatemala, Indonesia, Madagascar, and Vietnam exemplify this Bank response to requests for regular annual program reviews and financing decisions. Countries such as Brazil, Colombia, Egypt, or India put less weight on regular review cycles since they can access capital markets to meet their financing needs, and the speed of program implementation and progress reviews is more varied.

46. ***Managing Tensions between Predictability and Performance***. The Bank cannot always escape the tension between predictability and performance. Ultimately, performance review requires a judgment as to whether overall progress under a program warrants additional financing, and at what level of financing. Thus it is important to time these reviews appropriately to avoid disruptive financing decisions (e.g., reductions in anticipated financing amounts within the government's fiscal year). In harmonized budget support settings, such as Ghana and

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30 In Madagascar, the size of the matrix also appears to be unnecessarily large, even from a perspective of broader program monitoring; see Annex 2.

31 See Development Policy Lending Retrospective (SecM2006-0319), July 13, 2006.

Tanzania, financing decisions are therefore increasingly made at a time that precedes the budget allocation decisions so that the government can adjust the budget in line with available financing. In Tanzania, for example, the timing of the PRSC-4 was changed to respond to the newly agreed review cycle in that country; and efforts along these lines are under way in several countries with recurrent budget financing under PRSCs, such as Burkina Faso and Madagascar. Going forward, risks for predictability may arise in two-tranche designs, particularly in relatively weak policy environments. Second-tranche conditions, if not carefully and realistically formulated, do not allow a graduated response to performance that is weaker than anticipated, and they can hold up all anticipated future financing. While they may give a strong performance signal (since any single condition can hold up the second tranche), they can be less appropriate in fragile environments where priorities may shift more frequently and predictable support is particularly important. Challenges for predictable financing can also arise where new programs are being designed or where interventions are considered to be stand-alone support. In Burundi, for example, the preparation of the operations took longer than the government and other external partners anticipated and was delayed into 2006, partially for reasons internal to the Bank (staffing changes and prolonged internal review processes related to fragility and risks in Burundi).

IV. Conclusions and Recommendation

47. This report reviews a set of 19 operations that have been processed in full since the Development Committee discussed the 2005 conditionality review. The report finds that the Bank's recent practice in the use of conditionality is broadly consistent with good practice principles: most Bank programs are well aligned with government priorities and customized to country circumstances, and they clearly spell out expectations. They make frequent use of opportunities for harmonization, generally highlight critical actions as conditions, and respond to government needs for predictability of financing decisions. Management is therefore of the view that the Bank has made satisfactory progress in implementing the recommendations of the 2005 Review of World Bank Conditionality.

48. ***Areas for Further Improvement***. The report identifies areas in which improvements in the Bank's application of conditionality could, along with the recommendations of the DPL retrospective, help improve Bank operations:

- Upstream disclosure of Bank analytic work that underpins program design, to incorporate recommendations into the government's PRS and policymaking cycle and give political space for debate.
- Avoiding the use of policy conditionality in sensitive areas where ownership is uncertain or the political environment fragile, and avoiding overlap of conditionality with the IMF unless it is clearly critical for the success of the Bank-supported program.
- Greater adherence to the criticality principle by avoiding certain process conditions such as those related to adopting action plans.
- Continuous monitoring of the use of benchmarks, with a particular emphasis on reducing their use in first operations in new and mature programmatic series.

- Continuing work with other financial partners on defining joint accountability frameworks with limited and disciplined use of policy actions, which are conducive to program reviews that avoid intra-year financing cuts for government budgets.

- More systematic use of baselines for results indicators in DPO results frameworks.

49. ***Next Steps***. Management will continue to use internal training and corporate review processes to further improve DPO design, as indicated above. The use of conditionality and the adherence to the good practice principles will be subject to regular monitoring under biannual development policy lending retrospectives, with the next retrospective planned for early FY09.

50. ***Recommendation***. On the basis of this review, Management recommends that, for the purposes of additional contingent contributions to IDA14, the Executive Directors make a determination that the Bank has made satisfactory progress in implementing the recommendations of the 2005 Review of World Bank Conditionality.

ANNEX A. OPERATION REVIEWED AND COMMITMENT AMOUNTS

Country	Project ID	Operation	Concept Review	Approval	IBRD Commitment	IDA Commitment
Pakistan	P098866	NWFP SAC II --	09/27/2005	10/25/2005	0	50
Pakistan	P098867	Pakistan PRSC I	09/27/2005	10/25/2005	0	150
Indonesia	P096594	DPL-2	10/14/2005	12/15/2005	400	0
Armenia	P093459	PRSC-2	11/01/2005	01/19/2006	0	20
Bangladesh	P084567	Education Sector-2	01/11/2006	03/07/2006	0	100
Guyana	P078703	PRPMO-1	02/28/2006	04/27/2006	0	9.6
Lao PDR	P096635	PRSC-2	01/30/2006	04/27/2006	0	8
Tanzania	P095509	PRSC-4	12/12/2005	05/09/2006	0	200
Bhutan	P078807	DPL-1	12/01/2005	05/25/2006	0	15
Pakistan	P090689	NWFP DPC-1	09/27/2005	06/01/2006	0	90
Brazil	P095675	Equitable Growth-2	02/13/2006	06/06/2006	601.5	0
Niger	P096411	Rural and Social-1	12/20/2005	06/13/2006	0	50
Egypt, Arab Republic	P088877	Financial Sector	11/11/2005	06/15/2006	500	0
Ghana	P095730	PRSC-4	03/13/2006	06/15/2006	0	140
Burkina Faso	P078996	PRSC-6	02/15/2006	06/20/2006	0	60
Vietnam	P086361	PRSC-5	03/01/2006	06/22/2006	0	100
Madagascar	P096102	PRSC-3	03/30/2006	07/13/2006	0	40
Colombia	P094097	Labor-3	04/17/2006	07/25/2006	200	0
Burundi	P091475	Economic Reform	10/06/2005	08/01/2006	0	60
India	P097036	Orissa Social-3	10/11/2005	08/01/2006	150	75
Guatemala	P094897	DPL-2	07/05/2006	08/29/2006	100	0

ANNEX B. REVIEW OF IMPLEMENTATION OF THE FIVE GOOD PRACTICE PRINCIPLES

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Indonesia	DPL-2	The government's medium-term program RPJM lays out three main objectives: (i) safe and peaceful Indonesia; (ii) just and democratic Indonesia; and (iii) a prosperous Indonesia. Its goals are translated into government activities through an annual work plan called RKP. The Bank has supported the program through analytic work in the area of public expenditure, growth, investment climate, and public financial management and procurement.	The program document defines the actions in a sequential manner and outlines expected results. The policy matrix has been fully harmonized with other development partners, notably the government of Japan and the AsDB, which provided parallel financing for the operation. Coordination has also been close with the IMF and with partners in supporting public financial management reforms.	The policy matrix of the operation lays out Bank support for three (out of seven) priorities of the annual implementation plan of the government in the areas of (i) reduction of poverty and disparity; (ii) employment opportunities, investment, exports; (iii) eradication of corruption, bureaucracy reform, law enforcement. Prior actions included reductions in subsidies to the non-poor as likely the most difficult reform, as well as actions aiming at improved tax administration and debt management, decentralization, progress on planning for financial sector reform, improved regulation of public financial management laws, and strengthened internal investigation unit in MOF.	The policy matrix contains 12 prior actions under three pillars. There are no further benchmarks. The program is well focused on a few actions. However, a few actions are relatively vaguely formulated and focus on adoption of action plans, thus they may not appear to outside observers to be directly critical for achieving the targeted results. At the same time, these actions are expected to result in concrete progress as these action plans are implemented.	The policy matrix transparently lays out actions and results expected to be taken under the program. The document also has a focused results framework and indicators with benchmarks, allowing evaluation of changes in indicators over time when moving from one operation to the next. However, some of the follow-on actions for DPL-3 are complex and thus may be less clear as guideposts for future support than would be desirable. The Indonesian government has placed a high premium on predictability of financial support, which for the first two operations followed an approximate 12-month cycle, with a third expected to follow the same rhythm.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Armenia	PRSC-2	The government presented its program in the 2003 PRSP. The program aims at (i) promoting sustainable economic growth through macroeconomic stability and private sector development; (ii) enhancing human development and improving social safety nets; (iii) implementing prudent fiscal policies and reforming the tax system; (iv) improving public infrastructure; (vi) improving core public sector functions. Bank supported the government with analytic work on economic management, growth, public expenditure, poverty, public financial management, competition policy, financial sector, rural economy, and others. The government takes the lead in preparing the PRSC policy matrix as part of the PRS process, in consultation with stakeholders, civil society, and donors.	The program document summarizes the activities supported under the operation in a program matrix. The matrix lays out actions over a three-year period and expected results. It serves primarily as the summary of the progress reviews with the Bank for the purposes of PRSCs. However, under different components of the program, close coordination takes place with donors present in those areas (e.g., with DfID and the EC on governance and PFM management; with UN agencies and DfID on social sectors; and with USAID and MCC on financial sector reform).	The policy matrix annexed to the program document lays out policy areas supported by the Bank under four themes: (i) consolidating macroeconomic discipline and strengthening governance; (ii) sharpening competition and entrenching property rights; (iii) mitigating social and environmental risks; (iv) modernizing the rural economy. The link between these themes and the PRSP is clarified in the program document. Prior actions include measures to (i) improve tax administration and customs; (ii) improve public financial reporting; (iii) reduce restriction on air services; (iv) improve regulatory framework for utilities; (v) improve laws governing credit; (vi) develop draft pension law; (vii) improve hospital and education services; (viii) better manage forests, agricultural extension, rural infrastructure (including preparation for public-private partnerships). One benchmark refers to reduced use of reference prices in line with WTO.	The program matrix extracts a number of key reform measures from the PRS. The 18 prior actions address weaknesses or bottlenecks in each of the different policy areas summarized under the four themes and appear to be well selected for criticality. Some actions were formulated vaguely ("satisfactory progress"). Given that the operations matrix serves as broader implementation framework for the government in the context of its PRS, it contains a broader set of actions, including an additional 21 benchmarks, exceeding the Bank average in this regard. These could possibly be reduced if the policy matrix for the operation develops further and eventually leaves the definition of other actions to other vehicles.	The policy matrix (developed by government) lays out a transparent sequence of actions and expected results. The government and the Bank are engaged in a review cycle aligned with the PRS, and the second PRSC followed the first after 14 months. The results focus of reviews is fostered through a detailed monitoring framework that includes baselines, intermediated targets, and program targets with annual updates of indicators.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bangladesh	Education Sector-2	The government program builds on the 2005 PRSP. Education plays and important role in the PRSP, and the medium-term strategies for the primary (PEDP II) and secondary education sector underpin the PRS and its objectives. The sectoral strategies were developed by line ministries, with input from experts outside government, consultations/workshops with stakeholders, and development partners. The program includes reforms in the management of the education system, targets improvements in teacher effectiveness, and includes curriculum and textbook reform. The program formulation benefited from support by JICA, EC, and AsDB analytic work.	The program document summarizes the previous actions, anticipated reforms steps, and targeted results of the supported reform program in a policy matrix. The primary education sector program benefits from multidonor support using different support instruments and is coordinated under the PEDP II umbrella, ensuring the consistency of the framework set out in the policy matrix with joint donor assistance of the primary education program. In secondary education, Bank support is harmonized with other donor agencies' financial support and technical assistance in select areas of the program.	The policy matrix of the operation presents the supported areas of the reform program under four pillars: (i) overall program; (ii) system management; (iii) teacher quality; and (iv) curriculum and textbooks, in alignment with the government's program. Prior actions are related to (i) external evaluation of schools; (ii) redirection of school construction to underserved areas; (iii) design of stipend program for poor; (iv) greater transparency and tracking of expenditure; (v) improved financial management; (vi) reform of teacher accreditation, training, and minimum requirements; (vii) evaluation of competitive process for textbook acquisition.	The program matrix summarizes a broad reform program succinctly. The 13 prior actions are focused on critical steps to implement the government's program across three different areas. The focus is aided by the existence of comprehensive sectoral strategy documents. As a result, the use of other benchmarks in the policy matrix is limited to 10.	The policy matrix lays out the core actions of the program in a transparent manner, and informs about prior actions, expected actions for the future, and anticipated results. Transparency is somewhat diminished by the discrepancy between a few of the actions in the policy matrix identified as prior actions and the prior actions of the Legal Agreement summarized in Box 6. Most results are formulated in terms of targets that are independent of baselines (reduce indicator x to y percent) but gauging the magnitude of anticipated changes may have benefited further from availability of baselines in the matrix.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Guyana	PRPMO-1	The government program supported by the operation builds on the 2001 PRSP and subsequent progress reports. The PRSP contains seven strategic pillars aiming at broad-based growth, environmental protection, stronger institutions, and better governance, investment in human capital, investment in physical capital, improved safety nets, and policies to address pockets of poverty. The PRS and subsequent progress report benefited from consultations and participation. The Bank and other donors have provided technical advice in several areas, such as fiduciary systems and procurement.	The program document defines the key actions that justify the operation, sets out actions anticipated for future support, and defines expected results. These together form the accountability framework agreed with the government. The policy matrix serves for assessing progress for the purposes of the Bank's policy-based support, although the interventions in different areas have been closely coordinated and harmonized with other donors operating in the relevant sectors (e.g., with IADB on public financial management reforms).	The policy matrix of the operation lays out Bank support in a few select areas of the government's broad program under the pillars of (i) macroeconomic stability; (ii) improved quality of public sector management; and (iii) improved climate for environmentally sustainable development. Prior actions are focused on improvements in public investment planning, public financial management and procurement reforms, better PRS monitoring, progress in environmental management of the sugar sector, and a better legal basis for forestry management.	The policy matrix is focused on core program steps in the three selected areas. These are summarized in six prior actions in the policy matrix, albeit some prior actions contain several steps and thus the number of actual actions to be taken is slightly higher, but still significantly below Bank average. The operation has no benchmarks. The design reflects lessons learned on program focus and conditionality discussed in the ICR for the 2002 PRSC.	The policy matrix lays out the actions taken before approval of the operations, establishes a link with prior support, and gives a transparent indication of actions expected to be taken before the next operation to evaluate progress. Some weaknesses exist through the missing of clearly specified baseline values for results indicators, making tracking of results over time more difficult. Because of performance issues, the original PRSC series was not continued, and under the new set of two operations, it is not expected that support will be annual - a fact that is taken into consideration by the government in planning its budget.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Lao PDR	PRSC-2	The government's program is laid out in the 2004 National Growth and Poverty Eradication Strategy. The NGPES was developed through a participatory process and seeks to (i) maintain macroeconomic stability; (ii) deepen structural reforms, including public financial management and state-owned enterprises; (iii) invest in social sectors; (iv) invest in infrastructure; (v) invest in rural development and natural resource management; (v) improve capacity. The Bank offered analytic support in form of work on public financial management, poverty, and economic management, trade integration, investment climate, and expenditure tracking. Prior to the PRSC series, the Bank was engaged under a financial management reform program, which provided a track record in a core area of the reform program.	The program document lays out the sequence of policy actions used to assess performance under the program, in correspondence with the government's letter of development policy. The policy framework set out in the matrix serves primarily as tool for the Bank's dialogue, as no other donor currently is providing budget support. However, under the umbrella of the PRS and the Bank's operation, donors (such as EC, JICA, JBIC, SIDA, and AsDB) are providing technical assistance for related policy reforms and capacity building, assuring closely coordinated and harmonized support. Several donors are considering co-financing of future operations.	The policy matrix summarizes focal areas of Bank support under three components: (i) public resource management; (ii) public expenditure policies; and (iii) sustainable growth, indicating the direct link of the activities in the policy matrix with the NGPES. Prior actions aimed at (i) improvements in public expenditure management, including budget classification and accounting; (ii) external audit of state-owned enterprises; (iii) approval for restructuring of four state-owned enterprises; (iv) financial sustainability of the power sector including through future tariff increases; (v) regular payment of teachers and health workers; (vi) enactment of a new business law facilitating registration and business start-up. Two benchmarks refer to the establishment of a checklist for documents required for WTO accession and the implementation of commitments for tariff reduction under AFTA.	The policy matrix identifies 10 prior actions for this operation, and contains an additional 32 actions under the different components. Although most of the underlying reform processes are critical steps in making progress with budget management, fiscal management, and social indicators, not all of the actions are formulated in a way that allows one to recognize these underlying steps (e.g. the use of the adoption of an annual action plan for public expenditure management reform or the adoption of an action plan to render the electricity sector viable). Moreover, a number of benchmarks appear in areas that are not intended to contain critical actions for the program and thus the matrix could be reduced in size without necessarily losing areas identified as critical. Efforts in this regard have already been made between PRSC-1 and PRSC-2.	The matrix lays out the expected sequence of actions and expected results in a transparent manner. However, the sometimes vague formulation of actions and triggers reduces clarity for outside observers how about progress will be measured, even if for those engaged in the policy dialogue their importance and purpose may be evident. The results focus of the operation is helped through the formulation of targeted results and the inclusion of baselines.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Tanzania	PRSC-4	The government's program is laid out in the 2005-10 PRSP, known as MKUKUTA. It is informed by "Tanzania's Vision 2025" and has an increased focus on growth and governance compared to the first PRSP. The MKUKUTA benefited from broad-based consultations of Parliament, civil society, faith-based groups, private sector, districts and villages, and donors. It is based on targeted outcomes for (i) growth and income poverty; (ii) improvement of quality of life and social well-being, (iii) good governance. Actions and interventions to achieve targets are identified in the MKUKUTA.	The program document includes a performance assessment framework of outcome indicators, underlying processes for progress reviews, and actions agreed among all budget support donors as the central accountability framework for assessing progress. The performance assessment framework (PAF) also contains actions related to "satisfactory progress review" in sectors, the meaning of which has been agreed and defined between donors and government. Including the Bank, 14 donors are part of the PAF review.	The PAF is organized in six themes representing the three MKUKUTA clusters with additional details presented regarding (i) resource allocation and budget consistency; (ii) public financial management; and (iii) macroeconomic stability. The PAF identifies underlying review processes and contains policy actions. For PRSC-4, the Bank's prior actions were necessarily derived from the accountability framework established prior to the PAF. Prior actions focused on (i) crop board reform; (ii) operationalization of the land and village acts; (iii) business registration reform; (iv) pro-poor expenditure allocation and budget execution; (v) improvements at the national audit office; (vi) increased resources for procurement agency; (vii) pay increases consistent with government pay reform and reform of pay allowances; (viii) satisfactory health sector review.	The list of prior actions is shorter than the average Bank operation, with 10 actions. The operation does not use benchmarks. Actions represent a core element of the policy dialogue. In the area of pay reform, the action to "agree on a process to reform the public sector allowances regime based on the recommendations of an ongoing review" may appear to be process-oriented and relatively far removed from the targeted outcomes. However, this action played a central role in transparently managing the complex civil service pay reform process.	The operation sets out transparently prior actions and expectations for future engagement as part of the agreement between donors and government. The timing of the operation is being pushed forward to allow for better predictability of funds ahead of the budget year in case of reductions in originally expected financing volumes in response to performance. The new PAF also centers on measurement of results and thus the joint framework fosters results-focused interventions.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bhutan	DPL-1	The government program supported by the operation is defined by the 1999 strategy document *Bhutan 2020: A Vision for Peace, Prosperity, and Happiness*, prepared with a broad consultative process. The document spells out the distinct vision of Gross National Happiness. The strategy is implemented under the Ninth Five-Year Plan. The Bank provided technical assistance through policy notes, and the government benefited from analytic support of bilateral donors and UN agencies in the social sectors.	The program document sets out a sequence of actions agreed with the government that will be used to discuss program performance against actions and indicators for future support beyond this operation; given the small size of the country and lack of other donor engagement with budget support, the matrix is coordinated with other interventions but does not serve as a joint donor matrix.	The operation corresponds directly to a request for support by the government and has been developed around the government's own priorities. Most prior actions relate to improved access and quality of education and health services. Bank prior actions also support the labor and investment climate reforms the government has already undertaken as part of the sixth national plan to (a) create a comprehensive policy framework for labor markets; and (b) clarify the rules for foreign direct investment under existing laws.	The policy matrix attached to the government's letter of development policy contains 30 actions as part of the 2005-06 program that justifies the operation. Eight of these are highlighted in the program document as prior actions, 21 present additional benchmarks describing the broader government program. Conditionality is focused on core actions ensuring improvements in fiscal management and budget allocation, reform steps to enhance the investment climate, expansion of education coverage, development of school curricula, and piloting of a program to raise the percentage of deliveries in hospitals.	The operation takes into account government fiscal-year cycles and preferences for timing of disbursements. Criteria for reviewing progress have been transparently established in the form of triggers and outcome indicators, with the latter generally containing baselines and targets.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Pakistan	NWFP DPC-1	The government program supported by the operation is laid out in the Provincial Reform Program for the North-West Frontier Province (NWFP) and the concomitant provincial PRSP. The Bank and other donors have supported the program over several years, including by offering analytic work and technical assistance. The commitment to the reform program has been strong even through changes in government, indicating broad ownership of its contents.	The program document sets out a sequence of actions agreed with the government that will be used to discuss program performance against actions and indicators for future support beyond this operation. Since the Bank stands alone in providing budget support, the policy matrix is not used as a harmonization tool. To a significant extent, however, the program relies on technical support from bilateral donors (DfID, NORAD, GTZ), support that is aligned with program objectives and actions laid out in the policy matrix.	The Bank support to the program laid out in the policy matrix reflects the priorities of the provincial government with a strong focus on human development and with a strong set of actions to enhance access and improve quality of education and health services. Fiscal and governance reforms are another important part, and the program also contains a component on private sector development. One prior actions relate to the involvement of the private sector (NGOs) in HIV-AIDS prevention, another to the reduction of the government share in a public bank to 65 percent by increasing the capital and selling shares in the market. One benchmark relates to the lease of small hydropower projects to the private sector to enhance private sector involvement in power generation.	The policy matrix presents a very broad and detailed multisectoral program the government is implementing and is a key management tool for the government in piloting the program. However, with 20 prior actions and 42 benchmarks it exceeds significantly the practice in other Bank operation. In particular, a number of "process" prior actions likely could have been dropped without losing critical program steps.	The policy matrix sets out transparently how progress under the program will be assessed against actions and results indicators. Most indicators contain both baseline and target values. The provincial government has in the past received Bank DPL support on a biannual basis, in line with implementation speed, although future support may be more frequent. There are no specific concerns about predictability under the existing accountability framework.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Brazil	Equitable Growth-2	The government strategy supported by the operation was laid out in a December 2004 white paper on "Microeconomic Reforms and Long-Term Growth." The Bank-supported program explicitly takes into account political constraints in the reform process, noting that "reforms that impose too high costs in the short run on affected groups (or that appear ideologically confrontational) may not represent an optimal growth strategy." Bank analytic work, at request of the government, supported the development of the reform program.	The program document sets out a sequence of actions agreed with the government that will be used to discuss program performance against actions and indicators for future support beyond this operation. Since the growth reforms are supported only by the Bank under a DPL, harmonization issues arise only in assuring broad consistency with other reforms, which is the case through strong government leadership.	The operation follows the government's implementation speed of a broad and multi-layered program of reforms, covering logistics costs, business environment, financial sector efficiency, and innovation capacity. The program includes the definition of a framework for public-private partnerships in infrastructure to enhance the government's capacity to finance infrastructure investment. However, as noted in the program document, "unilateral trade reforms and privatization may be politically difficult in the face of opposition from diverse powerful groups" and, given the government's focus on fiscal discipline and social security, bolder reforms may not be feasible or optimal.	The operation separates a larger and broader presentation of the overall government program and a summary matrix with the core actions and results for the supported program. The summary matrix contains only prior actions and no benchmarks. The number of prior actions is relatively high at 22 and could possibly have been reduced by deleting 1-2 "paper" actions; but it reflects a broad set of important activities undertaken under the government's strong leadership rather than excessive conditionality.	The summary program matrix lays out transparently how progress under the program has been and will be assessed. The matrix also contains a set of measurable monitoring indicators, albeit with some weaknesses in clearly identifying baselines. Regarding predictability, the government has easy access to capital markets and thus is less concerned about annual support than a timely response of the Bank to financing request once the program has progressed sufficiently. Both the amount and timing of this operation responded to government priorities.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Niger	Rural and Social-1	The government program supported by the operation is set out in the 2002-2005 PRSP, which was the result of broad-based consultations with all stakeholders; it is underpinned by a set of sectoral strategies; and analytic underpinnings by government, Bank, and third parties, such as PEMFAR, education study, nutrition and health study, and food security assessment	The program document sets out a sequence of actions agreed with the government that will be used to discuss program performance against actions and indicators for future support beyond this operation; key analytic work, notably the PEMFAR, has been coordinated with the donor community, but the accountability framework is used at this stage only by the Bank.	The new 2006-08 Bank support responds to lessons learned from previous DPOs in (i) moving to a more programmatic medium-term engagement to support reforms processes; (ii) broadening the policy areas from PFM reform to rural and social issues of key concern for poverty reduction. Conditionality is focused largely on core institutional and administrative reforms in PFM, social sectors, and the rural sector; user fee conditionality requires creating a scheme for free contraceptives, pre-natal care, caesarians, and child health care backed with appropriate financing through the 2007 budget; another core condition relates to proper funding of food security measures, payment of teacher salaries, and hiring of health staff.	Given the lack of a strong implementation framework in the PRSP, the policy matrix contains a set of quite detailed policy measures, with a total of 15 conditions for two tranches and 12 benchmarks. The number of conditions is fairly high, especially with 9 conditions for the release of the second tranche, which could have been reduced to 6-7 by removing some activities linked to "action plan" adoption or preparation. The number of benchmarks is low compared to the average of IDA operations.	The preparation of the operation took into account the need to balance predictability and performance, incorporating areas where progress was slower than anticipated into the operation design without unduly delaying its preparation so that some financing could be made available in mid-year. The intention of the operation is to enter a regular cycle of reviews, using the transparently laid out triggers and progress against outcomes as performance indicators. However, for the time being such reviews would likely not be harmonized with other donors and their link to the PRS review cycle is tenuous. This intention may still be put at risk if the second tranche of the operation is delayed beyond the end of 2006. The well-established results framework with baseline values and targets for monitoring indicators reinforces the results focus of future performance reviews.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Egypt, Arab Rep	Financial Sector	The government program supported by the operation is set out in the 2005-08 financial sector reform program aiming at (i) reforming the banking system through consolidation, divestiture and privatization; (ii) reforming the insurance and contractual saving system, (iii) strengthening capital markets, (iv) developing other non-bank financial services; and (v) strengthening the supervisory bodies, and improving the legal and regulatory framework. The development of the program benefited from support of the Bank-IMF under the 2002 FSAP, technical assistance provided under various FIRST initiatives, USAID, and the European Commission. The Bank also covered financial sector issues in an investment climate assessment and an Access to Finance study.	The program matrix of the operation defines the actions supported by the operation within a broader medium-term setting as part of an accountability framework for current and eventual future support. The actions supported under the program are consistent and fully coordinated with other financial partners (USAID and the EC) that have provided budget support, in addition to an equivalent parallel financing from the AfDB for the financial sector reform program. To ensure harmonization, a Financial Sector Donors Group, chaired by the Bank, was formed.	The operation lists actions prior to loan approval and indicative next steps: (i) strengthening the legal, regulatory, and supervisory functions of the central bank and insurance supervisory body; (ii) fostering institutional and operational restructuring of state-owned banks; (iii) supporting financial restructuring of state-owned banks; (iv) reducing public ownership in and control over the banking sector; (v) completing the audit of state-owned banks; (vi) restructuring and privatizing of state-owned insurance companies; and (vii) strengthening the fiduciary framework for public financial management and corporate financial reporting. Prior actions focus on progress with privatization of the Bank of Alexandria and divestiture of shares in other partially state-owned banks; settlement of non-performing loans; the framework for restructuring state-owned commercial banks; implementation of supervisory regime for insurance and pensions; and draft insurance sector laws and preparatory steps in insurance sector reform.	The operation's policy matrix identifies 17 prior actions, somewhat exceeding the Bankwide average. It does not contain any benchmarks, but lays out future actions that could be used to evaluate progress under the program. The prior actions are largely confined to critical actions for different program components, although one could consider that 2-3 actions related to agreements on action plans are first but not obviously critical program steps and activities.	The operation is designed as a stand-alone single-tranche operation. It sets out transparently in the policy matrix activities undertaken, future program steps, and anticipated results for the end of the program. The results are frequently formulated broadly in terms of overall changes and do often not discuss explicit baselines (although the latter are often implicit). Given the single-tranche stand-alone nature of the operation, its predictability can only be gauged against government expectations for financial support, which appear to have been met with the timing of the loan.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Ghana	PRSC-4	The government's program supported by the operation is set out in the second Growth and Poverty Reduction Strategy (GPRS), with a strengthened focus on growth across three pillars: (i) private sector-led growth; (ii) vigorous human resource development; and (iii) good governance and civic responsibility. World Bank and donor analysis on poverty, natural resources and the environment, youth employment, public finance management, and a series of poverty and social impact work, including most recently on power sector reform and decentralization, informed the GPRS II.	The government has agreed with all donors that are part of the multi-donor budget support (MDBS) on policy actions and indicators as accountability framework for financial support. The policy matrix serves at the same time as device to pilot the government's PRS implementation. The matrix is fully harmonized across the donor group of nine donors and three observers.	The operation supports the implementation of the program laid out in the policy matrix of actions and indicators under the three areas of (i) promoting growth, income, and employment; (ii) improving service delivery for human development and (iii) improving governance and public sector management, in direct alignment with the GPRS. Prior actions for PRSC-4 focus on improved financial management in the electricity sector, reductions in the time for business registration, improved financing of public education, support of indigent health care through health insurance, anticorruption, budget management, accounting, and procurement reform. None of the prior actions or benchmarks involves privatization, trade, or user fees. The benchmarks include a review of electricity tariffs and agricultural policies (both subject of prior PSIAs), and the implementation of the national water policy (design of investment plan and plan for rural water).	The matrix contains eight prior actions and more than 42 additional benchmarks. The prior actions all are important steps toward targeted results. The relatively large number of benchmarks compared to other "second-generation" multidonor is partly explained by the particularities of the in-country dynamics with the government using the MDBS process to spell out program elements. As a result, the policy matrix carries a significant number of detailed measures across the PRS pillars.	The joint donor framework sets out actions and indicators transparently that will form the basis for evaluation of progress under the program. The review cycle in past operations has been conducive to deliver PRSCs on an approximately annual basis, with further improvements of predictability by the entire donor community expected to follow after the decision to tie resource envelopes to reviews that take place before budget execution begins. Although the policy matrix contains a results framework with baselines and targets for most indicators, the results aspect could possibly be further enhanced in the process leading to annual progress evaluation.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Burkina Faso	PRSC-6	The government program supported by the operation is set out in the second full PRSP, adopted by the government in 2004, and the associated priority action plan. PRSP-2 was adopted following an extensive consultative process, including 10 regional consultations. The Bank and other donors have offered extensive analytic support through public expenditure reviews, poverty assessment, diagnostic work on public financial management, investment climate assessment, gender assessment, and a risk and vulnerability study.	The accountability framework for the operation is set out in a policy matrix of actions and expected results that draws on the priority action plan of the government's PRSP. A joint budget support framework has been agreed among donors that includes development of a jointly agreed performance assessment matrix. The joint budget support framework also includes external evaluation of donors performance.	The operation supports the government PRS under the pillars: (i) growth and employment creation; and (ii) human resource development, and good governance, substantively closely following the pillars of the PRS. Key reforms supported aim at improving agricultural productivity, reducing factor costs, improving access to health care and education, enhancing government financial management, and supporting the creation of a decentralization framework. Prior actions include planning in the education sector, lowering costs for obstetric care, improving procurement, accounting for government property, and advancing decentralization. Three benchmarks include a revised scheme for the privatization of the telecommunications company, and financial audits to prepare for private management of state assets in the electricity sector and private sector involvement in petroleum imports.	The program document identifies 12 prior actions and an addition 55 benchmarks as actions taken before credit approval. Although the majority of prior actions identify critical steps, two-three process-related actions (notably the development of action plans replacing triggers that were somewhat delayed) could have been avoided. The number of benchmarks is very high, and many are in areas such as water and environment that are not at the center of the PRSC dialogue. As the joint donor matrix is being fully developed and the priority action plan of the government PRSP is strengthened further, it may be advisable to reduce the inclusion of other program actions in the matrix and streamline its presentation.	The policy matrix and documentation transparently identify the prior actions and clearly set out criteria to be used to evaluate progress in deciding on future support. Since inception of the PRSC series, operations have progressed on a roughly annual basis with a slight acceleration of delivery of PRSC-4 to better meet government preferences. The series for PRSC-4-6 also uses annually available outcome indicators from the PRSP to gauge progress against targeted results and has further strengthened the results focus of the program.

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Vietnam	PRSC-5	The government program supported by the operation is set out in the government's comprehensive poverty reduction and growth strategy. Broad consultations were used to identify the policies best suited to attain targeted development outcomes. The government also opted in mid-2003 for rapid WTO accession in full recognition of its impact on the policy agenda. The government and the donor community have offered technical support and analysis, in the case of the Bank covering poverty analysis, governance, and business climate.	PRSC-5 builds on four previous operations. The sequencing of actions and the expected development outcomes have been laid out in the policy matrix and provide a framework for the Bank and an increasingly large group of donors (11 for PRSC-5) to assess progress under the program in justifying financial support. The Bank operation thus has also played an important role in harmonizing donor interventions.	In alignment with the CGPRS the operation's areas of support laid out in the policy matrix include (i) transition to a market economy; (ii) social inclusion and environmental sustainability; and (iii) modern governance. Prior actions covered a variety of government activities, including intellectual property laws, performance classification of state-owned enterprises, enterprise law, education regulation, health insurance, special program for ethnic minorities and mountainous areas, water management, public financial management, and anticorruption. Benchmarks included the elimination of quantitative import restrictions in line with WTO regulations, restructuring of state-owned enterprises and management reform, and the equitization, with private sector participation, of two state-owned commercial banks. Benchmarks also included identification of measures to counter social and economic effects of WTO accession.	The program document presents the actions taken under the program fairly concisely when taking into account the breadth of the supported government program. Fifteen prior actions and 45 other actions are spread over 18 reform areas, and presented on three pages in a summary fashion. The program thus clearly maintains a high degree of criticality, with a focus on a few critical actions in what is an unusually broad program. The text supports the criticality of the choice of most of the prior actions.	The policy matrix has evolved since the inception of PRSC-1 into a transparently set-out framework for evaluating progress on an annual basis jointly with a number of other donors. Since PRSC-2, operations have been presented on a 12-month basis, offering annual support for the budget. A separate table not only measures progress against triggers but discusses the strength and weaknesses of program implementation in different areas of the program. The parallel annual monitoring of related development outcomes strengthens the results focus of the operation in assuring that the subsequent actions have the intended impact on key variables such as export levels, non-performing loans, access to education, maternal mortality rates, etc.

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Madagascar	PRSC-3	The government's program supported by the operation has been articulated in a PRSP and updated in 2005 to incorporate a longer-term vision called Madagascar Naturellement. The PRSP contains three strategic axes: (i) good governance; (ii) broad-based growth; and (iii) human and material security. The PRS was developed through a participatory process. The Bank has supported the implementation of the PRS through analytic work in all of the pillars (e.g., though poverty work and growth analysis, investment climate assessment, land tenure study, education and training reports, health sector notes, sectoral public expenditure reviews, and social protection review).	A policy matrix included in the Bank's program document lays out the common expectations of government and the Bank as regard actions as well as results under the program. However, the matrix itself is primarily a vehicle to gauge progress under the PRSC-supported program. Other donors, some of which also offer budget support, closely coordinate sectoral review processes and technical assistance, but make independent assessment for the purposes of their own support.	The operation selectively supports the implementation of the government's PRS under the pillars of (i) ensuring good governance, (ii) fostering and promoting systems for ensuring human and material security and enlarged social protection. It does not directly support the broad-based growth aspects of the PRS. The program focuses on (i) budget formulation and execution; (ii) public financial management and customs; (iii) procurement; (iv) resources for communes; (v) education; (vi) water, and (vii) nutrition.	The operation's 11 prior actions are fairly heavily concentrated on the side of public financial management and budget management. Although clearly critical overall for the results targeted under the program, the presentation of prior actions in the matrix is hampered by some vague formulations ("satisfactory progress, "begin implementation of ..."). The matrix contains an additional set of 64 benchmarks, some of which have not in fact been met or only partially met, as explained in Annex 3 of the program document. This number of benchmarks exceeds the Bank's average and recommended good practice. It is also appears less important from the perspective of program management as in several areas of the program matrix no critical actions for the Bank's support have been identified.	The policy matrix lays out a series of actions and associated results indicators. The transparency of the accountability framework is somewhat jeopardized by the relatively vague formulation of some triggers. However, the predictability of support was not affected as disbursements followed an originally anticipated annual cycle under the first three PRSCs.

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Colombia	Labor-3	The government's program supported by the operation is articulated in the National Development Plan for 2002-06. The National Planning Department launched a participatory process in 2004 to refine the plan and generate national ownership. One of the pillars and objectives of the strategy -- a more egalitarian society -- in particular relates to labor and social sectors and seeks to (i) raise efficiency in social spending; (ii) improve expenditure targeting; (iii) develop better information for monitoring; and (iv) develop prevention and social assistance systems. The Bank and other development partners have participated in the process through technical and financial support to the consultation process.	A policy matrix of the operations defines an accountability framework laying out actions and expected results of Bank support. The Bank support is closely coordinated with IADB, Andean Development Cooperation, and the UN system. However, the policy matrix serves primarily as reference points for the Bank's fast-disbursing support as other partners' interventions were complementary (investment operations or technical support). A first policy-based operation of the IADB follows on the Bank's support.	The operation supports priority actions of the government under the "more egalitarian society" pillars. Measures include (i) broader access to social security benefits; (ii) improved targeting of nutrition programs; (iii) improved health insurance coverage; (iv) expanded training opportunities; (v) increased education coverage for vulnerable students; (vi) better public information access to oversee social programs.	The operation focused on select prior actions across the different program areas covering social security/social protection, health, education, and monitoring. With six prior actions and nine other actions to describe government core activities, the use of conditionality is disciplined and focused.	The operation transparently sets out the actions taken prior to loan approval, and their link with past activities. The program document also reports on the increasing results focus of the program as monitoring systems are strengthened and the program matrix provides results expected by the end of the program against 2002 benchmarks. The operation follows on two previous operations but was not originally anticipated as part of the programmatic series. It reflects a flexible response to the government request for further report of the ongoing program.

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Burundi	Economic Reform	The government's program is laid out in the 2004 interim PRSP, which highlights (i) peace and democratic governance; (ii) reintegration of conflict victims and disadvantaged groups; (iii) private sector development; (iv) human capital development; (v) fighting AIDS; and (vi) advancing the role of women in development as its strategic themes. Government programs have further benefited since 2004 from work undertaken to support the development of the full PRS on growth, sector strategies, prioritization of interventions, and definition of targets/monitoring indicators.	The accountability framework laid out in a policy matrix in the program defines actions taken before grant approval, second-tranche conditionality, and expected actions over the medium term that could serve to review progress for future support. Coordination of budget support operations has been formalized with six donors (AfDB, France, Belgium, EC, UNDP, and the Bank), with others expected to join. The harmonization framework defines a coordination framework for the macroeconomic framework, PRSP monitoring, and public financial management. However, the policy matrix itself appears to be used largely for Bank purposes.	The policy matrix lays out support to the government's program under two broad components: (i) improve public expenditure management and its impact on the poor; and (ii) accelerate sustainable economic growth. Prior actions and conditions include establishment of an electronic financial management system and issuing report; (ii) a plan for improving procurement and adoption of a new law; (iii) identification of pro-poor spending; (iv) liberalization of coffee producer prices and marketing and adoption of detailed plan for further restructuring (including privatization of washing stations); (v) a new insolvency bill; (vi) settling of domestic arrears; (vii) bringing to the point of sale two state companies; (viii) re-launching of the bidding for sale of non-coffee related assets of coffee board. A variety of benchmarks also call for adopting a privatization strategy, and privatization-related activities.	The two-tranche operation makes fairly disciplined use of conditionality, with 12 prior actions. The criticality for the reform progress of most actions is easily established, such as the setting up of an interim financial management system. However, the ultimate importance of the bringing to sale of two government enterprises for the growth agenda is less clear, as is the importance of the liberalization in the coffee sector absent further work on a sector reform strategy (supported also by the Bank) or the urgency of re-launching bids for other public enterprises. The number of benchmarks, with 27 alone before adoption of the grant, is also high.	The operation was developed under difficult circumstances. Governance concerns and Bank internal staffing and processing issues led to delays in its Board presentation, undermining to some extent the 2005 budget and threatening the viability of the PRGF-supported macroeconomic program. The operation attempts through the use of triggers to set the stage for a more predictable future engagement, although there are risks that the second tranche may not be disbursed as planned in 2006 as the operation has not yet been declared effective (as of November 1, 2006).

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India	Orissa Social-2	The government's program supported by the operation is articulated in its Tenth Five-Year Plan and a long-term strategy (Vision 2020). The strategy, on which basis the state government was re-elected in 2004, relies on private sector activity and community groups as engines of growth and job creation and targets improvements in financial and public sector management to enhance quality of public spending in human and physical infrastructure. The government's strategic vision is to (i) improve agricultural productivity, business environment, and public enterprise management; (ii) tackle fiscal imbalances and improve fiscal accountability; (iii) improve public service delivery. Bank analytic work on poverty, growth, investment climate, financial accountability, education, and health issues has supported the implementation of the strategy.	The policy matrix attached to the government's letter of development policy lays out a sequencing of reform actions and expected results, permitting evaluation progress under the program. The policy framework has been harmonized with DfID, for which Orissa is a focus state. Although DfID does not provide budget support under the same umbrella, it offers critical technical assistance for business regulation, public enterprise reform, electricity regulation, public administration reform, and it may offer policy-based support for health.	The operation supports the government across the pillars of the reform program. The prior actions identified in the program include activities to (i) remove state monopoly in agricultural marketing, (ii) simplify business processes; (iii) sell assets of closed public enterprises, initiate an environmental audit of 20 enterprises, and privatize two viable public enterprises; (iv) resolve different service payments and quality issues with private power distributors; (v) further consolidate the budget and improve fiscal accountability and transparency; (vi) foster civil service reform, eliminate redundant posts, and redeploy education and health workers.	The operation contains on a few prior actions in critical areas across the different elements of the government program. It includes 12 prior actions and one additional benchmark action. However, several of the prior actions, when fully unbundled, amount to several activities. Thus, possibly additional choices among these different actions could have been made to further focus conditionality on critical elements of these bundled actions.	The program matrix transparently lays out commitments and expected results (including baselines and targets) under the program identified by the subnational government. The sequencing of Bank support, in line with the intentions of the central government of India, is typically not on an annual basis, which explains the unusual two-tranche structure of this programmatic operation. Support to Orissa has been roughly biannual, and the focus of the Bank's engagement and the joint reviews/supervision with government has therefore been less on predictable annual financial support than on demonstrating performance under the program to obtain resources at better financial terms.

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Guatemala	DPL-2	The government's program supported by the operation is articulated in its "Vamos Guatemala" program of 2004, on the basis of which the current administration was elected into office. The program aims at (i) promoting social solidarity; (ii) accelerating growth; and (iii) promoting sustainable development. Analytic support includes poverty work, investment climate assessment, growth studies, and fiduciary assessments.	A program matrix lays out key steps in the government reform program that are used to measure progress in moving from one to the next operation. These performance milestones are also close interlinked with the CAS framework. The matrix serves for evaluating progress under the Bank's program given the absence other partners who offer policy-based loans -- but it has been discussed and coordinated with other financial partners present in Guatemala who support the government's program.	The program matrix laying out the area of Bank support is focused on select elements of the government reform program under three pillars: (i) promoting growth and the investment climate; (ii) enhancing capacity for public spending in priority sectors; (iii) transparency and public sector management. Prior actions focus on adoption of CAFTA-DR; improving customs processing; creating better land registration; improving the framework for public-private partnerships; better financial supervision and payment systems, improved tax administration and collection; improved quality of expenditure and progress in public financial management and procurement.	The criticality of the measures in the program matrix are underscored by the focus of the matrix on 13 prior actions and the absence of benchmarks, as in this case the Bank is relying on a broader government program spelled out in a variety of strategy documents. This clear focus on critical actions under the different branches of the reform program notwithstanding, the total number of prior actions exceeds the Bank's average, and several actions are stacked into a single prior action.	The policy matrix sets out transparently how progress under the program will be assessed against actions and results indicators. All indicators agreed with the government contain both baseline and target values. In the conduct of the program, this second operation followed the first after roughly 12 months, in line with the request of the government for predictable support based on its performance under the program.