

**2009 DEVELOPMENT POLICY LENDING
RETROSPECTIVE:
FLEXIBILITY, CUSTOMIZATION, AND RESULTS**

**OPERATIONS POLICY AND COUNTRY SERVICES
OCTOBER 27, 2009**

ABBREVIATIONS AND ACRONYMS

AFR	Africa Region	LCR	Latin America and the Caribbean Region
ARDE	Annual Review of Development Effectiveness	MDBS	Multidonor budget support
CAR	Central African Republic	MDG	Millennium Development Goal
CAS	Country Assistance Strategy	MDTF	Multidonor trust fund
CAT- DDO	Catastrophe deferred drawdown option DPL	MNA	Middle East and North Africa Region
CSO	Civil society organization	MTEF	Medium-term expenditure framework
CPIA	Country Policy and Institutional Assessment	ODI	Overseas Development Institute
DDO	Deferred drawdown option	OP	Operational Policy (Operational Manual statement)
DFID	Department for International Development	PAF	Performance Assessment Framework
DPC	Development policy credit	PD	Program Document
DPL	Development policy lending (or loan)	PFM	Public financial management
DPO	Development policy operation	PRSC	Poverty Reduction Support Credit
EAP	East Asia and Pacific Region	PRSO	Poverty Reduction Support Operation
EC	European Community	PRSP	Poverty Reduction Strategy Paper
ECA	Europe and Central Asia Region	PSIA	Poverty and Social Impact Analysis
ESDSC	Education Sector Development Support Credit	SAR	South Asia Region
GFRP	Global Food Price Response Program	SDPL	Special development policy loan
IBRD	International Bank for Reconstruction and Development	SEA	Sectoral environmental analysis
ICR	Implementation Completion Report	SP	Social protection
IDA	International Development Association	TA	Technical assistance
IEG	Independent Evaluation Group	TSC	Trust and Social Cohesion
IMF	International Monetary Fund		
ISN	Interim Strategy Note		

2009 DEVELOPMENT POLICY LENDING RETROSPECTIVE: FLEXIBILITY, CUSTOMIZATION, AND RESULTS

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2009 DEVELOPMENT POLICY LENDING RETROSPECTIVE: FLEXIBILITY, CUSTOMIZATION, AND RESULTS

EXECUTIVE SUMMARY

1. The *2009 Development Policy Lending Retrospective* reviews the main features of development policy operations (DPOs) approved by the Board between FY06 and FY09. The report focuses on the effectiveness of World Bank DPOs in supporting countries design and implement their medium-term development policy agendas to achieve development results. Consultations in seven countries with a history of engagement with the Bank through DPOs (Armenia, Benin, Burkina Faso, Colombia, Senegal, Tanzania, and Vietnam), as well as consultations with development partners and international civil society organizations (CSOs) in Europe, informed the retrospective.
2. **Coverage.** The retrospective reviewed a set of 166 DPOs for 66 countries: 17 operations approved in the last quarter of FY06 (that were not covered by the 2006 DPL Retrospective),¹ 57 operations approved in FY07, 47 operations approved in FY08, and 44 operations approved up to the third quarter of FY09. Between FY06 and FY08, the Bank's Board approved on average \$6.5 billion in DPO lending commitments per year. Commitments increased substantially in FY09 as the Bank used DPOs to help countries deal with the effects of the food and fuel crisis and the global economic slowdown. The Board approved a total of 73 DPOs in FY09, tripling total DPO financing to about \$18.5 billion for that year. As the global economic crisis initially hit middle-income countries the hardest, the share of IBRD DPOs rose sharply, reaching 47 percent in FY09, while IDA's share remained at historic levels of around 21 percent. The overall share of DPOs in total commitments, however, nearly doubled from around 25 percent in previous years to about 40 percent in FY09.
3. **Focus of Recent DPOs.** Two decades ago the Bank's policy-based lending focused on macroeconomic adjustment. The 1990s saw considerable progress on this areas of policy reform, and as a result, many developing countries changed the focus of their policy reform agendas. This has meant that the content of DPOs has shifted to support strengthening of public sector governance, strengthening of the financial sector, support to education, health, social protection, and natural resource management.
4. **Source of Financing in Crisis Situations.** As the financial crisis unfolded, IBRD countries, with greater access to international financial markets and greater integration into the global economy, were immediately and directly affected by the disruption in financial markets and global recession. The World Bank provided a significant share of its assistance to these countries in the form of DPOs—in some cases not to support significant structural reforms, but rather to protect expenditure programs and sustain ongoing reforms and, where appropriate, to support the implementation of fiscal stimulus and the strengthening of safety nets. The higher level of Bank financing allowed

¹ The *2006 Development Policy Lending Retrospective* reviewed a set of 50 DPOs approved between September 1, 2004, and March 31, 2006.

governments to sustain critical public expenditures while their revenues were falling and financial markets were severely disrupted. To a certain extent, IBRD countries saw the financial terms for Bank financing, especially for DPL DDOs and CAT DDOs, as an opportunity to obtain contingent financing at more favorable terms in a period of rising spreads in international financial markets.

A. Main Messages

5. This report confirms the overall robustness of development policy lending as a useful instrument to provide financing and policy advice in support of a country's medium-term development goals. It also finds that DPOs generally continue to be prepared according to Bank operational policy requirements and in line with the good practice principles on conditionality. It has three main messages.

6. **Flexibility.** The flexibility embedded in DPOs has proved to be a valuable feature, including in times of crisis. DPOs have supported country-owned reforms aimed at achieving specific development results in a broad range of countries with different needs—from middle-income countries to fragile states emerging from conflict. DPOs have been provided in the form of grants, credits, or loans, and have supported borrowers in designing and implementing their medium-term development programs or have provided emergency financing to meet crises or exogenous shocks. Their increasingly programmatic nature has allowed the Bank to stay aligned with country processes and respond more flexibly to changing country circumstances and government priorities, which has been essential to strengthen ownership of reforms supported by the Bank.

7. **Customization.** DPOs have supported borrowing countries with both the “what” and the “how” of development. They have provided financing and policy advice in areas where country authorities required expertise and technical knowledge. IBRD countries, for example, have demanded DPOs that focus on single sectors or themes requiring specialized Bank knowledge—such as housing, energy, and climate change. In IDA countries, DPOs have served as a useful platform for dialogue, harmonization, and alignment around the key policy and institutional reforms to achieve country goals. In both IBRD and IDA countries, the majority of the operations have supported public sector governance reforms. To help governments respond to crises and external shocks, DPOs offer a range of financing options tailored to client needs: the catastrophe DPL with a deferred drawdown option (CAT DDO), improved features for the DPL with a deferred drawdown option (DPL DDO), streamlined processing in a crisis situation, and supplemental financing to support programs affected by unanticipated shocks.

8. **Results.** DPOs remain focused on results. They have been associated with positive results and outcomes in the delivery of social services in health and education, for example, and in public financial management (PFM). All Bank DPOs include a results framework that lays out the country goals, the objectives of the operation, and the expected results of the program supported by the Bank. Results frameworks have facilitated the evaluation of DPOs, but their quality has varied. Improvements are needed in defining the appropriate causality between the actions supported by the operation and their expected results, and selecting appropriate, measurable indicators.

B. External Views

9. **External Views.** Independent researchers, other development partners, and civil society organizations have carried out reviews of the experience with development policy lending, including the use of conditionality in such lending. A traditional criticism voiced by external observers is that when policy-based lending is anchored on strong conditionality without strong domestic leadership and political support it generally fails to produce lasting change.

10. **The Bank's Approach.** The World Bank has incorporated lessons from the experience and has now moved towards an approach anchored in country ownership of development programs and goals. The new operational policy on development policy lending introduced in 2004 includes the principles of country ownership, selectivity in Bank support, strong analytic underpinnings for policy choices, alignment of Bank operations with a country's own development strategy, customization of support to country circumstances, focus on the most critical actions for development results, harmonization of support, and transparency on Bank documentation.

C. Major Trends

11. The past two years have seen increasing use of programmatic operations, shorter processing times, and declining numbers of prior actions. Processing times have been reduced from the FY05 averages of 10 months in IBRD or 7 months in IDA to around five months in FY09, and the use of more rigid, multitranches designs has declined to only 12 percent of the total. Programmatic support in the form of a series of annual single-tranche DPOs remains important for both IDA (80 percent) and IBRD (60 percent). The use of a non-programmatic design, however, is a useful flexible option for a rapid response whenever quickly disbursing funding is necessary, as in a number of IBRD operations responding to the global food and financial crises.

12. **Programmatic Approach.** The programmatic approach involves a series of operations that are sequentially presented to the Bank's Board, with a medium-term framework specified at the outset—including completed prior actions, monitorable progress indicators, and expected prior actions (triggers) for subsequent operations. Typically, programmatic lending is used to support complex medium-term institutional reforms. The approach combines the discipline of a medium-term framework with indicative triggers for subsequent operations that offer the flexibility to accommodate the unpredictability of policy making. To the extent possible, programmatic approaches align disbursements with the borrowing country's financing needs during the annual budget cycle.

13. **Fewer Prior Actions.** Prior actions are a set of mutually agreed policy and institutional actions that are deemed critical to achieving the objectives of the program supported by a DPO, which are implemented before the Board approves a loan, credit, or grant. In the context of programmatic DPOs, the Bank also agrees with the country on an indicative set of actions—called *triggers*—for the second or later years of a program. Triggers are not binding disbursement conditions, but rather they represent the expected prior actions of the next operation in a programmatic series. The increasing use of a

programmatic design has led to a reduction in the average number of prior actions per operation: for both IDA and IBRD operations, the average number of prior actions has declined from above 30 in the mid-1990s to about 9 in IDA operations and 11 in IBRD operations in FY09. In consultations with stakeholders, some have expressed the view that there is scope to further reduce prior actions, especially where budget financing is provided in the context of multidonor budget support frameworks.

14. ***Good Practice Principles on Conditionality and Aid Effectiveness.*** DPOs continue to be prepared in line with the Bank's good practice principles for the application of conditionality—reinforcement of ownership, harmonization, customization, criticality, and transparency and predictability. Consistent with the Bank's commitments on aid effectiveness, expressed in the Accra Agenda for Action, disbursement conditions for Bank DPOs are based on national development strategies – often PRSPs – and agreed with the government. All Bank Program Documents for DPOs are public, as are the Implementation Completion Reports on DPOs. In addition, DPOs are embedded in results frameworks that are explicit and monitorable. Feedback from in-country consultations stressed that Bank DPOs have been successful in reinforcing the ownership of reform programs and that the Bank has made good progress on harmonization, transparency,² and predictability.

15. ***Collaboration with IMF.*** For a DPO to be proposed to the Executive Board for approval, Bank management needs to be satisfied that the country's macroeconomic policy framework is sustainable. This assessment is informed by the views of the IMF. Since the onset of the global financial crisis in October 2008, and on a temporary basis Bank management has been attaching to each DPO Program Document (PD) an assessment of the IMF's views that is no more than two months old when the DPO is submitted to the Board.

D. Areas for Strengthening

16. The retrospective has identified a number of areas where there is scope for improvements—some of a presentational nature and others reflecting weaknesses in program design. The following are the most critical areas that need to be strengthened.

17. ***Macroeconomic Assessment.*** PDs are required to present a bottom-line assessment as to whether the country's macroeconomic policy framework is adequate and sustainable over the medium term. The presence of an appropriate IMF program is an input to this assessment, but the Bank is expected to produce its own analysis and determination. For subnational DPOs, PDs also need to discuss whether the state or region has an appropriate expenditure program as well as adequate fiscal arrangements with the central government. The quality of macroeconomic assessments in PDs needs to be strengthened to reflect the soundness of the government's policy stance and its

² In line with the Bank's disclosure policy, the Program Documents of all DPOs and the government's Letter of Development Policy are published after Board consideration of the operation unless Executive Directors decide otherwise. In addition, in FY09, a database (Development Policy Actions Database, or DPAD) with all prior actions and tranche-release conditions of all operations approved since 1980 was published on the Bank's external website and is available for download and consultation by the public at www.worldbank.org/DPLretrospective.

sustainability; macroeconomic assessments need to be underpinned by macroeconomic and growth forecasts and, in the case of sectoral and subnational DPOs, an analysis of the adequacy of the public expenditure program of the subnational government and its fiscal arrangements with the central government.

18. ***Participation and Consultation.*** PDs are required to report on the participation and consultation processes that the government used to define its programs. This retrospective finds that they do so with a high degree of compliance, but with varying quality and depth. Going forward, the discussion of the country's arrangements for consultation and participation relevant to the operation needs to be strengthened; it should refer to the outcomes of the participatory processes used by governments to define the country's development programs.

19. ***Analytic Underpinnings.*** In many cases, PDs do not clearly articulate how analytic work by the Bank, country authorities or others has informed the design and content of the operation. PDs need to indicate more explicitly how the findings of recent analytic work are linked to the proposed DPO.

20. ***Environment, Forests and Other Natural Resources.*** PDs need to determine whether specific policy and institutional actions supported by the proposed operation are likely to cause significant effects on the country's environment, forests, and other natural resources. This is done with a high degree of compliance, but in a few cases PDs did not indicate whether the likely significant effects of supported policy and institutional actions would be positive or negative. In the future, PDs need to present a clearer assessment of the likely significant effects of actions supported by the DPO. This should be done in line with the guidance available in the new toolkit for assessing the environmental impacts of actions supported by DPOs.

21. ***Poverty and Social Analysis.*** There has been progress in using poverty and social impact analysis (PSIA) to inform DPOs, following significant efforts by Bank management over the past year and also drawing on a recent IEG evaluation of PSIA. Enhanced management attention has resulted in improvements across the Bank, but there are still marked differences across Regions. Further efforts are necessary to determine whether the policies supported by the operation are likely to have significant poverty and social consequences, identify who will be affected and how they will be affected, and discuss the borrower's systems for reducing adverse effects and enhancing positive ones.

22. ***Results Frameworks.*** In general, results frameworks need to be strengthened in at least three dimensions (a) attribution and causality between the actions supported by the DPO and the operation's expected results; (b) measurability and quantification of the indicators used to gauge progress in program implementation; and (c) selectivity and parsimony in the choice of monitoring and output indicators.

23. ***DPOs in the Context of Harmonized Budget Support Frameworks.*** The Bank will continue to work with other development partners and governments in the context of multidonor budget support frameworks. There is scope, however, for these budget support frameworks to become more flexible and responsive to changing country circumstances and government priorities.

E. Follow-up Actions and Next Steps

24. To address the areas where improvements are needed, the Bank proposes to take the following next steps.

- ***Update guidance to staff.*** Guidance to staff on how to design development policy operations in line with operational policy will be revised in FY10 to reflect the lessons of the experience with results-focused DPOs, the updated good practice note on using PSIA to support DPOs, the new toolkit for assessing the environmental impacts of actions, and to address weaknesses in design aspects: the assessment of the macroeconomic policy framework, use of analytic underpinnings, and design of results frameworks. In addition, these topics will be addressed in such training channels as the DPL Academy and other training programs.
- ***Make better use of good practice.*** If the quality of DPOs is to be strengthened, Regions will need to thoroughly implement operational guidance and follow the advice provided at the corporate review stage. Regions are also expected to encourage DPO task team leaders to attend OPCS's DPL Academy, offered twice a year. In consultation with OPCS, Networks and anchors are encouraged to collect and share good practice with staff involved with development policy lending, and continue to provide advice and support to teams preparing DPOs.
- ***Consolidate good practice on PSIA.*** The Bank has published an updated version of its Good Practice Note on how to use PSIA to support DPOs and has recently conducted two reviews of the Bank's experience with PSIA. Lessons from these reviews and from a recent IEG evaluation on PSIA have suggested the need to focus more on outreach and learning efforts to build staff capacity and awareness within the Bank about the PSIA approach. To help consolidate good practice on PSIA, the Bank is initiating activities funded through a new multidonor trust fund that is expected to become effective early in FY10.
- ***Develop guidance to staff on DPOs in the context of joint budget support.*** Given the growing experience with multidonor budget support frameworks, it is appropriate to reflect on the lessons of this collaborative engagement and to use these lessons to identify ways to do better in the future. Updated guidance on how to process and implement DPOs in harmonized environments will be produced and made available to staff in FY10.

F. Issues for Discussion

25. Do Executive Directors agree with the overall assessment of the robustness of development policy lending as a useful instrument to provide financing and policy advice in support of a country's medium-term development agenda?

26. Do Executive Directors concur with the identification of areas where there is scope for further strengthening the design of DPOs?

27. Do Executive Directors consider the proposed follow-up actions commensurate with the areas where improvements are needed?

2009 DEVELOPMENT POLICY LENDING RETROSPECTIVE: FLEXIBILITY, CUSTOMIZATION, AND RESULTS

I. INTRODUCTION

1. Development policy lending aims to help a borrower achieve sustainable reductions in poverty through a program of policy and institutional actions that promote growth and enhance the well-being and increase the incomes of poor people. Bank development policy lending is a quick-disbursing financing instrument that helps a borrower address actual or anticipated development financing requirements of domestic or external origins.¹ Development policy operations (DPOs) are provided in the form of unearmarked loans, credits, or grants that support, and are consistent with, the country's economic and sectoral policies and institutions. They typically support a program of policy and institutional actions—for example, actions to strengthen public financial management, improve the investment climate, improve service delivery, diversify the economy, create employment, and meet international commitments. Decisions to extend DPOs rely on an assessment of a country's institutional and policy framework, the appropriateness of its macroeconomic policy framework, its commitment to and ownership of a reform program, and its track record.

A. Use and Characteristics of the Instrument

2. For IDA and IBRD together, the Bank's Board has approved on average about 51 operations per year between FY06 and FY09—an average of \$6.5 billion in lending commitments per year. This average increased substantially in FY09 as the Bank used DPOs to help borrowing countries deal with the effects of the food and fuel crisis and the global economic slowdown. In FY09, the Board approved 73 DPOs, tripling total DPO lending for the year to about \$18.5 billion (see Table 1).

3. **IBRD/IDA Shares.** The share of DPOs by IBRD and IDA has remained relatively stable since the instrument was introduced in August 2004. IDA's share has remained close to its historical average of around 25 percent, while IBRD's share has oscillated slightly.² As the global economic crisis initially hit middle-income countries the hardest, the share of IBRD DPOs rose sharply from around 25 percent to reach 47 percent in FY09 (Figure 1).

¹ See OP 8.60, *Development Policy Lending*.

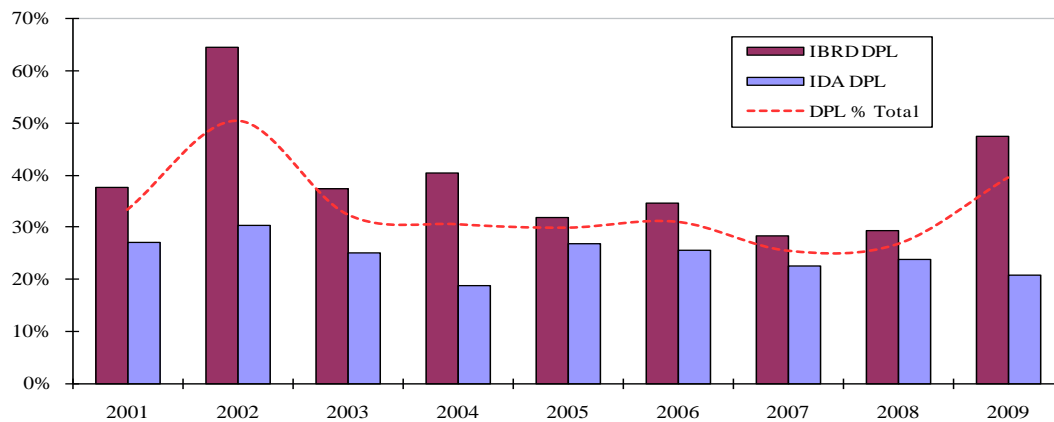
² As part of the operational policy change in 2004, the 25 percent ceiling for the Bankwide share of policy-based lending was removed and substituted by an annual report by Bank Management on the anticipated Bankwide share of development policy lending in total lending. On the basis of that report, Executive Directors would issue guidelines for the average annual Bankwide share of development policy lending on a rolling three-year basis. In the context of the IDA15 Replenishment discussions, it was agreed that Management would seek additional guidance from IDA's Executive Directors if the projected share of DPO commitments exceeds 30 percent for any future year. See *Additions to IDA Resources: Fifteenth Replenishment. IDA: The Platform for Achieving Results at the Country Level*, Report from the Executive Directors of the International Development Association to the Board of Governors, February 28, 2008, page 11, footnote 41.

Table 1. Policy-Based Lending Operations and Commitments, FY00-09

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
	<i>Adjustment Lending</i>					<i>Development Policy Lending</i>				
IDA										
Number of Operations	9	15	23	24	23	32	30	35	31	39
<i>of which adjustment lending</i>	9	15	23	24	23	23	1	0	0	0
Lending commitments (US\$M)	682	1,826	2,443	1,831	1,698	2,301	2,425	2,645	2,672	3,028
IBRD										
Number of operations	14	15	21	21	18	23	21	22	16	34
<i>of which adjustment lending</i>	14	15	21	21	18	14	2	0	0	0
Lending commitments (US\$M)	4,426	3,937	7,383	4,187	4,453	4,264	4,905	3,635	3,967	15,532
Total										
Number of operations	23	30	44	45	41	55	51	57	47	73
<i>of which adjustment lending</i>	23	30	44	45	41	37	3	0	0	0
Lending commitments (US\$M)	5,108	5,763	9,826	6,018	6,151	6,565	7,330	6,280	6,639	18,560

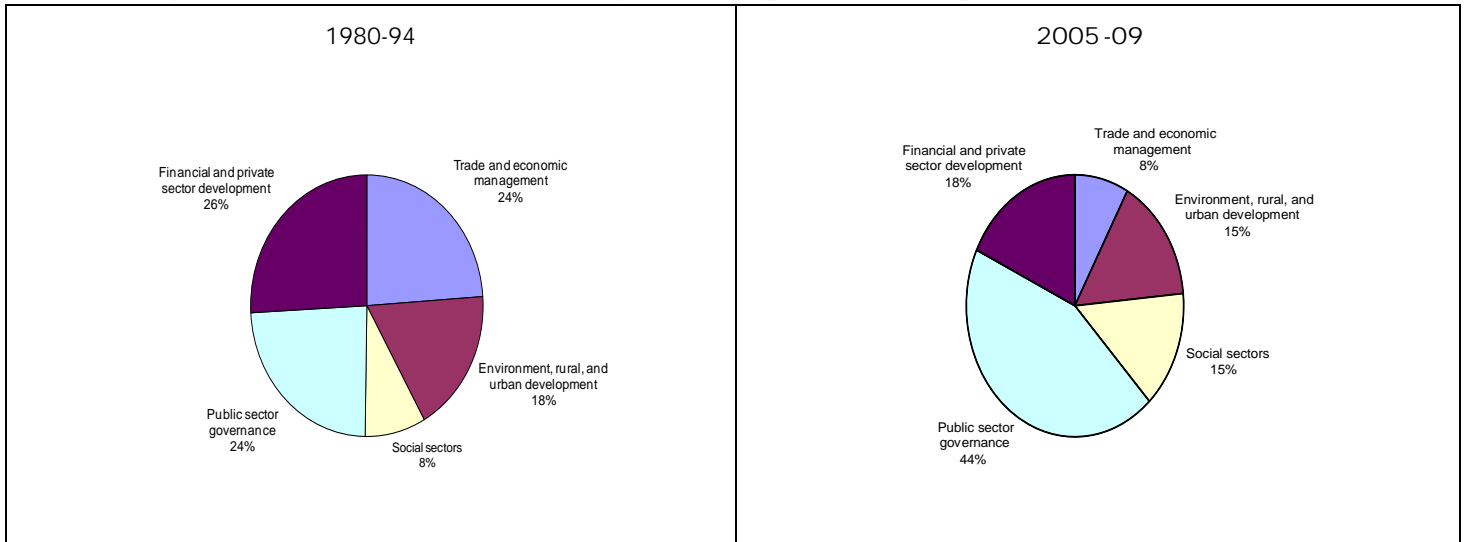
Source: World Bank.

Includes all operations approved in FY09.

Figure 1. Development Policy Lending Shares for IDA and IBRD Countries

4. **Content of DPOs.** Two decades ago, the Bank's policy-based lending focused on short-term macroeconomic adjustment. The 1990s saw considerable progress on policy reform, and as a result many developing countries changed the focus of their policy agendas.³ With the transition to development policy lending in FY05, the primary focus of Bank DPOs has increasingly been on policy and institutional changes that support a country's medium-term development reform agenda. This has meant that the content of DPOs has broadened to encompass reforms associated with the microeconomic foundations of growth, public sector governance, strengthening of the financial sector, support to social sectors, and natural resource management (see Figure 2).

³ See Koeberle and Walliser, "World Bank Conditionality: Trends, Lessons, and Good Practice Principles," Chapter 13 in Koeberle, S., Z. Stavreski, and J. Walliser (orgs), *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*, World Bank, Washington, DC, 2006.

Figure 2. Trends in Thematic Coverage of Development Policy Operations, FY1980-2009 (Q3)

Source: World Bank.

5. ***Distinguishing Features of DPOs.*** The World Bank has two basic types of lending instruments: investment lending and development policy lending. In addition to these, the Bank provides guarantees with the objective of mobilizing private sector financing for development purposes.⁴ Investment lending operations provide funding (in the form of IBRD loans or IDA credits and grants) to governments to finance the purchase of goods, works, and services in support of specific economic and social development objectives in a broad range of sectors. Development policy operations provide untied, direct budget financing to governments for policy and institutional reforms aimed at achieving a set of specific development results. Historically, investment lending was the primary mode of delivering Bank development assistance and the Bank's Articles of Agreement provide that Bank loans should finance specific projects, except in special circumstances. Development policy operations are approved under the special circumstances provision. The main distinguishing features between DPOs and investment lending operations are outlined in Box 1 below.

⁴ There are two types of guarantees. Partial credit guarantees cover debt service defaults on a specified portion of a loan, normally for a public sector project. Partial risk guarantees cover debt service defaults on a loan, normally for a private sector project, when such defaults are caused by a government's failure to meet its obligations under project contracts which it is a party.

Box 1: Main Distinguishing Features between DPLs and ILs

Development Policy Lending	Investment Lending
<ul style="list-style-type: none"> • Provides quick-disbursing budget financing for actual/anticipated financing needs arising from domestic or external origins • Requires a sound macroeconomic policy framework for each DPO • Supports a program of policy and institutional reforms anchored on a country's national/sectoral development strategy • Blends Bank policy advice and assistance with financing • Disburses quickly, usually in one tranche, against the completion of mutually agreed policy and institutional actions 	<ul style="list-style-type: none"> • Requires a direct link between Bank financing and agreed expenditures and activities • Quality of the macroeconomic policy framework is assessed as part of the overall context in the Country Assistance Strategy • Finances physical investments, rehabilitation and maintenance, and technical assistance • Supports sustained capacity building with hands-on Bank staff participation • Typically disburses over 5-7 years against projected or actual expenditures

6. **External Views.** The Bank has been analyzing its experience with policy-based lending since structural adjustment lending was introduced in the early 1980s. In addition, independent researchers, other development partners, and civil society organizations have carried out reviews of the experience with development policy lending, including the use of conditionality in such lending. A traditional criticism voiced by external observers is that when policy-based lending is anchored on strong conditionality without strong domestic leadership and political support it generally fails to produce lasting change. Academic research suggests that the threat of donor sanctions carries little weight in the implementation of the requested reforms. The literature attributes the failure of externally imposed conditionality to the difficulty that donors have in sanctioning noncompliance. According to this view, the weakness of the donors induces recipients to agree on conditions *ex ante*, because they anticipate that they can renege and still obtain donor aid.⁵ Annex A briefly summarizes these reviews and the main issues they raise.

7. **The Bank's Approach.** The World Bank has incorporated the lesson from the experience with structural adjustment lending that conditionality based on *ex-ante* commitments or *ex-post* results does not work and has now moved towards an approach

⁵ See, for example, Collier, P. (1997), "The Failure of Conditionality", in Perspectives on Aid and Development, ed. Catherine Gwin and Joan Nelson, Washington, DC: Overseas Development Council; Burnside, C. and D. Dollar (2000), "Aid, Policies, and Growth," *American Economic Review* 90 (4): pp. 847–868; Easterly, W. (2001), *The Elusive Quest for Growth*, Cambridge, MA: MIT Press; and Easterly, W. (2005), "What Did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans", *Journal of Development Economics* 76:1-22.

anchored in country ownership of development programs and goals. The new operational policy on development policy lending introduced in 2004 is consistent with this view and does not prescribe policy content. On the contrary, the operational policy guiding development policy lending includes the principles of country ownership, selectivity in Bank support, strong analytic underpinnings for policy choices, alignment of Bank operations with a country's own development strategy, customization of support to country circumstances, focus on the most critical policy and institutional actions for program results, harmonization of support, alignment of support cycles with a country's monitoring and evaluation cycles, and transparency of Bank documentation.

B. Objectives and Scope of this Paper

8. This retrospective reviews the main features and design aspects of DPOs and their effectiveness in supporting borrowing countries in designing and implementing their medium-term development policy agendas. It covers 166 DPOs approved since the conclusion of the last development policy lending (DPL) retrospective in FY06: 17 operations approved in the last quarter of FY06 (that were not covered by the 2006 retrospective),⁶ 57 operations approved in FY07, 47 operations approved in FY08, and 44 operations approved up to the third quarter of FY09. The analysis of issues associated with the design and processing of DPOs focuses more on the operations approved up to the end of FY08 (121 operations), while the 44 operations approved up to the third quarter of FY09 were reviewed with an interest in identifying trends in the use of DPOs for crisis response. The sample includes the first three DPOs financed from IBRD surplus, as well as the first to use the deferred drawdown option (DDO) since March 2008, when the Board approved new features for the option for DPOs. (A list of all operations reviewed is attached as Annex B.)

9. **Methodology.** The report builds on a review of the literature on the effectiveness of development policy lending and on a desk review of DPO Program Documents (PDs) and Implementation Completion Reports (ICRs). The retrospective has also been informed by reviews of experience with poverty and social impact analysis (PSIA) carried out by IEG, the Poverty Reduction and Economic Management Network's Poverty Reduction Group, and the Social Development Department.⁷ It draws on consultations that were carried out in seven countries by third parties or bilateral development partners to collect views from borrowers, development partners, civil society organizations (CSOs), and Bank staff on the effectiveness and results orientation of DPOs, and on progress with the application of the Bank's good practice principles on conditionality.⁸ Stakeholders' views on the retrospective's concept note were also

⁶ The 2006 Development Policy Lending Retrospective reviewed a set of 50 DPOs approved between September 1, 2004, and March 31, 2006.

⁷ See, respectively, *How Effective Have Poverty and Social Impact Analysis (PSIAs) Been? An IEG Study of World Bank Support to PSIAs*, Independent Evaluation Group, May 2009; *Assessing the Use of Poverty and Social Impact Analysis in World Bank Development Policy Loans*, Poverty Reduction Group, The World Bank, April 2009; and *Poverty and Social Impact Analysis: Reviewing the Link with in-country Policy and Planning Processes - Synthesis Report*, Joint World Bank-ODI Study, May 2009.

⁸ In-country consultations were carried out in early 2009 in seven countries with a history of engagement with the Bank through DPOs (Armenia, Benin, Burkina Faso, Colombia, Senegal,

requested through the World Bank's external website between November 14 and December 15, 2008.⁹

10. **Structure of the Report.** The retrospective is structured in five chapters. After this introduction, Chapter II reviews how the Bank has used DPOs to address the different demands of IDA and IBRD countries, highlighting the instrument's flexibility and customization. Chapter III examines how recent DPOs have been used to strengthen the results focus of government programs and how their results frameworks have been used to monitor progress in program implementation. Chapter IV discusses recent trends in the processing of Bank DPOs, including their share in total Bank lending, average processing times, the number and criticality of prior actions per operation, and their adherence to the Bank's operational policy governing DPL. Finally, Chapter V reflects operational lessons associated with the results focus of DPOs, discusses areas for strengthening, and outlines proposed next steps. Although there is a logical flow among the chapters, the report is structured to be friendly to readers interested only in specific aspects of Bank DPOs. For example, a reader who is most interested in recent trends in the processing of Bank operations could start with Chapter IV, and those with a specific interest in DPOs' results orientation could read Chapter III first. A podcast on the objectives of the retrospective and the main features of DPOs is also available from the Bank's main website—www.worldbank.org—under News and Multimedia.

II. FLEXIBILITY AND CUSTOMIZATION

11. This chapter reviews how the Bank has used DPOs to respond to the different demands of IDA and IBRD countries, including in crisis situations, and highlights four areas of potential value-added associated with development policy lending.

A. A Flexible Instrument Customized to Country Goals

12. A DPO can be tailored to country circumstances: it can be as complex or as simple and focused as the country's needs, and may be used in a broad range of countries—middle-income countries to fragile states emerging from conflict. In countries with weaker institutional and technical capacity, DPOs tend to be simpler and focused on fewer sectors, themes, and policy and institutional actions, and they usually have a stronger emphasis on public sector governance and financial management. In countries

Tanzania, and Vietnam) to obtain feedback on (a) the effectiveness of World Bank DPOs in supporting governments in designing and implementing their medium-term development policy agendas; and (b) progress in the application of the Bank's good practice principles on conditionality. The format of the meetings was adjusted to reflect country circumstances and government preferences. All consultations included a balanced representation of the different stakeholders. They were led by non-Bank staff: representatives of bilateral development partners, CSOs, or a respected national facilitator. Non-Bank rapporteurs summarized the key points of the consultations in coordination with the facilitator/chair. Summary reports of the points raised during the consultations have been posted on the World Bank's external website. Additional consultations were held with stakeholders and development partners in Europe in June 2009.

⁹ Stakeholder feedback was requested through the World Bank's external website via the following link: www.worldbank.org/DPLRetrospective.

where institutional and technical capacity is stronger, DPOs cover a broader spectrum of reform areas and sectors that may range from business competitiveness to climate change. In both cases, DPOs are designed to reflect the borrower's priorities and are based on mutually agreed actions aimed at achieving the government's development goals.

13. ***DPO Features.*** Development policy financing can be provided in the form of IDA and TF grants, IDA credits, or IBRD loans. It has a number of features that can be deployed to support countries with different needs and interests.

- ***Supplemental financing.*** Supplemental financing may be provided for a DPO for which an unanticipated gap in financing jeopardizes a reform program that is otherwise proceeding on schedule and in compliance with the agreed policy agenda. The Bank must demonstrate that (a) the borrower is committed to the program but cannot raise sufficient funds from other lenders at reasonable terms or in a reasonable time; and (b) the time available is too short to process another free-standing operation.
- ***Deferred drawdown option.*** The DPL DDO allows IBRD borrowers to postpone drawing down a loan for a defined drawdown period after the Loan Agreement has been declared effective. This option had been available since 2001 for countries that had no immediate needs of funding but that might need to borrow because of unforeseen events, but it had only been used twice—in Chile and Latvia, both “investment grade” borrowers. The option was found to be unattractive to borrowers because its cost was perceived to be high, and because the policy required the Bank to certify the sustainability of the country's macroeconomic policy stance and that program implementation was satisfactory before the funds could be withdrawn. The Bank enhanced this option in March 2008 by removing the commitment fee for undisbursed loan amounts and the surcharge for extended maturities, and introducing automatic eligibility for the drawdown.¹⁰ The DPL DDO may be renewed for up to three years, as long as the original program remains largely in place and the macroeconomic policy framework is adequate. Since April 2008, the Board has approved 12 DPL DDOs for a total of \$5.3 billion, of which \$1.4 billion had been disbursed by end-FY09. On August 5, 2009, the Board approved an increase in front-end fees for DPLs with a deferred drawdown option.¹¹

¹⁰ Automatic withdrawal means that, following the request for withdrawal, the borrower may draw down the funds unless it has received prior notification from the Bank that one or more drawdown conditions (maintenance of an adequate macroeconomic policy framework and satisfactory implementation of the overall program) are not met and a further review is necessary.

¹¹ For regular DPL DDOs, the front-end fee has increased from 25 basis points (0.25%) to 75 basis points (0.75%), and a 50 basis point (0.50%) fee will be charged at each renewal of the loan. For Catastrophe Risk DDOs (CAT DDOs), the front-end fee has increased from 25 basis points (0.25%) to 50 basis points (0.50%), and a 25 basis point (0.25%) fee will be charged at each renewal of the loan. These renewal fees will be charged on the amount of the loan to be made available for drawdown upon such renewal. For further details, see *2009 Review of New Loan Pricing*, Report No. R2009-0182, The World Bank, Washington, DC.

- ***Catastrophe DDO.*** For DPLs supporting countries in developing and implementing programs for catastrophic risk management, the catastrophe DDO (CAT DDO) DPL, introduced in March 2008, gives IBRD borrowers the assurance that—over a period of 3 years, renewable up to 15 years—they can withdraw funds when a natural disaster occurs that requires them to declare a state of emergency. Three CAT DDOs for countries vulnerable to natural catastrophes have since been approved—to Colombia, Costa Rica, and Guatemala—for a total of \$300 million; to date only Costa Rica has requested partial disbursement of the CAT DDO.
- ***Debt restructuring.*** Debt and debt service reduction operations help borrowers reduce their debt payments and free resources for investment through loan restructuring, equity conversion, or interest rate swaps. They are not tied to many conditions, especially if a borrower is already implementing a program with Bank support.
- ***Special development policy lending.*** For IBRD-eligible countries that are approaching or are in a crisis with substantial structural and social dimensions and that have urgent and extraordinary financing needs, the Bank may, on an exceptional basis, provide special development policy loans (SDPLs). The magnitude of such financial support is subject to the availability of adequate IBRD financial and risk-bearing capacity. To be eligible for an SDPL, the country must have a disbursing IMF-supported program in place, and the operation must be part of a package of international support—which may include multilaterals, bilateral donors, and private lenders and investors—of structural, social, and macroeconomic policy reform, with conditionality embedded in a strong policy program. This option has not been used since it was introduced in FY05, and on September 1, 2009, Executive Directors approved a revision of the SDPL option eliminating the link between a SDPL and a country's CAS envelope, and introducing greater flexibility in SDPL repayment terms and pricing.¹²
- ***Processing DPOs in crisis or post-conflict situations.*** Countries affected by crisis or conflict may require an unusually quick response from the Bank, and there may not be sufficient time or country capacity to adequately address design considerations (such as possible distributional effects, effects on natural resources and the environment, and fiduciary arrangements), or develop a strong policy program with stakeholder consultation. In such situations, development policy lending is justified on an exceptional basis. Also, in crisis situations the Bank may process new DPOs for IBRD and IDA borrowers (under the IDA fast-track facility and Global Food Price Response Program, for example) on an accelerated basis with accelerated processing and internal review.

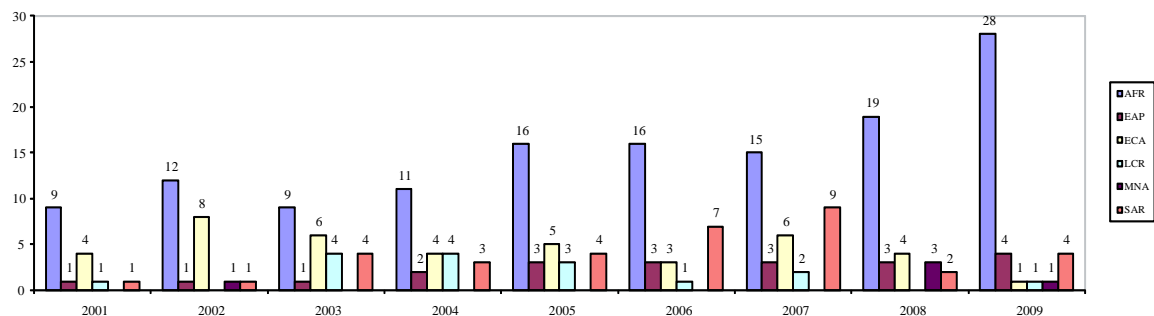
¹² The new SDPL financial terms include a grace period of 3-5 years with a final maturity of 5-10 years; a minimum fixed spread over LIBOR of 200 bps; and a front-end fee of 100 bps. For further details, see *World Bank Response to Financial Crises: The Special Development Policy Lending Option*, Report No. IDA/R2009-0217, The World Bank, Washington, DC.

B. Policy-Based Financing in IDA Countries

14. IDA offers policy-based financing in the form of grants or on concessional terms to countries with weak policies and fragile institutions, including fragile and conflict-affected countries, and to those that are considered strong performers but whose gross national income per capita has not yet exceeded the operational cut-off level for IDA eligibility (US\$1,095 in FY09). The Bank's budget financing and policy advice work in tandem to help these countries finance, design, and implement their national development strategies. Thus, an important share of the policy-based support to IDA countries—beyond the mere granting of budgetary financing—involves the provision of advice on prioritizing and implementing a set of mutually agreed policy and institutional actions in areas in which governments admittedly lack expertise and technical capacity.

15. *DPOs in IDA Countries.* In the period covered by this retrospective, IDA provided a total of 95 DPOs to 41 countries: conflict-affected countries like Afghanistan and Haiti, countries heavily dependent on donor funding such as Mozambique, and countries going through political transition such as Pakistan. The vast majority of operations were provided to countries in the Africa and South Asia Regions (AFR and SAR), which have the largest concentrations of poor and vulnerable people (see Figure 3). The sample reviewed in this retrospective also includes 12 DPOs for fragile and conflict-affected states with ratings below 3.2 in the CPIA cluster on economic management, and 12 sectoral DPOs.

Figure 3. Regional Distribution of Policy-based Lending: IDA

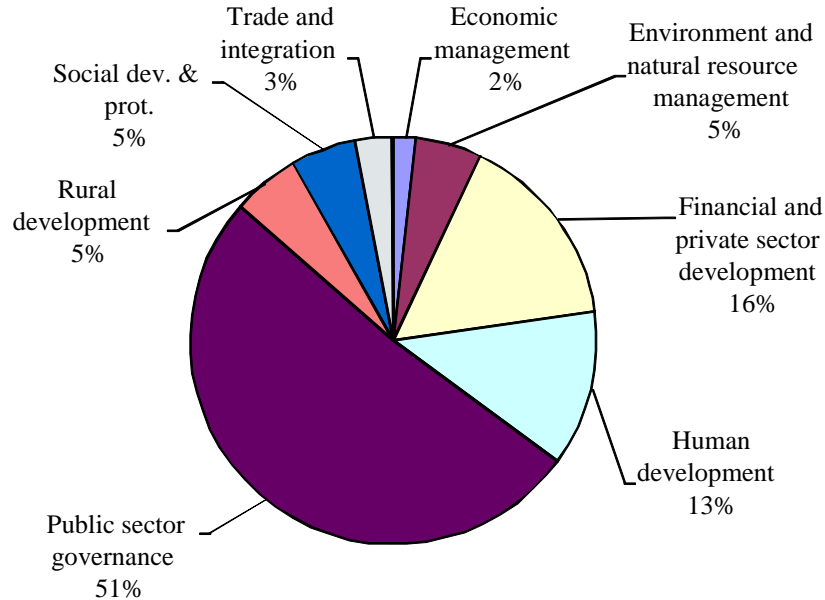


Source: World Bank.

1. Reforms Most Commonly Supported by IDA

16. Low-income countries have most frequently requested IDA support through DPOs for five major areas of reform (a) public sector governance and public financial management (PFM); (b) private-sector-led growth; (c) human development; (d) environmental and natural resources management, and (e) economic management, trade, and integration (Figure 4). Box 2 presents country examples of these five thematic areas.

Figure 4. Thematic Distribution of Prior Actions: IDA



Source: World Bank.

17. **Public Sector Governance Systems.** Three key goals of overall economic policy are growth, equity, and stability. These goals can be complementary and self-reinforcing over the long term because, while economic growth can create the conditions for poverty reduction, it may not be sustainable if it is not accompanied by sufficient stability and equitable policies.¹³ Financial stability requires, among other things, fiscal discipline; economic growth and equity can be pursued partly through allocation of public resources to different sectors; and all three goals require an effective and efficient use of resources in practice.¹⁴ The majority of the DPOs approved over the period of the retrospective aimed at strengthening public expenditure management systems; this theme represented 51 percent of all policy and institutional actions supported in DPOs for low-income countries. In many operations that support the implementation of a country's Poverty Reduction Support Paper (PRSP) the Bank monitors resource allocation—through either policy dialogue or explicit measures in the policy matrix—to support consistency with

¹³ See De Ferranti, D., G. Perry, F. Ferreira, and M. Walton (2003), *Inequality in Latin America and the Caribbean: Breaking with History?* World Bank, Washington, D.C.

¹⁴ See Schiavo-Campo, S. and D. Tommasi (1999), *Managing Government Expenditure*, Asian Development Bank, Manila, Philippines.

the priorities in the Poverty Reduction Strategy Paper (PRSP), maintain fiscal discipline, and enhance allocative and operational efficiency. Public procurement, external scrutiny (including external audit, legislative oversight, and transparency) and budget execution (including releases and cash management) were each covered in about two-thirds of the operations in the area of PFM, while accounting and reporting policy actions taken together appeared in about half. Internal accountability (including internal control and internal audit) and the legal/organizational framework for PFM were both included in over one-third of the IDA DPOs.¹⁵

18. ***Private-Sector-Led Growth.*** A large body of literature supports the view that no country has experienced rapid growth without minimal adherence to a few principles of sound economic governance: property rights, market-oriented incentives, sound money, and fiscal solvency.¹⁶ But, as the argument goes, these principles all come institution-free and need to be operationalized through a set of policy actions and institutional arrangements that must conform to the existing institutional landscape. In operational terms, this translates into creating a favorable business environment through institutional reforms—which must, by definition, be country-specific. This customization has been a feature of the Bank DPOs that have supported country priorities in the area of private-sector-led growth in a variety of low-income countries. Within this thematic area, which accounted for 14 percent of all prior actions in the operations reviewed in this retrospective, the two most common reforms were enhancement of regulation and competition policies, and support to state enterprise restructuring.

19. ***Human Development.*** In the area of human development, which accounted for 13 percent of all prior actions for IDA operations, low-income countries most frequently sought support for reforms to enhance the efficiency of their education and health systems. In the education sector, some operations focused on primary education and others supported the sector as part of the overall program of reforms under the country's PRSP. In addition, many countries sought support to expand public-private partnership in the delivery of HIV/AIDS preventive services for vulnerable populations through contracts with nongovernmental organizations and private sector organizations. More recently, a number of DPOs supported the creation or strengthening of social safety net programs to protect poor and vulnerable people from the effects of the food and fuel price crises and the global economic slowdown.

20. ***Environment and Natural Resources Management.*** Environment and natural resources management represented 5 percent, and rural development 4 percent, of all prior actions. Borrowers' interests in these areas were focused on issues related to environmental policies and institutions, water resource management, and rural policies and institutions. Many countries also sought support in meeting the criteria to join the

¹⁵ The overall picture is similar to that identified in the previous DPL retrospective, though there is now more balance between those for budgeting (which had dominated previously) and those covering more downstream parts of the PFM cycle.

¹⁶ For an earlier survey, see Ruttan, Vernon W. (1998) "The new growth theory and development economics: A survey," *Journal of Development Studies*, 35:2, 1-26; see also Rodrik, D. (2003), *Growth Strategies*, NBER Working Paper No. W10050, available at SSRN: <http://ssrn.com/abstract=461371>.

Extractive Industries Transparency Initiative, recognizing the benefits associated with greater transparency in the management of natural resource revenues.

21. ***Economic Management, Trade, and Integration.*** During the review period, this thematic area accounted for 8 percent of all prior actions supported by Bank operations in IDA countries. The focus of IDA DPOs in these areas has been on reforms aimed at strengthening debt management capacity, improving macroeconomic management to deal with the effects of the food and fuel crises, and enhancing export competitiveness and trade facilitation. However, demand for support in this area increased in FY09 as the recessionary effects of the global economic crisis began to have a significant effect on low-income countries.

Box 2. Thematic Coverage of DPOs in IDA Countries

Public Financial Management. In Guyana, the Bank's Poverty Reduction and Public Management Operation (FY06) supported the government in preparing and publishing a 5-year public sector investment program, consistent with PRSP objectives and debt sustainability, including the development of a methodology for selecting and ranking future projects. In Burkina Faso, São Tomé and Príncipe, and Benin, the Bank's program is supporting the development of sectoral ceilings for medium-term expenditure frameworks (MTEFs) in line with their PRSP priorities.

Private Sector Development. With the PRSC series for Benin, the Bank supports private-sector-led growth reforms as part of a broader government reform program, with policy and institutional actions related to the functioning of land markets, taxation, customs administration, a free trade zone, and agriculture. In Vietnam, restructuring of state-owned enterprises has been supported through the two PRSC series, with parts of the program aimed at helping the Government develop equitization plans for state-owned commercial banks with the participation of strategic investors, and assess strategic sectors where there should be less state control and ownership.

Human Development. The Bangladesh ESDSC is a good example of a working partnership between the Bank and the Government. As the PD noted (pp. 14-15), in an environment of pervasive political interference, carrying out governance reforms, particularly in relation to tying subvention to performance and recruiting teachers in a transparent manner, was no easy task. It required giving voice to the recipients of the secondary education services, mobilizing communities, making the actors in secondary education understand what reforms translated into, and sending a strong signal down the system that the Government meant serious business. To achieve all this, the Ministry of Education launched a comprehensive communication campaign, in a cascading manner, from the policy level down to the communities receiving the services.

Natural Resources Management. The Government of Ghana asked for support for its planned five-year natural resources and environmental governance program. This DPL series, approved in FY08, consists of three single-tranche DPOs focused on a set of policies and reforms in the interrelated sectors of forestry and wildlife, mining, and environmental protection. The program is intended to (a) ensure predictable and sustainable financing of the forest and wildlife sectors and effective forest law enforcement; (b) improve mining sector revenue collection, management, and transparency; (c) address social issues in forest and mining communities; and (d) mainstream environment into growth through strategic environmental assessment, environmental impact assessment, and development of a climate change strategy. In FY06, the Government of Guyana also requested Bank support to reform the institutional environment for the management of natural resources. The Bank responded to this request through the Poverty Reduction and Public Management Operation, which supported the preparation of legislation to ensure the sustainable development of Guyana's forest resources.

Economic Management. The Bank supported the Government of Cape Verde (PRSC 2, FY06) in controlling public sector contingent liabilities, and the Government of Bangladesh (Transitional Support Credit, FY08) in maintaining sustainable fiscal deficits by enhancing revenue mobilization, streamlining low-priority expenditures, and promoting necessary adjustments in administered prices to stem the flow of losses by state-owned enterprises. In Ghana and Bangladesh, the PRSC series and the TSC provided

support to export diversification. In Haiti and Djibouti, development policy grants under the GFRP helped maintain macroeconomic and social stability by ensuring that the government had adequate resources to continue providing social and infrastructure services.

2. Supporting Fragile States

22. DPOs have been used to support countries with weak policies and institutions, which may be transitioning away from conflict;¹⁷ 13 operations for such states were approved up to the end of Q3, FY09 (Table 2). Fragile states generally have a CPIA of 3.2 or less, and all the countries in the fragile and conflict-affected group in FY06-08 were well below the average in the subset of scores related to structural policies (Table 3), public sector management, and social inclusiveness and equity. Thus the risks to these operations frequently included uncertainty regarding the “whole of government”; commitment and capacity to implement reform; scant information on economic, social, and political conditions; and concerns about the fiduciary environment. This section reviews the reforms most commonly supported in fragile and conflict-affected states.

Table 2. Coverage and Content of DPOs to Fragile States

	Number DPOs reviewed Single tranche?	Fiscal Stabilization	Fiscal mgt, PFM, Fiduciary Stds, Audit Decentralization	Transparency & Governance Education and/or Health	Civil Service/Public Administration	Private Sector regulation	Business Climate	Financial sector reform	State Owned Enterprise Reform	Accompanying Project Financing:
Afghanistan FY07	1 X	X		X X	X	X	X	X		IDA, ADB PFM grants
Burundi FY07	1	X		X		X	X	X		IDA PFM grant
Central Afr. Rep. FY07, FY08, FY09	3 X	X X		X			X			LICUS on PFM, IDA on social services
Cote d'Ivoire FY08	1 X	X X		X		X	X	X		Plan for LICUS, IDA
Haiti FY07	1		X	X X						LICUS
Lao PDR FY06, FY07, FY08	3 X	X X		X		X	X	X	X	IDA capacity building
Liberia FY08	1 X	X X		X						IBRD TF, LICUS, IDA grant on PFM
Sierra Leone FY07	1 X	X X	X	X X					X	IDA grant
Togo FY08	1 X	X X		X		X	X			LICUS on SOE governance

Source: World Bank.

¹⁷ For a characterization of fragile and conflict-affected states, see “Good Practice Note for Development Policy Lending: Development Policy Operations and Program Conditionality in Fragile States,” (OPCS, June 2005).

Table 3. CPIA Score Breakdown of Countries Covered

Country	CPIA Score				
	Average	Economic management	Structural policies	Social inclusion / equity	Pub sect mgt
Afghanistan	2.5	3.17	2.33	2.3	2.2
Burundi	3.0	3.17	3.00	3.3	2.6
Central African Republic	2.5	2.83	2.67	2.2	2.3
Côte d'Ivoire	2.6	2.33	3.17	2.3	2.4
Haiti	2.9	3.17	3.17	2.7	2.4
Lao PDR	3.1	3.83	2.83	3.2	2.7
Liberia	PCPI				
Sierra Leone	3.1	3.67	3.00	2.9	2.8
Togo	2.5	2.17	3.17	2.6	2.2
Average IDA borrowers	3.3	3.6	3.4	3.3	3.1

Source: World Bank

23. **Overall Content.** Except in Côte d'Ivoire, the DPOs to fragile states and the Country Assistance Strategies (CASs) or Interim Strategy Notes (ISNs) upon which they were based treated weak PFM systems and PFM assistance prominently, with technical assistance provided by a parallel project.¹⁸ Most of the DPOs supported the enhancement of best practices in transparency, such as publication of budget documents, while others supported reforms of the public administration, including steps toward civil service reform. The two most important areas of focus in fragile and conflict-affected states included support for service delivery—most frequently in the education and health sectors—and macroeconomic management.

24. **Service Delivery.** DPOs in both Sierra Leone and Burundi have supported government efforts to realign the budget with the PRSP and have monitored budget shares to health and education (Sierra Leone) or pro-poor expenditures (Burundi) during implementation. In Laos the DPO supported the regularization of timely payment of staff in these sectors to ensure the continued provision of service. In Afghanistan the operation was limited to improving data availability to permit benchmarking in the future.

¹⁸ Some of these operations were accompanied by technical assistance/capacity-building projects funded by grants—in the form of economic management support projects—from IDA (Afghanistan, Côte d'Ivoire, Burundi, Haiti, Laos, Liberia, and Sierra Leone), IBRD surplus (Afghanistan, Haiti, and Liberia), LICUS (CAR, Haiti, Liberia, Togo, and planned for Côte d'Ivoire), and PFM projects financed by MDTFs (Afghanistan, Côte d'Ivoire, Togo).

25. **Reengagement.** Macroeconomic management, fiscal transparency, and institution building were the objectives of grants to four countries that had stopped receiving budget support from the donor community (Central African Republic, Côte d’Ivoire, Liberia, and Togo). All of these countries sought support mainly to clear arrears to the World Bank and other multilateral and bilateral creditors¹⁹ so that donors could reengage; thus these operations had very limited policy content. For example, the FY07 operation in the Central African Republic (CAR) limited transparency to a prior action permitting donor-funded technical advisors to attend Treasury Committee meetings. In Liberia and Togo, the operations limited transparency to submission of the budget to the legislature as a prior action, with a target of assuring that subsequent budgets would also be submitted in a timely manner. The Côte d’Ivoire DPO required publication of the budget communiqué to the Council of Ministers. The objective of restoring the conditions for reengagement was achieved—all four countries received follow-on budget support from donors—but these operations and their very limited and light policy content illustrate a tension inherent in the use of the DPL instrument for clearing arrears.

C. Supporting IBRD Countries

26. IBRD offers policy-based financing on nonconcessional terms to mostly middle-income countries—a highly diverse clientele ranging from strong performers that have not yet obtained more favorable terms when accessing international capital markets to countries that are nearly ready to join the group of advanced market economies and have the capacity to design and implement programs. Financing requirements and needs for program support differ widely within this group: some borrowers seek annual budget financing, others flexible and competitively priced funds for upcoming financing requirements, and a few only the assurance of access to IBRD funds should unforeseen financing needs arise. Meeting such diverse demands requires a high degree of customization of the DPL instrument and a menu of loan features from which to tailor operations to the country’s financing needs, its policy environment and capacity, and the content and phasing of the program to be supported. Under these circumstances, the relevant questions this section of the report seeks to answer are, Which IBRD clients have requested DPOs from the World Bank? and in which policy areas is the Bank called upon to provide support through DPLs?

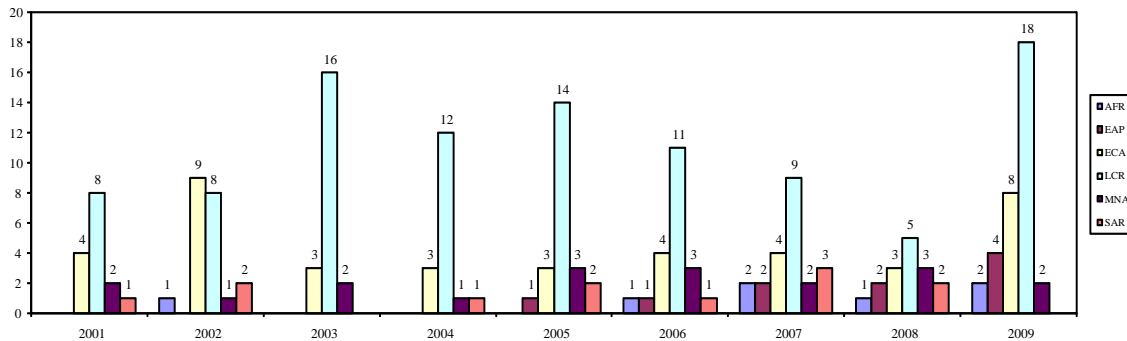
1. Which IBRD Countries Have Requested DPOs?

27. In the period covered by this retrospective, IBRD provided a total of 43 development policy loans to 22 countries that differ widely in their access to capital markets and in the strength of their policies and institutions. IBRD countries’ interest in the DPL instrument increased substantially in FY09 because changes in pricing made some of the features associated with the instrument, such as the DDO, more attractive

¹⁹ A systematic approach to arrears clearance, discussed by the Executive Directors on June 20, 2007, implied that any concessional support for arrears clearance should be counted as debt relief under the rules of the HIPC Initiative—that is, exceptional IDA support for arrears clearance effectively frontloads the delivery of HIPC debt relief. This approach was also discussed and endorsed by the IDA deputies on June 30, 2007. See IDA15 policy paper *Further Elaboration of a Systematic Approach to Arrears Clearance*, which was discussed in an informal Board meeting on June 20, 2007, and endorsed by the IDA Deputies on June 30, 2007.

(see Figure 5). Countries that have yet to reach investment grade status, such as Philippines and Ukraine (1 DPO each), constitute a minority of borrowers and account for less than one-quarter of the operations, as do the most advanced IBRD countries such as Chile (1 DPO) and Mexico (2 DPOs). Most borrowers—including the most active users of DPOs, such as India and Colombia (4 DPOs each)—are in the middle of this spectrum.

Figure 5. Regional Distribution of Policy-Based Lending: IBRD



Source: World Bank.

2. Meeting IBRD Borrowers' Needs

28. Throughout much of the period covered by the retrospective—before the global financial crisis reached emerging markets late in 2008—many of these borrowers could finance their development programs from their own resources or could access commercial funds, often at costs roughly comparable to those of IBRD funds. To varying degrees these countries could also draw on their own analytic and technical capacity for dealing with traditional development issues and hire consultant services to fill gaps in their expertise. Thus continued demand for DPOs from IBRD countries indicates that, from the borrowers' point of view, the Bank's policy-based financing can provide financial and nonfinancial value-added. It also shows that, to a large extent, the Bank has been successful in customizing the DPL instrument to the financing and policy support needs and the circumstances of IBRD clients.

3. Reforms Most Commonly Supported in IBRD Countries

29. Because IBRD countries have access to alternative sources of finance and have the analytic and technical capacity to design and implement programs, they are increasingly selective about the program areas in which they invite Bank engagement. Demand for policy-based financing may still be for a fairly broad government priority—for example, modernizing the public sector (as in a recent subnational DPO in Brazil) or increasing the productivity or competitiveness of the private sector (e.g., in Colombia and Mauritius)—and may involve the Bank in prioritizing policy and institutional actions in addition to helping with monitoring program implementation. But increasingly demand is

more specific, with the focus on single sectors or themes that require specialized Bank knowledge—for example, housing, energy, and climate change—and, at the margin, may involve the Bank only in the implementation of a program fully articulated by the government (Box 3). Demand for Bank support tends to be stronger in areas in which governments seek Bank expertise to help them solve new and complex problems (e.g., imperfect markets for financial services) than in areas where approaches are well established (e.g., improving health and education services).

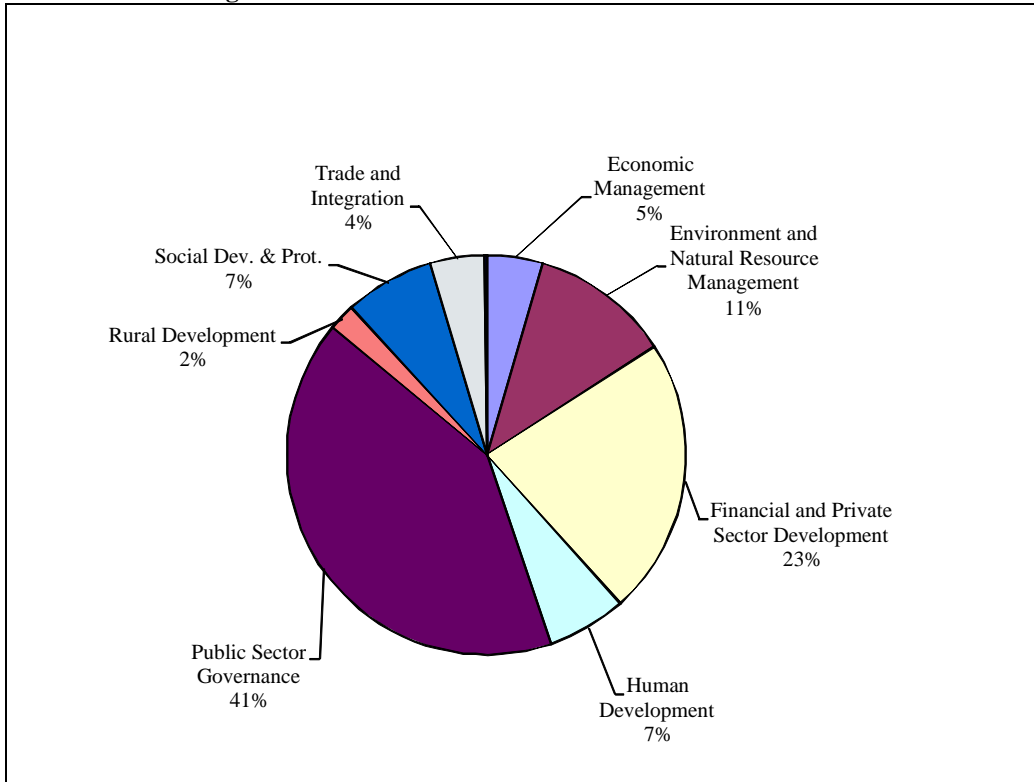
Box 3. Customizing the Coverage of DPOs for IBRD Countries

- Comprehensive DPOs—that is, operations that support most or all of the priorities the government considers crucial for addressing the country’s development challenges—account for only one-quarter of newly approved DPOs for IBRD countries (including in Croatia, Guatemala, Indonesia, Ukraine, and in Brazilian states and Indian provinces). The third and fourth programmatic DPOs to Indonesia, for example, supported priorities of the national development plan, including economic management (fiscal and debt management), fiscal decentralization, PFM, public sector governance, public service delivery across most sectors, and a wide array of measures to improve the investment climate (trade, financial sector, small and medium enterprise development, and investment procedures).
- Another quarter of operations covers the array of policy and institutional actions under one of the government’s broad priorities such as social development (Colombia), public sector development (Turkey), or improvement of competitiveness or business productivity (Brazil, Colombia, and Turkey). An important characteristic of these operations is intensive dialogue and advice on the package of actions the country needs to achieve the broad objective. In Brazil, for example, this included actions on the business environment (regulation of infrastructure, insolvency law, judicial contract enforcement), financial services (credit cards, insurance products, services to small borrowers), technological innovation (public and private research and development), and trade logistics (customs, ports, transport systems), and access to carbon credits.
- The largest group of DPOs, accounting for one-third of all operations to IBRD countries in the review period, provides support for policy and institutional actions in specific sectors or for specific objectives: for example, housing and climate change in Mexico, public works in Chile, environment in Colombia, education system in Namibia, financial sector in Egypt, water, energy, and public administration in Morocco, labor market flexibility and efficiency of social services in Bulgaria, and standard setting for social services in Peru. While some of these operations involve the Bank in sector policy design, in most the Bank helps the government implement a policy program it had already designed.
- A smaller group of DPOs to IBRD countries (8 out of 43 operations) combines support for two or more government priorities without being comprehensive. Some of the priorities are fairly broad, involving actions across several sectors (for example, improving competitiveness), or actions related to specific sectors or themes (e.g., debt management). This characteristic was more common in relatively smaller countries such as Lebanon, Macedonia, Panama, and Uruguay.

30. **Recent Trends.** In the past few years, IBRD countries as a group achieved rapid economic growth because of generally sound macroeconomic policies and more than a decade of market-liberalizing reforms, aided by a favorable external environment enabling them to attract strong capital inflows and expand exports. In this context, many governments shifted their priorities to strengthening the microfoundations of growth and sustaining it over the long-term: improving the environment for the private sector to increase investment, enhance productivity, secure financing, and enter new markets; ensuring transparent and efficient use of public resources for the provision of core public services; fostering human resource development while also addressing inequality of

access to social services; and mitigating the adverse impact of rapid growth on the environment. These broad trends are reflected in the distribution of policy-based lending commitments among policy areas (Figure 6 and Box 4).

Figure 6. Thematic Distribution of Prior Actions: IBRD



Source: World Bank.

Box 4. Policy Areas Supported by IBRD DPOs

The following compares the distribution of DPL commitments among policy themes in the review period with the distribution in FY02-06.

- **Economic management.** The retrospective covers a period of macroeconomic stability in most IBRD countries, when the Bank is rarely called upon to provide support for economic management. Thus the share of operations supporting the area of economic management dropped from 9.6 percent in FY02-06 to 2.2 percent in FY06-08. But in financial crises such as Argentina and Turkey experienced in recent years, IBRD's participation in international rescue efforts absorbs a significant share of its lending and temporarily raises the share of commitments supporting economic management.
- **Private sector.** By far the largest share of operations supports programs to improve the environment for private-sector-led growth. This share, 37.8 percent in FY02-06, increased to 47.2 percent in FY06-08. In this area, support increased in particular for the areas of trade and integration (from 4.2 percent to 9.0 percent) and the rule of law (3.6 percent to 6.0 percent). The growth in this area reflects the shift in governments' priorities to strengthening the microfoundations of growth and reveals strong demand for Bank expertise in many of the action areas in this field: designing efficient regulations to address market imperfections such as natural monopolies (in the context of privatizations) and asymmetric information (in the context of financial sector development), providing incentives for research and development and for adopting innovations, increasing access to foreign markets (including lowering the cost of trade logistics), reforming insolvency regimes, and providing greater certainty that contracts will be enforced.
- **Public sector governance.** IBRD countries recognize that sustained growth requires raising and spending public revenues for the provision of public services. IBRD support for programs in this area—in improved budget management, PFM, civil service reform, modernization of the fiscal code and tax administration—amounted to 25.5 percent of commitments during the retrospective period .
- **Social development.** In the wider area of social development (including human development and social protection and social assistance), IBRD countries' demand for Bank support through DPOs declined from 18.6 percent of commitments in FY02-06 to 11.7 percent in FY06-08. In this area, there has been less demand for Bank involvement in the cost-intensive expansion of social services, notably health services, but continued demand for Bank expertise on the improvement of systems and the quality of services, including for higher education.
- **Environment.** IBRD countries' increasing awareness of the importance of addressing the adverse environmental impact of rapid growth and of adapting to climate change has increased demand for Bank support in this area from 5.1 percent of commitments in FY02-6 to 9.5 percent in FY06-08. Borrowers recognize the value of the Bank's unique experience in such areas as natural resource management and the regulation and trading of greenhouse gas emissions.

31. **Differences between IDA and IBRD.** The broad shift of government priorities from macroeconomic adjustment and market-liberalizing reforms to strengthening the microfoundations of growth can also be observed in IDA commitments. However, in IDA countries public sector institutions are often weaker than in IBRD countries; therefore, the main focus of demand for Bank support in IDA countries is on institutional reforms in the public sector, with support for improving the environment for private-sector-led growth in second place. The shares of IDA commitments to these broad areas are the reverse of IBRD commitments: 45.7 percent for public sector governance (compared to 25.5 percent for IBRD countries) and 20.8 percent for private-sector-led growth

(compared to 47.2 percent for IBRD countries). The continued need to broaden access to social services accounts for a comparatively large share of IDA commitments (20.3 percent compared to 11.7 percent for IBRD countries). Government concerns about environmental sustainability, on the other hand, are less marked in IDA than in IBRD countries, reaching only 2.8 percent compared to 9.5 percent of IBRD commitments.

D. Responding Swiftly and Flexibly to Crises

32. Many countries were hit by multiple shocks in 2008—the steep rise of international food and fuel prices to more than twice their 2006 levels, and the global economic meltdown that was triggered by the U.S. financial and housing crises in September. Development policy lending has been one of the key instruments used by the Bank and demanded by borrowers to address their technical and financial needs during these crises. This section discusses how DPOs have been customized to offer such support and what flexibility has been introduced in the processing of DPOs.

1. Response to the Food Crisis

33. In response to the food price crisis, the World Bank set up a rapid financing facility under a new Global Food Price Crisis Response Program (GFRP), to provide policy and technical advice and up to \$1.2 billion in Bank financing to affected countries, including \$200 million in grants for the poorest and most vulnerable countries, from a trust fund

Table 4. Summary of Board-Approved GFRP DPOs as of June 11, 2009

Countries / Funding Sources	FPCR TF	IDA	IBRD	Total
Development Policy Operations (amounts in US\$ Million)				
Djibouti, Haiti, Madagascar, Burundi, Sierra Leone, Rwanda, Guinea, Bangladesh, Mozambique, Honduras, Mali, Philippines	8	3	1	12
	\$65.5	\$150	\$200	\$415.5

Source: Progress report on the GFRP as of June 2009.

funded from IBRD surplus. The \$1.2 billion was close to being reached in April 2009, so a new limit was set—\$2 billion or June 30, 2010, whichever comes first—for processing operations under the GFRP.²⁰ Thus far, DPOs totaling some \$415.5 million have been approved under GFRP for 12 countries (Table 4).

34. **Content.** These operations are supporting a range of government policies and institutional actions.²¹ In Djibouti, a Food Crisis Development Policy Grant supported government actions to channel direct support to the households of the most vulnerable people and to reduce taxes on basic food items. In Burundi, a \$10 million DPO supported the suspension of custom duties and domestic transaction taxes on 13 basic food items, helping replace lost revenue and creating fiscal space to strengthen food security and school feeding programs. In Bangladesh, a \$130 million DPO financed through an IDA

²⁰ The GFRP Secretariat has been producing periodic progress reports on the Bank's response to the food crisis; the latest, concluded on March 24, 2009, was submitted to the Board of Executive Directors.

²¹ Under the streamlined processing procedures under the GFRP, DPOs were processed taking on average only 44 calendar days from concept to Board approval; many teams used supplemental financing to existing operations to facilitate a quick response.

credit supported the Government's program to expand some of the existing safety net programs and enhance food security. In Haiti a grant helped maintain macroeconomic and social stability by ensuring that the government had adequate resources to continue providing social and infrastructure services to the population, especially the poor. In the Philippines, a DPO supported a temporary lift in restrictions on private sector imports of rice and increases in subsidies and transfers to poorer households. Some of the operations, focused on a rapid response to the food crisis, included very few prior actions—for example, the Bangladesh Food Crisis DSC had only one prior action.

2. Response to the Financial Crisis

35. In response to the global financial crisis, the World Bank Group stepped up its financial assistance to members, leveraging its own resources with support from other sources. In December 2008 IDA created a \$2 billion fast-track facility to speed up delivery of grants and long-term, interest-free loans to help the world's poorest countries cope with the impact of the crisis. IBRD's response was substantial and rapid: lending in FY09 was almost triple the level of previous years. Three crisis response initiatives were also developed, drawing on lessons learned from past crises: (a) the Vulnerability Financing Facility, dedicated to supporting social protection and agriculture, the main livelihood of over 75 percent of the world's poor people; (b) the Infrastructure Recovery and Assets platform to support countercyclical spending on infrastructure; and (c) an IFC-led private sector growth- and employment-focused platform covering three broad areas: providing liquidity to ease financing constraints on trade, small and medium enterprises, and private infrastructure projects; rebuilding financial infrastructure including bank recapitalization; and managing troubled assets.

36. ***Assistance to IBRD Clients.*** The global financial crisis and economic recession increased IBRD clients' development financing needs as their access to financial markets tightened and their fiscal positions came under stress. Given clients' needs for rapidly disbursing funds, DPL has become a key instrument, accounting for about 47 percent of IBRD's financing support in FY09. In the first three quarters of FY09, the Board approved 25 IBRD DPOs with total commitments of about \$9.7 billion, of which 12 operations totaling \$7.4 billion were associated with the global crisis. This section reviews the use of DPOs approved in the second and third quarters of FY09 that supported policy reforms—fiscal stimulus, safety net programs, and other key actions—in response to the global financial crisis.

37. ***Financing Options.*** The Bank can use several options for providing financing through DPOs. The choices made in the review period reveal advantages and disadvantages of the options with regard to the timing of the financial support, the availability of the options for support under OP 8.60, and the content of the programs supported by the operations.

- ***Supplemental financing.*** The Bank has provided supplemental financing to DPOs when the program supported by the DPO could have been jeopardized by an unanticipated financing gap stemming from a crisis situation. Two DPOs in FY09 provided \$731 million in supplemental

financing to Mexico and Peru, and an additional one for \$2 million was prepared in FY09 and approved early in FY10 for São Tomé and Príncipe.²²

- **Higher loan amounts.** The Bank has increased the loan amounts of DPOs already planned and ready for Board presentation. Increasing the loan amounts of seven DPOs (to Brazil, Colombia, Jamaica, Mauritius, Peru, and Uruguay) raised financial support from \$930 million to \$3.2 billion.
- **Deferred drawdown option.** The Bank has used DPL DDOs to provide IBRD countries with contingency financing. Since April 2008, the Board has approved 12 DPL DDOs for countries such as Colombia, Indonesia, Mauritius, Mexico, and Peru for a total of \$5.3 billion, of which \$1.4 billion had been disbursed as of August 5, 2009.

38. Supplemental financing and increased loan amounts for DPOs allowed for a faster response to financing requests than creating new DPOs: there was no need for additional analysis and policy dialogue on a new or enlarged program, for reaching agreement with the government on prior actions, or for designing a results framework.

39. **Supporting Critical Reforms.** Recent DPOs have also been used to support policies and institutional actions aimed at increasing resilience to a possible worsening impact of the global crisis or dealing with an economic crisis in the country. The Ukraine DPO complemented planned support for fiscal and quasi-fiscal consolidation and for corporate governance reform with support for legal measures for bank recapitalization to help the government address the country's economic crisis. The Indonesia DPO supported policy and institutional actions designed to prevent a possible domestic crisis, including strengthening the institutional framework for handling possible bank failures, safeguarding critical public expenditures within a disciplined budget, and improving access to trade finance and other measures to counter declining export demand (in addition to programs not related to the crisis, such as strengthening the regulatory framework for investments and enhancing transparency in extractive industries' revenues). The Tunisia DPO supported a program for countering the declining export demand brought about by the global recession, with actions to accelerate integration with the EU and lower trade transaction costs.

E. Value-Added of Development Policy Lending

40. In the course of successful development, both the nature of Bank financing provided through DPOs and the value-added that DPOs bring to the client's development efforts change. Borrowers in both IBRD and IDA countries have asked for more support and assistance on how to solve specific policy problems—broadly, a shift from the “what” to the “how” of development. Four main features represent the nature of the value-added of DPOs to countries with different interests and priorities.

- **Signaling.** Many Bank clients—from fragile states to IBRD countries—have seen DPOs as useful for signaling their policies to a domestic or international

²² Up to the third quarter of FY09, there were seven supplemental financing operations (as opposed to only three in FY08 and none in FY07), all of them in support of existing programs in LCR (3), AFR (3), and ECA (1).

audience. For example, DPOs helped CAR, Côte d'Ivoire, Liberia, and Togo clear arrears to international creditors and establish a track record in program implementation that enabled their reengagement with other donors. In Panama, after a period of drift in macroeconomic policy performance, a new administration used the publicly disclosed PD for the Public Finance and Competitiveness DPL to signal to financial markets its commitment to restoring fiscal health.

- ***Prioritizing Policies.*** Many operations have helped governments structure a program of reforms and prioritize action areas. For example, the programs supported in Croatia and Macedonia contained actions needed for furthering efforts to join the European Union, and the DPOs to Chile (public works) and Mexico (housing, climate change) supported fully articulated sector programs.
- ***Solving Problems.*** Most DPOs in the retrospective involved the Bank in discussions about the sequencing of medium-term programs. These discussions tend to bring realism into the government's agenda or help chart a course that avoids foreseeable obstacles—points emphasized in the PDs for operations in Panama and Turkey, for example. More specifically, they bring into focus problem areas in which the government recognizes a need for Bank expertise to complement the knowledge of its own planners.
- ***Financing.*** As the financial crisis unfolded, IBRD countries, with greater access to international financial markets and greater integration into the global economy, were immediately and directly affected by the disruption in financial markets and global recession. The World Bank provided a significant share of its assistance to these countries in the form of DPOs—not so much to support significant structural reforms, but rather to support ongoing reforms, and where appropriate the implementation of fiscal stimulus and the strengthening of safety nets. The higher level of financing allowed governments to sustain critical public expenditures while their revenues were falling and financial markets were severely disrupted. To a certain extent, IBRD countries saw the pricing structure for DPLs, for DPL DDOs and CAT DDOs, as an opportunity to obtain contingent financing at more favorable terms in a period of rising spreads in international financial markets.

41. ***Policy Dialogue.*** Beyond these areas of value-added, during consultations stakeholders expressed broad agreement that the sound policy dialogue associated with the Bank's DPOs has influenced the design of government policies in a meaningful way. Governments value the global knowledge and cross-country experiences that the Bank can bring to discussions of policy reforms (Vietnam) and the quality of the analytic work prepared by the Bank with inputs and participation from donors, government, local researchers, and civil society (Armenia, Benin, and Vietnam). Civil society (Armenia) expressed the view that the Bank's program should actually place more emphasis on human rights, good governance, corruption, and civil service reform, while donors considered that their participation in shaping policy priorities has been facilitated mostly by the Bank. Stakeholders also broadly agreed that the coverage of reforms supported by the Bank was fully aligned with national development strategies and/or sectoral

development plans and that the Bank's support was not concerned with broadening the reform agenda but rather with providing guidance and expertise on the appropriate focus and sequencing of reforms (Armenia, Colombia, and Senegal).

42. **New Pricing.** On August 5, 2009, after a comprehensive review of the Bank's loan pricing, the Executive Directors approved an increase in the contractual lending spread of the IBRD Flexible Loan (IFL). As a result, the contractual lending spread on IFLs (both fixed and variable spread options) has increased by 20 basis points (0.20%) to 50 basis points (0.50%). In addition, front-end fees for Development Policy Loans with a Deferred Drawdown Option (DDOs) have also increased. For regular DDOs, the front-end fee has increased from 25 basis points (0.25%) to 75 basis points (0.75%), and a 50 basis point (0.50%) fee will be charged at each renewal of the loan. For Catastrophe Risk DDOs (CAT DDOs), the front-end fee has increased from 25 basis points (0.25%) to 50 basis points (0.50%), and a 25 basis point (0.25%) fee will be charged at each renewal of the loan. The renewal fees mentioned above will be charged on the amount of the loan to be made available for drawdown upon such renewal.

III. RESULTS AND OUTCOMES

43. DPOs are becoming increasingly results-oriented: all of them now include a results framework of actions, outputs, and outcome indicators drawn directly from the government's own program. This framework has been useful in helping governments track results and monitor program implementation to evaluate whether sustained reforms are contributing to achieve their intended results. This chapter reviews the results focus of recent DPOs to IDA and IBRD countries, examining the main features of the results frameworks and the results that they have aimed to influence.

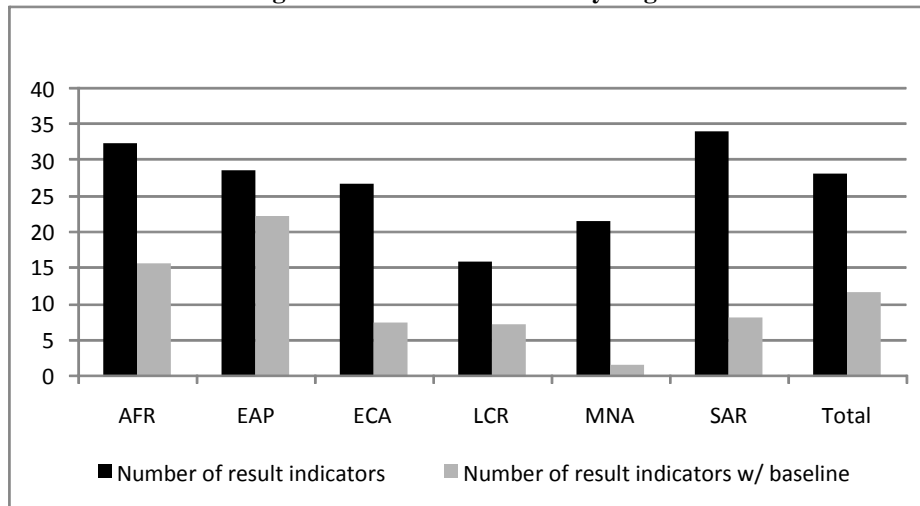
A. Results Frameworks as a Monitoring Tool

44. As the 2006 DPL retrospective discussed,²³ since 2002 the Bank has worked at the level of both CASs and lending operations to strengthen the results focus of its interventions. In this effort, the Bank has worked collaboratively with borrowers and, in most IDA countries, with other development partners. The process involves identifying specific results that a DPO is expected to influence and selecting indicators for measuring progress during program implementation and evaluating progress upon completion. However, teams continue to face the challenge of choosing results and indicators that are neither trivial nor difficult to influence over the medium term, rather than those that can only be measured over very long intervals or may not be attributable to the actions supported by the DPO. Weak statistical capacities continue to constrain countries (especially IDA countries), limiting the indicators that can be selected. Moreover, when important changes in the institutional setting and context occur, it can be difficult to measure and quantify desired results in a meaningful manner over time.

²³ The *Development Policy Lending Retrospective, 2006*, reflected, in part, the guidance given to staff through *Results in Development Policy Lending, Good Practice Note*, June 20, 2005.

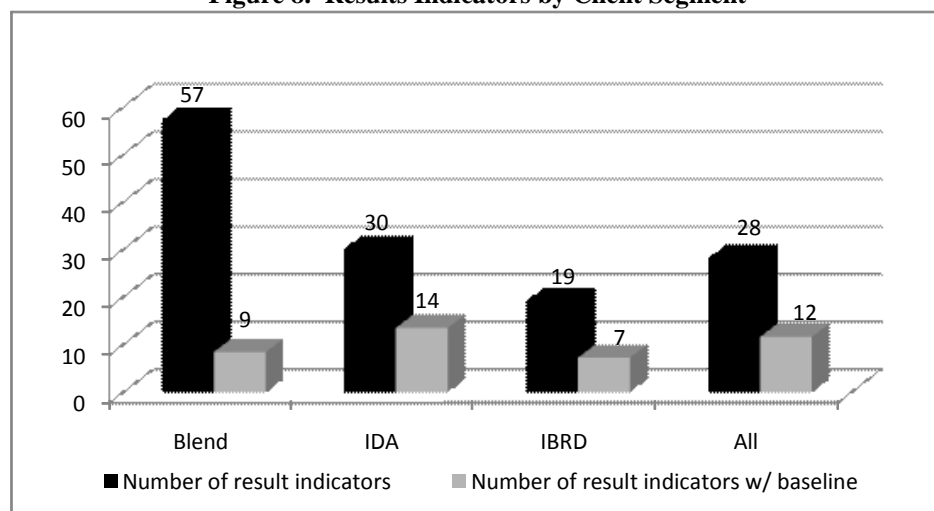
45. **Results Indicators.** Nearly all DPOs reviewed for this retrospective included a results framework. The results frameworks contained an average of 28 results indicators, but there was wide variation—from 5 in a specialized sectoral DPO to 121 in a development policy grant with a multidonor results matrix (the large number might be attributed more to efforts to remain aligned with the broad donor harmonization framework in the country than to deliberate Bank staff design).²⁴ From a Regional perspective, operations in AFR and SAR had more than the average number of results indicators, whereas those in Latin America and the Caribbean Region (LCR) had fewer (see Figure 7). DPOs to Blend and IDA-eligible countries tended to have significantly more results indicators than DPOs to IBRD countries (see Figure 8). And while measurability is important, incorporating baseline measures remains a challenge because it is not always easy to identify baselines to track process-oriented reforms—for example, public sector governance reforms, which appeared in more than half of all operations reviewed in this retrospective. On average, only about 42 percent of the results indicators had baselines. Baselines were most frequently included in DPOs in AFR and the East Asia and Pacific Region (EAP), and were least common in the Middle East and North Africa Region (MNA); there was no significant variation in the number of results indicators with baselines across IDA, IBRD, and Blend countries.

Figure 7. Results Indicators by Region



Source: World Bank.

²⁴ See the *Sierra Leone Programmatic Governance Reform and Growth Grant* approved in FY07, Report No. 37701-SL.

Figure 8. Results Indicators by Client Segment

Source: World Bank.

1. From Actions to Results

46. There was wide variation in the quality of recent results frameworks. Many—especially in FY06 and for operations in IDA countries in AFR and MNA—did not present clear linkages between the program supported by the Bank and the expected results, and they lacked monitoring indicators with baselines and targets. However, for most of the operations the results frameworks attempted to show some linkage between the program and the expected results, but they did not always present baselines and targets.

- In AFR, in the Tanzania PRSC 4 (FY06) the links between the actions supported by the Bank and the expected results of the operations were hard to reconcile. The PD included tables presenting targeted results from a joint donor-government matrix (the Performance Assessment Framework, or PAF) on the one hand, and the triggers and prior actions for the PRSC series on the other hand. The prior actions included “satisfactory health sector review” and “expenditure outturns consistent with approved budget,” while the results envisaged for the PRSC series included an increase in immunization coverage and in primary school enrollment, and improvements in completion rates. The PD did not explain how these actions were related to the expected results.²⁵
- MNA also yielded similar examples of insufficient linkages between program actions and expected results. In Lebanon, the Reform Implementation Development Policy Loan (FY08) supported comprehensive measures to improve fiscal sustainability, enhance growth, and deepen the social reforms, but the results framework had too many actions (53), and they were not

²⁵ This weakness has been addressed in the PRSC 7 for Tanzania, for which the Program Document explains how the prior actions, including a satisfactory joint annual health sector review, are expected to influence government actions to achieve results.

accompanied by baselines or targets. In Morocco, the Water Sector Development Policy Loan (FY07) supported reforms to bring about more efficient and sustainable water management and service delivery, the results framework had too many actions (48), and they were hard to track (in many instances they represented the adoption of terms of reference or of conclusions of studies and strategies that were not specified) and link to the operation's expected results.

These cases suggest that sometimes the lack of an explicit link between actions supported by the Bank and the expected results of the operations is of a presentational nature, and sometimes the problem is more of a structural nature—that is, actions in the PD cannot realistically be linked to the expected results. They also indicate that, in an effort to remain aligned to the country's overall long-term development goals, task teams preparing DPOs may set targets that are either too ambitious or that cannot be directly attributable to actions supported by the operation.

47. ***Stronger Linkages.*** A few good practice results frameworks—mostly in LCR and EAP, and mostly in IBRD countries—showed very clear linkages between actions supported under the Bank's program and expected results and country goals, and provided accompanying baselines and targets. Some of the best examples of stronger linkages between actions and results in a well-crafted results framework were in operations for countries with a well-designed medium-term development strategy, an already well-developed monitoring and evaluation system, and a good set of statistics that could be used to measure program implementation.

- In LCR, the Panama Finance and Institutional Development Policy Loan (FY07) supported reforms to restore fiscal sustainability and improve fiscal transparency and PFM. The prior actions were well focused on these objectives and clearly linked to results indicators in the results framework. For example, approval and implementation of a fiscal equity law and of a pension reform law were chosen as critical actions in the Government's program to contain the fiscal losses of the Social Security Institute. In the results framework, results were monitored through indicators such as the deficit of the pension system and the total consolidated NFPS deficit. IEG rated the operation as satisfactory for its outcomes.
- In EAP, the Indonesia DPL series included a well-crafted results framework that, although presented separately from the program matrix, had a logical flow of medium-term expected outcomes, baselines, intermediate monitoring indicators, and targets for the end of the program. The Government's program was comprehensive, and the DPL series focused on its critical elements in several pillars that were carefully monitored throughout implementation. The ICR noted that, at the end of DPL 4, while much remained to be done, it was possible to observe positive results in the macroeconomy, investment climate, PFM, and service delivery. This assessment was facilitated by the availability and use of reliable and timely data.

- In ECA, the Armenia PRSC series also offered a good example of a coherent results monitoring framework that was clearly linked with the country goals and program objectives. The policy matrix included country goals, followed by the PRSC prior actions and triggers for each operation in the series, and outcomes expected at the end of the series. The results framework presented the PRSC policy areas first and linked them to key monitoring indicators with baselines in 2003, their status in 2006, targets for 2007, and expected outcomes for 2009.

2. Taking Stock of Program Implementation

48. The results frameworks are used to supervise and monitor program implementation. An ex-post evaluation of whether a DPO achieved its intended development objectives is done through an Implementation Completion and Results Report (ICR), which staff prepare with borrower and stakeholder participation. The lessons learned from ICRs are expected to improve the quality and effectiveness of the design, preparation, and implementation of Bank-financed operations. Audiences for ICRs are both internal and external—Board members and Bank managers and staff, as well as governments and their agencies, stakeholders and beneficiaries in partner countries, and the general public with an interest in development effectiveness. Usually, the final ICR is automatically disclosed to the public when it is submitted to the Board. As a general rule, a separate ICR is prepared for each investment and non-programmatic DPO; for a programmatic DPO, a single ICR is prepared on completion of the program, after the closing of the last operation in a series, and it includes a separate assessment of the contribution of each individual operation to the program.

49. **ICR Review.** For this report, only 25 ICRs pertaining to the operations in the sample were available for review.²⁶ These ICRs rated outcomes as satisfactory or better for about 71 percent of the operations, and rated none as unsatisfactory. Bank performance was considered satisfactory in about 88 percent of the ICRs; and the borrower's performance was rated highly satisfactory in almost 17 percent and satisfactory in 67 percent (see Figure 9).

50. **IEG Evaluations of ICRs.** IEG evaluations of 19 operations covered by this retrospective were available for this report. They rate the majority of DPOs as having satisfactory outcomes and none as unsatisfactory. One aspect of quality evaluated by IEG was the degree to which operations successfully supported measures to improve the government's ability to monitor and evaluate its country development goals. In this respect, 53 percent of the operations evaluated by IEG had substantial or high ratings, and another 26 percent were rated as moderate. Only 5 percent were evaluated as low or negligible, and the remaining 16 percent were not evaluated.

²⁶ In addition, at the time of writing, there was only one IEG Project Performance Assessment Report (PPAR) that covered one of the PRSC series reviewed by the DPL Retrospective (Burkina Faso Second PRSC Series); see *Project Performance Assessment Report on the Burkina Faso First and Second PRSC Series (Report No. 47548)*, Independent Evaluation Group, World Bank, Washington, DC, March 30, 2009. The PPAR evaluation did not change the ratings or the main messages from the IEG evaluation of the ICR for the second PRSC series.

51. **Bank and Borrower Performance.** IEG evaluations also confirm that both Bank and borrower performance has been strong: they rated Bank performance as satisfactory in 79 percent of the operations and moderately unsatisfactory in only about 5 percent, and borrower performance as satisfactory or better in about 74 percent of the operations and moderately unsatisfactory in only about 5 percent.

52. **DPO Outcomes.** IEG evaluations of ICRs rated 74 percent of DPOs' outcomes as satisfactory or better and none as unsatisfactory. The favorable performance for DPOs overall is also corroborated by the evidence presented in IEG's Annual Review of Development Effectiveness (ARDE) for 2008 and 2009, which show that DPOs have consistently been rated as satisfactory in achievement of development outcomes during the past few years. The 2008 ARDE, for example, found that for DPOs that carry the PRSC title outcome ratings had increased steadily since FY03, with 100 percent of them rated satisfactory in FY06. The 2009 ARDE found that project performance was strong in FY08, with 81 percent of all Bank-supported projects rated satisfactory and with DPOs receiving, on average, higher ratings than investment operations..²⁷

53. **IEG Evaluation of PRSCs.** In addition, in a recent evaluation of DPOs entitled PRSCs,²⁸ IEG identified a number of positive trends that are consistent with the findings of this retrospective, as for example: (a) DPOs reflect stronger country ownership with good alignment with national development strategies; (b) the Bank has made substantive progress in streamlining conditionality in its development policy lending; (c) DPOs have been markedly more flexible in the interpretation of conditions and that over time this flexibility has been used selectively and appropriately; (d) the predictability of DPO disbursement has improved over time in IDA countries; (e) the focus of DPOs has shifted from macroeconomic adjustment, trade liberalization, and private sector development toward public sector management and social service delivery; (f) DPOs have become increasingly focused on results, although the quality of results frameworks has varied; and (g) DPOs prepared jointly with other development partners in the context of multi-donor budget support frameworks have effectively contributed to donor harmonization.

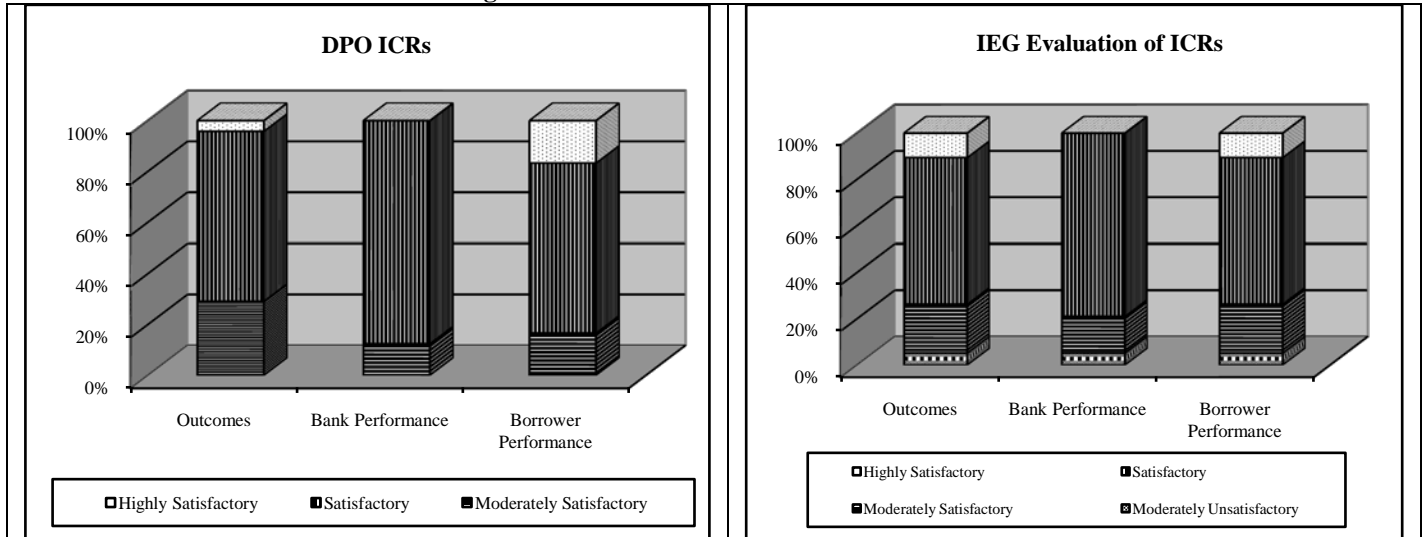
54. **Lessons from Weaker DPOs.** Within the universe of operations reviewed for this retrospective, it was only in two countries, Nicaragua and Madagascar (representing four operations: Nicaragua PRSC 2 and Madagascar PRSC 1-3) that IEG ratings of DPO outcomes were moderately unsatisfactory. The main lessons from these operations are that development policy operations can be more effective when they are based on a realistic assessment of the government's implementation capacity for long-term reforms, when they factor in the political sensitivity of reforms, and when the Bank and the government agree on a clear set of monitoring indicators to assess progress in program implementation. In the case of Madagascar, for example, the ICR for the PRSC series recognized that because of limitations in the government's implementation capacity at the time the operations were conceived, overly optimistic expectations at the design stage might have contributed for delays in the implementation of some of the reforms

²⁷ See *Annual Review of Development Effectiveness 2009 (ARDE): Achieving Sustainable Development*, Independent Evaluation Group, World Bank, Washington, DC, August 27, 2009 (p. 10).

²⁸ See *Poverty Reduction Support Credit: An Evaluation of World Bank Support*, Independent Evaluation Group, The World Bank, Washington, DC, October 2009.

supported by the Bank. In the case of Nicaragua, the IEG evaluation of the ICR noted that the operation did not include adequate performance indicators to monitor progress in program implementation in key areas supported by the Bank.

Figure 9. Bank and IEG Evaluation of ICRs



Source: World Bank

B. Development Policy Lending and Country Results

55. Presenting a systematic, quantitative analysis of the results influenced by DPO is difficult because of the problem of aggregation and the lack of consistent and internationally comparable data. That is the main reason why most studies of policy-based lending take a case study approach.²⁹ In addition, assessing the contribution of DPOs to country results is a complex endeavor because of the problem of attribution—Bank programmatic policy-based lending is just one of the contributions to supporting a government’s implementation of a medium-term reform program. However, as many countries have by now concluded a first series of programmatic DPOs, including PRSCs, looking at a few consistently reported indicators allows for a partial assessment of the direction of change in the delivery of key basic services in the areas of education and health services, and progress in PFM. It is important to bear in mind, however, that these indicators are intended to provide only an illustration of the results that recent DPOs have contributed to influence.

²⁹ Relatively recent attempts at a systematic and quantitative analysis of “adjustment policy lending” can be found in Dollar, D. and J. Svensson (2000), “What Explains the Success or Failure of Structural Adjustment Programs?” *Economic Journal* 110:894-917; and Malesa and Silarsky (2005), “Does World Bank Effort Matter?” in Koeberle, S. et al. (org.), *Conditionality Revisited: Concepts, Experiences and Lessons*, World Bank, Washington, DC.

1. Results in Health and Education

56. This section looks at some key country results in areas that have been consistently reported by governments and monitored by the Bank in two of the sectors for which statistical data are more readily available—education and health.

57. **Senegal.** The first PRSC series in Senegal supported a number of key policy and institutional actions in the area of health services. IEG’s evaluation of the series of PRSCs indicated that there were substantive achievements in the area of health services.³⁰ The series supported the Government in improving access to and use of basic health services by strengthening outreach activities, implementing improved infant and child health care management, and extending services for maternal care (increased attended birth and development of obstetrical emergency care), and by making additional progress in the prevention of infectious diseases. The authorities continued their efforts to improve the monitoring of health sector performance, both collecting data and measuring the quality of health services throughout the country (producing statistical reports for 2003 and 2004). These actions contributed to positive results: an increase in diphtheria, tetanus, and pertussis immunization coverage, improvements in the attended birth rate, and a reduction in the share of underweight children (see Table 5).

Table 5. Senegal—Progress in Service Delivery During the PRSC Series (2004-07)

	Baseline (2003)	2004	2005	2006	2007	Target at end of series
Primary health consultations	46	50	52	54	64	56
Increase in HIV/AIDS screening	n/a	n/a	n/a	30	n/a	20
Share of assisted deliveries	39	45	52	59	63	65
DTP3 coverage rate	59	85	85	89	94	85
Underweight children (under 3 years of age)	19	19	17	15	n/a	14

Source: ICR

58. **Rwanda.** One of the main objectives of the Rwanda PRSC series was to strengthen the public sector underpinnings for improved service delivery by increasing the quality, coverage, and equity of basic services through improved expenditure efficiency. According to the ICR and the IEG evaluation, performance exceeded expectations, particularly in the area of decentralized service delivery, and the series was rated as satisfactory for outcomes. A number of prior actions focused on establishing an overarching legal framework. The PRSC program helped the government introduce performance-based contracting in health and education at the local level through, for example, capitation grants from the central government to primary schools. In health, the performance-based contracts piloted in PRSC 1 were fully mainstreamed in PRSC 3. Health coverage by community insurance schemes (*mutuelles*) increased from 27 percent in 2004 to 75 percent in 2007. Use of health services and primary school enrollment rates increased. In terms of outcomes, immunization rates increased; under-five mortality (per 1,000 births) declined; and primary school completion rates improved (see Table 6).

³⁰ Both the ICR and the IEG evaluation of the ICR rated the operation as moderately satisfactory in what concerns the achievement of overall development objectives; however, performance on the health pillar was considered strong.

Table 6. Rwanda—Progress in Service Delivery During the PRSC Series (2004-06)

	Baseline	2004	2005	2006	Target at end of series
Access to safe water in urban areas (%)	48	50	56	71	50
Immunization coverage (%)	83	n/a	n/a	98	95
Use of bed nets (%)	4	n/a	30	65	30
Under five mortality (per 1,000 births)	198	180	152	152	180
Primary completion rate (%)	33	n/a	n/a	52	67

Source: ICR

59. **Bangladesh.** In Bangladesh, the programmatic Education Sector Development Policy Credit (ESDSC) contributed to significant improvements in country results (Table 7). According to IEG, the reform actions supported by the ESDSC series showed progress in achieving the program objectives, which were aligned with the PRSP and the 2006 CAS.³¹ One of the most relevant reforms was a means-tested stipend program, which is believed to have contributed to increasing the share of resources to poor children at secondary schools from 24 percent (baseline) to 33 percent at the closing of the series. The ICR reports that by the end of the program, production of all textbooks for grades 6-8 and 11-12 followed a transparent process of manuscript approval, and delays in the supply of textbooks had been reduced. The operation also contributed to improve gender parity in school enrollment. According to the ICR, the ESDSC operations were synchronized with the nationwide female stipend programs to increase females' enrollment and improve their learning levels.

Table 7. Bangladesh—Progress on Outcome Indicators for the ESDSC Series (2004-07)

	Baseline	Target (2008)	Actual (2007)
Gender parity in secondary education	36	39	41a
Gross enrollment rate in secondary education	40	52	57a
Secondary school certificate examination pass rate	36	55	59
Higher secondary school certificate examination pass rate	38	50	64
Share of textbooks produced on competitive basis	0	100	100b
Share of transparent selection process for certified teachers	0	100	100b

Source: ICR - Notes: (a) 2005; (b) 2006

60. **Vietnam.** In Vietnam, the first PRSC series supported reforms to strengthen the delivery of health and education services. In the health sector, for example, the ICR noted the introduction of the basis for state-financed compulsory health insurance for the poor, children under six, and pensioners, and state-subsidized insurance for the nearly poor. The IEG evaluation of the PRSC series noted that surveys in two provinces suggest that the introduction of free insurance for the poor led to increases in outpatient and inpatient utilization rates and a reduction in out-of-pocket payments for the poor, helping to reduce disparities in access to health care. The ICR reported that all four program outcome indicators for health were met: substantial progress in monitored health indicators, such as infant and child mortality (IMR dropped from 38/1000 in 1998 to 18/1000 in 2002; U5MR dropped from 40/1000 to 24/1000); and a reduction in the number of new

³¹ This series was initiated in FY05 and concluded in FY08 with the Third Education Sector Development Support Credit.

HIV/AIDS cases from 16,980 in 2003 to 13,731 in 2005. In education, the PRSC series supported the adoption of regulations to ensure disabled children's access to school, and progress was made on improving the quality of education, particularly in disadvantaged areas. An annual audit of primary schools launched in 2004 pointed to substantial gains in the national quality standards index by 2005, with gains higher in poorer districts than elsewhere; a reduction in the enrollment gap between the richest and poorest income quintiles; and substantial improvement in enrollments for ethnic minorities.

2. *Results in IBRD Countries*

61. In IBRD countries, DPOs tend to be more selective—narrower in scope and focused on very specific and sometimes complex reforms, as in Colombia (business efficiency), and Mauritius (competitiveness), and Mexico (climate change). In spite of this greater focus, it is still possible to identify where the Bank has made a difference in partnering with governments to support reforms in IBRD countries.

62. ***LCR Operations.*** A number of operations in LCR achieved positive results in the retrospective period.

- In Brazil, the Minas Gerais Partnership for Development DPO, a two-tranche operation approved in FY06, supported state government reforms to ensure fiscal sustainability, promote excellence in public management, and strengthen private sector development. IEG rated the operation as highly satisfactory because of concrete results in each of the areas targeted by the Bank's program: growing tax collections and declining public debt; strengthened control of operating costs and adoption of results-based management in the state administration; and adoption of a simplified tax system and approval of public-private partnership laws.
- In Panama, the Public Finance and Institutional Development Policy Loan, also approved in FY06 and rated satisfactory by IEG, supported critical reforms to strengthen fiscal discipline (reforming the corporate income tax and reducing government expenditures); increase the efficiency of the pension system (increasing the contribution rate and the minimum contribution period for eligibility); and strengthening the budget process (introducing an MTEF and an e-procurement system that reduced fiscal costs and improved transparency).
- The Colombia Programmatic Labor Reform and Social Development Policy Loan, also rated as highly satisfactory by IEG, contributed to strengthen Colombia's social protection system; improve human capital formation; and enhance the delivery of social services. During the consultations held in Colombia in March 2009, the Government expressed the view that the programmatic series of Labor Reform and Social Development Policy Loans also provided an ideal platform for interministerial coordination that was seen as critical to the successful implementation of reforms supported by the Bank.

3. *Results in Fragile States*

63. Among the DPOs for fragile and conflict-affected states, IEG has evaluated as satisfactory the Reengagement and Institution Building Support Program Development Policy Operation in CAR. The DPO aimed to set the stage for sustainable reengagement of the donor community in CAR by supporting the implementation of the Government's transitional economic and social policy framework. Outcome indicators in the PD, based on the assumption of follow-on operations, were medium-term in nature and hence not particularly useful for monitoring results. To overcome this problem, the Bank and the Government developed a small set of outcome indicators to measure progress within the one-year framework of the operation, focusing on public finance performance, transparency and accountability in the mining sector, and the performance of state-owned utility companies. The overall picture with respect to these indicators was mixed. Good performance was recorded in PFM, for example, with public spending being tracked efficiently. However, the mining code was not revised as expected, and the Government and public utilities did not settle utility bills as expected, exacerbating the risk of further arrears accumulation. Nevertheless, the operation achieved its main objective of facilitating reengagement with CAR; subsequently an IMF 3-year Poverty Reduction and Growth Facility was approved and the international donor community reengaged in other ways. In addition, the HIPC completion point was achieved and a full PRSP was adopted by the Cabinet in 2007. Government comments in the ICR indicated that the operation was instrumental in helping CAR reengage with the international community and contributed decisively to support reforms that led in particular to improvements in PFM and payroll management. Following this reengagement operation, CAR received two additional development policy operations from the Bank.

4. *Delivering Public Sector Governance Results*

64. PFM is by definition an area in which results take time to materialize, given the institutional nature of the reforms, the interconnectedness of issues, and the need for sequenced actions. The Bank has helped borrowing countries improve their public sector governance with DPOs that focused in whole or in part on actions to strengthen the formulation of fiscal policy, budget preparation, budget execution, management of financial operations, public debt management, accounting, and auditing and evaluation. This section considers the public sector governance results delivered with support from DPOs.

65. *Coverage of Section.* For this purpose, 121 operations were reviewed with an emphasis on the focus of their prior actions on areas associated with public sector governance. In 101 DPOs with public sector governance prior actions there were 78 central government DPOs with cross-cutting prior actions in the area of PFM (referred to as PFM DPOs); of these, 30 were selected to form a PFM Study Group (covering series of DPOs in 13 countries³²). In addition, the data on budget and financial management performance provided by Question 13 of the World Bank's annual Country Policy and Institutional Assessment (CPIA Q13) were reviewed to see whether support from DPOs

³² These are Bangladesh, Benin, Burkina Faso, Georgia, Ghana, Guatemala, Indonesia, Lao PDR, Madagascar, Nicaragua, Rwanda, Uganda, and Vietnam.

coincided with improvements in scores; then, the specific results delivered by the 13 series in the PFM Study Group were examined.

66. ***PFM Results.*** The scores for CPIA Q13 suggest that countries that received a PFM DPO did in fact improve in PFM as compared to countries without such a DPO (see Table 8). Of the 49 countries covered by the 78 PFM DPOs, the aggregate CPIA Q13 scores increased between 2005 and 2007 in 15 countries (31 percent), and declined in 4 countries (8 percent). Comparative CPIA data are available for another 85 countries that did not have PFM DPOs. Of these, 15 (18 percent) increased their CPIA Q13 score between 2005 and 2007, while 11 (13 percent) saw a decline. Therefore, during the relatively short period covered by this review, there is some evidence of improved performance in a greater proportion of the countries with PFM DPOs than in countries without PFM DPOs. This finding is largely consistent with a recent IEG report that assessed public sector reform over the period 1999-2006 and that found that in countries with a series of four or more DPOs supporting PFM reforms, 79 percent saw an increase in the Q13 aggregate score.³³ In addition to the 15 countries whose aggregate score increased, a further 8 (16 percent) countries that had no change in the aggregate score showed improvement in the score for at least one component of Q13 between 2005 and 2007 (without a decline in any other Q13 component). Overall, therefore, the CPIA ratings provide evidence of improved performance in 23 countries (47 percent) of the 49 with PFM DPOs in the review period and in 28 (33 percent) of countries without PFM DPOs.

67. ***Study Group Results.*** More detailed review of the PFM Study Group reveals significant achievements in PFM performance supported by the DPO series. The PDs and ICRs for 10 of the PFM Study Group series report concrete and discernible progress in more than one area of PFM that had been supported by the DPOs. In 9 of these 10, the score for at least one component of CPIA Q13 increased between 2005 and 2007, providing broad support for the conclusions contained in the PD. The achievements covered the range of core PFM functions: budget formulation, budget execution, treasury management, public procurement, financial management information systems, financial reporting, and external scrutiny and transparency (see Table 9). Some of the key results include the establishment of a single treasury account in Georgia, the publication of the State Budget Plan in Vietnam, significant improvements in revenue forecasting in Madagascar, and the full rollout of an integrated financial management system in all ministries and many autonomous agencies in Guatemala.

³³ *Public Sector Reform – What works and why? An IEG evaluation of World Bank Support*, World Bank Independent Evaluation Group, 2008, p. 49.

Table 8. Comparative CPIA Performance Based on Question 13

	Number of countries with CPIA scores	Of which			
		% with Increased CPIA score		% with Reduced aggregate CPIA score	
		Total	Aggregate score	Component score	
Countries with PFM DPOs	49	47%	31%	16%	4%
Countries without PFM DPOs	85	33%	18%	15%	11%

Source: World Bank.

Table 9. Significant PFM Achievements in Selected Countries

<i>Country</i>	<i>Most notable achievement</i>	<i>Other achievements</i>
Georgia	Treasury management —A Treasury Single Account was established and is fully operational across central government.	MTEF-based budgeting implemented across all central units, and GFS2001 budget classification adopted. Consolidated financial reporting prepared in compliance with international standards. Transparent and competitively-based procurement introduced. External audit re-established and functioning.
Burkina Faso	Procurement —A new legal and institutional framework was adopted, procurement audits were undertaken, and the manual of procedures and standard bidding documents adopted.	External audit was created through establishment of the Supreme Audit Court Annual budgets were adopted consistent with MTEF and PRSP priorities. Budget execution reports now prepared within 12 months of year end. Spending authority was delegated in the case of six ministries.
Madagascar	Budget management —Revenue forecasting improved, expenditure management procedures were streamlined, cashflow management and commitment control were strengthened [PEFA 2008].	The procurement regulator was established, all major tenders published and compliance with the 2004 Procurement code rose from 5% in 06 to 40% in 07. A substantial part of the large backlog of annual accounts/settlement bills was cleared, and these were audited. Monthly reporting is more timely. The budget calendar has been advanced and better respected, the budget framework paper introduced and capital and current budgets coordinated. [PEFA 2008] An automated customs data processing system was introduced in all main offices, and the transfer efficiency of revenue collections has improved.
Indonesia	Financial Reporting —The first aggregate annual accounts for Indonesia were produced for 2004, and for subsequent years. This was done on a timely basis, applying new government accounting standards, and they were published.	A Treasury Single Account has been adopted in all 178 regional Treasury offices, consolidating 1000 Treasury accounts into one TSA. International budget classification has been implemented, and comprehensive fiscal information is now included in budget documentation. 2008 budget incorporates a medium term budget framework for the first time.
Rwanda	MTEF-budgeting - 2007 budget was consistent with the macro-framework, the PRSP and the 2006-2008 medium-term expenditure framework, which	The Auditor General and Accountant General positions were created and filled in 2004. 200 accountants and auditors were hired and trained. The first report of the Auditor General was published in 2006. 2006 accounts were presented for audit within 6 months of year end.

<i>Country</i>	<i>Most notable achievement</i>	<i>Other achievements</i>
Lao PDR	<p>incorporated output-oriented MTEFs for education, health, water and energy sectors.</p> <p>Financial Management Information System—There has been an unusually rapid development and deployment of the Government Financial Information System across all ministries and provinces.</p>	<p>Public Procurement code was passed in 2007.</p> <p>Effective mechanisms for transfer of funds from central to local governments were established and made operational, without negative impact on services.</p> <p>New legal and institutional framework for PFM established, including creation of centralized treasury and revenue functions and establishment of Procurement Management Office.</p> <p>Medium Term Fiscal Framework developed.</p> <p>Improved revenue forecasting and reduction in salary and expenditure arrears [health worker salary arrears fell from 22% to 3.9% by 2007].</p> <p>Budget execution reports are now produced within 12 months of year end.</p> <p>Legislation was passed granting more autonomy to the State Audit Organization.</p> <p>First PETS was published and GFS classification was approved for budget and Chart of Accounts</p>

Source: World Bank.

68. **Link with Reform Priorities.** Good practice requires that the DPO PD identify the key weaknesses in PFM, describe the government’s reform program to address these weaknesses, and link the selected policy actions with the government’s reform priorities.³⁴ In this area there was a wide range of practice in the 78 PFM DPOs. Most PDs provided some overview of weaknesses in PFM (86 percent), and most included some linkage between the weaknesses in PFM, the reform program—including progress to date and commitment to reform—and the policy actions (94 percent). The depth of analysis and comprehensiveness of presentation varied considerably, with some PDs making very brief references to weaknesses and the government’s reform program. For example, Rwanda PRSC 4 contained a highly summarized explanation of weaknesses and the PFM reform program, while Ghana PRSC 5-6 and Vietnam PRSC 6-7 had no explanation—making the rationale for the identified program actions difficult to ascertain. The most effective PDs clearly presented the analysis of weaknesses, government reform program, progress to date, and current priorities in a single section, rather than spread throughout the document.

69. **Sequencing.** Good practice also requires that policy actions be logically sequenced, and that they build incrementally over a series of DPOs, with follow-up of actions from one operation to the next. All of the series in the PFM Study Group did this to some degree: seven demonstrated clear and strong logical sequencing in the PFM actions over the life of the series, and six showed some level of consistency.

5. Implementation Support

70. Three-quarters of the PFM DPOs identified, as a necessary complement to the policy operation, such implementation support as investment lending, nonlending technical assistance (e.g., IDF grants), and projects funded by other development partners. Among the PFM Study Group, a number of countries emphasized the importance of capacity-building efforts. In Lao PDR, for example, the authorities identified investment assistance as critical to the successful PFM reform, while several

³⁴ *Good Practice Note 3 for Development Policy Lending—Financial Management Issues*, OPCS, October 2004.

other policies supported by the PRSO series required no complementary technical assistance. In Madagascar, the PD gave particular emphasis to the capacity building provided through the Governance and Institutional Development Project. Nicaragua PRSC 2 made specific reference to enhancing implementation by increasing the support from the Public Sector Technical Assistance Credit. Burkina Faso PRSC 6 and Georgia PRSC III identified ongoing PFM capacity-building efforts as risk mitigation factors for the operation.

71. ***Country Monitoring and Evaluation Systems.*** Participants in the consultations broadly agreed that they have noticed improvements in the quality of country monitoring and evaluation systems with the implementation of PRSC-supported reforms, but they advised further involvement of civil society in program monitoring to guarantee a more independent and objective assessment (Armenia, Benin, Vietnam). In Armenia, all stakeholders observed that the policy matrix and results framework developed for the PRSC series were useful in monitoring policies and programs. The donors in Vietnam were of the view that the assessment of progress in program implementation should include a broader discussion on the results achieved and not remain focused on indicators. In Colombia, in the context of the Business Efficiency and Labor DPL series, there was a general view that most actions and results in the policy matrix were not particularly ambitious and, therefore, led to rather weak results in the development policy area. On the other hand, for the Colombia Sustainable Development DPL, the policy matrices were the result of translating into Bank language the general purposes of the National Development Plans, ensuring the relevance of the objectives. The evidence from this retrospective, nevertheless, is that results frameworks from DPOs need to be further improved to provide a better basis for monitoring program implementation.

72. ***Intertwining of DPOs and Other Forms of Support.*** Stakeholders also generally agreed that intertwining DPOs and technical assistance usually strengthens the enabling environment for policy reform. In Armenia, for example, all stakeholders agreed that the PRSC series was very useful in helping the government better identify technical assistance needs. In Vietnam, the government suggested the creation of a task force to link the PRSC-supported reforms with technical assistance needs, while the donors suggested that technical assistance needs be discussed in the early stages of preparation of a PRSC operation. In some cases, however, excess of bureaucracy on the part of the donors who provide technical assistance, including the World Bank, was raised as a reason for delays in reform implementation.

C. Emerging Issues

73. This section briefly examines two DPO-related issues that have come to the fore in recent years: the use of an outcome-based approach, and the use of performance assessment frameworks (PAFs) in harmonized multidonor operations.

1. Outcome-Based Approach to Budget Financing

74. An approach to budget financing that has been used to some extent by the European Commission (EC) is to explicitly link disbursements to outcomes, making disbursements based on results achieved rather than on reforms implemented. The EC

first introduced this modality of budget financing in 1999, when it began to deliver its general budget financing in the form of fixed and variable tranches, linked to results. The EC is now focusing its budget financing on outcomes associated with the Millennium Development Goals (MDGs), and the fixed-variable tranche design has been labeled the MDG Contract.³⁵ A somewhat similar approach is being piloted by the Center for Global Development (CGD) in Washington, DC,³⁶ but it is focused exclusively on the education sector and disbursements are made against results achieved, not outcomes. The World Bank has experimented with output-based financing in the context of investment lending (see Box 5) and has included outputs and outcomes as prior actions in some of its DPOs.

Box 5. Output-Based Financing: Definitions

Output-based disbursement is used to finance a product or service provided by the government or a public sector entity for which the cost of the product or service can be determined on the basis of inputs. Rather than financing the provision of inputs, the operation finances the delivery of the output. For example, for the provision of identification cards, the financing would be based on the number of identification cards issued, rather than on the inputs of paper, printers, ink, and so on. In road maintenance, the operation would provide financing on the basis of kms of roads repaired rather than for the inputs of rollers, graders, and so on.

Similarly, in **output-based aid** the government subsidizes the cost of the private provision of products and services, and relies on performance-based contractual arrangements with (usually local) private sector providers. Output-based aid has been used for such products as the installation of household water connections and such services as the provision of vouchers to families for health services.

Transfers, used to influence a change in behavior of a large population, consist of small regular amounts that are paid against evidence of actions taken by a recipient. Examples of output-based transfers: payments against evidence of regular school attendance, or regular prenatal and postnatal checkups.

Performance-based financing is used to test a new approach, develop a new program, or encourage intensification or change in direction of an existing program. It can be used for process outputs (for example, the disbursement of a predetermined amount after the completion of technical assistance studies) as well as product outputs (for example, the disbursement of a predetermined amount after the completion of a child immunization program).

The Bank has financed programmatic approaches that rely on the achievement of agreed upon results for their continuation. One example is the **adaptable program loan**, under which the Bank supports subsequent phases of the government's sector program once the agreed results of previous phases have been achieved. Another example is the **sectorwide approach**, under which the Bank finances a share of the government's annual eligible expenditures based on the medium-term expenditure framework, and finances subsequent years' eligible expenditures based on performance against agreed results.

75. **Outcome-Based Approach in DPOs.** The Bank has experimented with both output- and outcome-based prior actions in a few DPOs. Of the 1,671 prior actions for the

³⁵ The inception paper was published in mid-2007 as a technical discussion paper; see European Commission (2007), *A Proposal for Long Term and More Predictable General Budget Support*, Technical Discussion Paper on a "MDG Contract," ACP I – General Affairs, Economic Government and Budget Support, EC DG Development, June.

³⁶ The CGD is developing an approach called "Cash on Delivery" which was first presented in Barder, O. and N. Birdsall (2006), *Payments for Progress: A Hands-Off Approach to Foreign Aid*, Working Paper No. 102, Center for Global Development, Washington, DC.

166 operations reviewed for this retrospective, some 175 (10 percent) were either output- or outcome-based—2.5 percent of the prior actions represented outputs, and 8 percent were outcomes. It is important to note, however, that the Bank has used this approach mostly when the output/outcome was judged to be largely within the control of the authorities, and when progress could be clearly measured and attributed to government actions (e.g., number of children immunized, number of textbooks procured through competitive bidding, improvements on budgetary audit and control). In other cases, teams that have used output- or outcome-based prior actions may have done so to demonstrate that substantive progress has been made in the implementation of a reform program in the context of a programmatic series of DPOs, or to reflect the borrower's capacity to deliver results in sectors where outputs or outcomes are largely under the government's control. But doing this remains challenging because of the inherent issues of attribution and moral hazard.

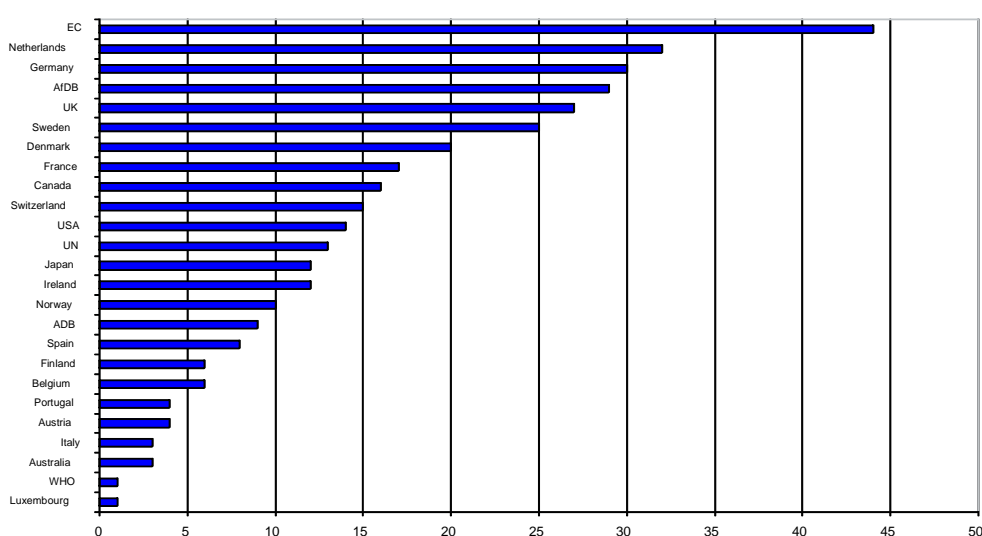
- **Attribution.** It is inherently difficult to separate the contribution of country policies to development outcomes from the effects of exogenous shocks. In a negative shock or a crisis that causes a deterioration in the domestic environment and slows down the achievement of outcomes, recipient countries often face a shortfall in donor funding because donor agencies are expected to suspend, slow down, or delay disbursements in the case of bad performance. At the same time, indicators can *improve* in the absence of government action, purely because of factors exogenous to government. For example, school attendance might increase because of good overall economic performance—which may be the result of favorable commodity prices, for example, and might not be related at all to policies and incentives to keep children in school.
- **Moral hazard.** A performance-based contract must rely on outcome and impact indicators that should ideally be verified by a third party. In most budget support operations, these indicators are derived from national poverty reduction strategies or national development plans and are produced and monitored by the governments that are also the recipients of budget support. Emphasizing outcome and impact indicators that are collected by the government itself creates a moral hazard that can lead to the production of distorted data or misreporting. For example, if an operation is to consider the number of inhabitants per qualified health worker as a performance indicator for disbursement of budget financing, and the indicator on the number of qualified health workers is to be provided by the government, there is a risk that the indicator might be artificially inflated or that the government might count as qualified workers those who actually are not.

2. *Performance Assessment Frameworks*

76. In the context of most joint budget support groups, the Bank has made significant progress in harmonizing its processes and operations with a broader multidonor budget support (MDBS) framework. This has contributed to valuable progress in reducing transaction costs to governments because many times missions are now carried out jointly with other development partners, and discussions on the same area and subject supported

by different donors are now carried out in a coordinated and structured forum. The process has also increased the transparency in the definition and choice of reform actions to be monitored for disbursement purposes, because they are now based on a joint PAF that reflects the policies and outcomes of the government's development plans and strategies. This harmonized framework leverages donor assistance to achieve the borrower's poverty reduction objectives as it provides an opportunity for parallel financing of a government's budget (see Figure 10).

Figure 10. PRSCs Receiving Parallel Financing, by Development Partner



Source: World Bank.

77. ***Need for Greater Flexibility.*** Bank DPOs prepared in the context of MDDBS frameworks are increasingly aligned with PAFs. However, the review of these DPOs has identified a persistent problem of attribution and causality: the envisaged outcomes and outputs outlined in these joint matrices are of a much higher order than a DPO can realistically influence. The PAFs reflect the countries' long-term development aspirations but tend to include actions that are not directly related to these aspirations. In addition, the content of PAFs usually covers a period of 2-3 years, and it has been difficult to adjust the content of DPOs that are prepared in the context of a MDDBS framework and anchored on a PAF to reflect changing country circumstances or government priorities. When the country is facing a crisis or an exogenous shock, for example, MDDBS frameworks have had very little flexibility to respond because the content of the PAF was designed and agreed before the onset of the shock or the crisis (Box 6). This creates rigidities akin to those associated with the structural adjustment operations of the 1980s and 1990s, which the Bank has addressed with the introduction of programmatic DPOs.

Box 6. Need for More Flexibility in Harmonized Donor Frameworks

During consultations, some governments voiced concerns about the rigidity of the harmonization framework. In Benin, the Government and development partners agreed that the number of disbursement conditions in the PRSC has declined substantially as a result of the donor harmonization process, but the Government suggested that the PAF needs more flexibility to adjust these conditions whenever necessary. In Tanzania, Government officials expressed the view that the joint donor framework has yet to evolve to represent a full alignment between the donors' and the Government's interests and priorities. Government representatives pointed out during the consultations that the perspectives of the donors differ from those of the government in terms of reform implementation. Governments and civil society tend to perceive the PAF as a collection of individual donors' matrices. They also noted that what seems to be a good idea in terms of the right policy reform one day may become outdated the next day if circumstances change.

Recent Bank experience with DPOs in the context of harmonized donor frameworks confirms the challenges brought up in the consultations. Where the MDBS framework is in an advanced stage, it has sometimes been difficult and time-consuming to adjust the content of PAFs to reflect new structural and medium-term issues that have emerged, for example, as a result of the food and financial crises. In Mozambique, the Government adjusted its program to respond to the food crisis of 2008, but changing the PAF to reflect the new Government priorities proved difficult. When the Bank used the funds from the GFRP to top up the financing provided through the PRSC 5 to support the Government's recently issued Food Production Action Plan (approved in June 2008), and used as a prior action the Government's decision to fund this program in response to the crisis, the donor group complained that the Bank used a prior action that was not included in the PAF. The Bank supported other countries not bound by a PAF in implementing policies such as temporary tax reductions on food items, elimination of import tariffs, and expansion of a social safety net to address similar problems with much more direct and visible impacts on poor and vulnerable people (e.g., in Bangladesh, Burundi, Djibouti, and Philippines).

IV. DESIGN AND PROCESSING OF DPOS

78. This chapter discusses the main design and processing features of recent DPOs: tranching, prior actions and conditionality, and the PDs' treatment of the borrower's macroeconomic framework, analytic work, consultations and participation, environmental and social aspects, and fiduciary arrangements.

A. Major Features

79. Reflecting the experiences under structural adjustment lending related to rigidities in multitranche settings, as well as the increasing demand for Bank support of complex institutional reforms requiring a flexible step-by-step approach, the share of programmatic Bank operations and commitments has risen sharply since 2000 (see Figure 11). The Bank's programmatic approach to policy-based lending—lending based on a limited set of completed (as opposed to promised) critical actions that reflect country priorities—has contributed to establishing a regular review cycle that is aligned with the country's processes. In addition, to the extent possible, the programmatic approach allows for the alignment of disbursements with the borrowing country's financing needs

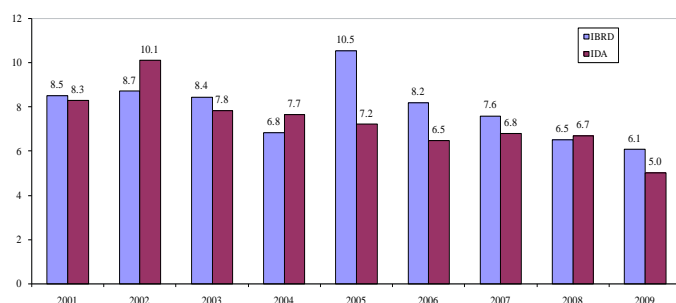
during the annual budget cycle.³⁷ There are many DPOs that are not PRSCs and that are programmatic in both IDA and IBRD countries—for example, in Bangladesh, Mauritius, Morocco, Niger, Pakistan, Panama, Tajikistan, and Turkey. In FY07, more than 90 percent of policy-based lending commitments for IDA countries were programmatic.

80. **Free-standing Operations.** In FY08 and FY09, the proportion of free-standing operations to programmatic operations increased in comparison with previous years—largely because of (a) the Bank’s response to the food and fuel price crisis and the global financial crisis; (b) the use of free-standing designs to align Bank support with a new government or a new CAS; and (c) the use of supplemental financing to support country programs whose implementation was considered to be at risk because of the crises (discussed in Chapter III). Therefore, the use of a non-programmatic design to address a crisis situation remains an important and flexible option for a rapid response whenever quickly disbursing funding is required.

Figure 11. Main Features of DPOs

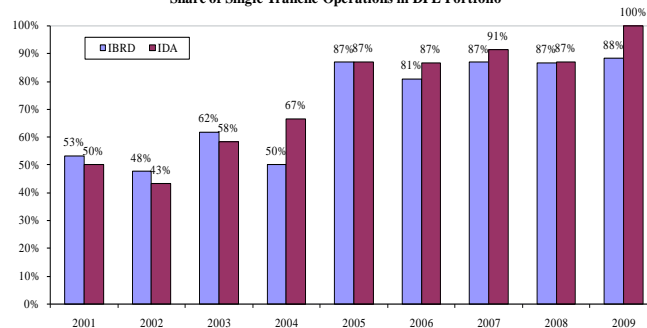
Processing times have declined...

Average Processing Time for WB Policy Based Operations (in months)



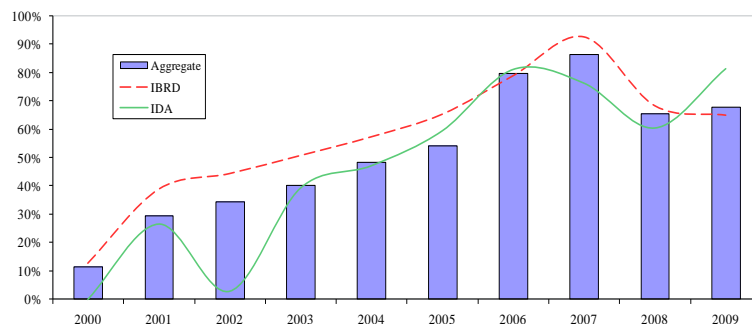
...along with the use of multitranche designs

Share of Single Tranche Operations in DPL Portfolio



The share of programmatic operations remains important...

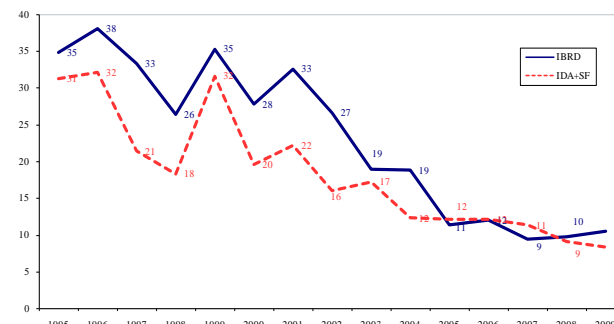
Share of Programmatic WB Operations by Commitments - FY00-09



Source: World Bank

... while the average number of prior actions per operation remains low by historical standards

Number of Prior Actions per DPO - FY95-FY09



³⁷ This trend was already evident in 2005, as discussed in *Poverty Reduction Support Credit: A Stocktaking, Operations Policy and Country Services*, World Bank, June 24, 2005.

81. **Multitranche Designs.** The use of a multitranche design, which is supported by Bank operational policy, has been declining over time. Since FY07, only a very few DPOs have used a multitranche design (LCR: 1 in FY07, 4 in FY09; AFR: 2 in FY07, 2 in FY08; and MNA: 1 in FY08, 1 in FY09). One reason for this decline is that a multitranche operation does not offer the same flexibility as a programmatic series of single-tranche operations. In a programmatic series, the Bank disburses against the completion of prior actions, which are policy and institutional reforms that must be met before Board approval of an operation; triggers indicate the planned actions in the subsequent years of a program. Triggers are not binding disbursement conditions, but because they represent the expected prior actions of the next operation in a programmatic series, they are essential to the sustainability of the program. In a multitranche operation, however, in addition to the prior actions for the first tranche, binding tranche-release conditions for the subsequent tranches, referring to actions to be taken in the future, are defined at the time of Board approval of the operation. If any of the tranche-release conditions is not met, the Bank and the borrower must engage in extensive negotiations, and the Board must waive the unmet tranche-release requirements. This process can be lengthy and can interrupt the flow of funds.

82. **Shorter Processing Times.** Use of less complex loan designs, increased reliance on programmatic lending (because follow-up operations in a programmatic series of DPOs take less time to prepare and process than a stand-alone operation), and the streamlining of processing requirements appear to have reduced the average preparation times of policy-based lending operations. On average, the time between concept review and Board approval declined by more than 20 percent between FY01 and FY08 for both IBRD and IDA policy-based operations. For GFRP operations, the average processing time of a new DPO from concept to approval was only 44 days, and supplemental financing operations were processed within 33 days.

83. **Fewer Prior Actions.** The use of a programmatic design in the context of growing alignment with country priorities has reinforced DPOs' focus on the most critical aspects of country reforms supported by the Bank. In addition, the average number of prior actions has remained low by historical standards. For both IDA and IBRD operations, the average number of prior actions has declined from above 30 in the mid-1990s to about 9 in IDA operations and 11 in IBRD operations in FY09. But while the reduction in the number of prior actions is taken to indicate progress in terms of focus and criticality, it is worth mentioning that many borrowers also take pride in accomplished actions and seek their recognition through a DPO, so that in a few cases an above-average number of prior actions in a DPO may not be inconsistent with country ownership of reforms.

84. **Stakeholder Opinions.** During consultations, opinions varied as to the degree to which governments take the lead in selecting the policy conditions for the provision of budget support. In some countries, civil society and development partners were of the view that more needs to be done to further simplify and streamline conditionality. Civil society, in particular, was generally concerned that in MDBS frameworks the number of conditions has increased, rather than decreased, because the joint policy matrices end up overloaded with a collection of each donor's own policy conditions instead of reflecting

the country's priorities. Stakeholders in Benin, for instance, pointed to cotton reforms as examples of donor-driven conditionality that was formulated without much regard to the government's viewpoint or country circumstances. Stakeholders in Tanzania and Senegal had a more positive view and affirmed that policy actions in the PRSC program are selected from the government's strategy, in consultation with the government. Some CSO stakeholders in Vietnam also noted that the Bank's added value has been to help government define policy priorities, and they appreciated the flexibility of Bank DPOs.

Box 7. Application of the Good Practice Principles on Conditionality

Principle 1: Reinforce Ownership

One of the main findings of this retrospective is that the Bank continues to prepare its development policy operations in line with the Bank's good practice principles for the application of conditionality. DPOs reflect strong government ownership of the reform program supported by the Bank, largely because DPOs are now closely aligned to the government's PRSP or medium-term development strategy. The consultations confirmed this general finding while also pointing to areas where further improvements are needed. For example, there was general consensus among CSOs that local ownership should be broadened beyond government to include CSOs, the poor, and other marginalized groups. And while the Bank was lauded for its capacity to undertake analytic work that could underpin policy formulation, there was a general feeling that Bank analysis could be more demand-driven, involve the participation of government counterparts, and make greater use of local expertise. In summary, although the increasingly programmatic nature of DPOs has allowed the Bank to stay aligned with country processes and respond more flexibly to changing country circumstances and government priorities, there is a need to continue to work with government and development partners to broaden ownership.

Principle 2: Harmonization

The retrospective highlights some of the positive externalities associated with the use of the DPL instrument for donor harmonization and alignment with country priorities. During the consultations, development partners noted the ongoing process to establish a streamlined common monitoring and assessment framework that derived from the government's medium-term strategy, was manageable and enforceable, and provided the sole source from which all indicators or prior actions are drawn (though specific "rules" differ from country to country). In Tanzania, stakeholders commented that the level of harmonization in the PRSC framework is high and that despite significant differences in approaches to monitoring progress, development partners have shown flexibility in developing a highly harmonized accountability framework. In Vietnam, stakeholders thought that harmonization in the PRSC framework would benefit from improvements in donor coordination at the sector level and from an increase in the timeframe for PRSC cofinanciers to present comments and suggestions. In Burkina Faso, stakeholders commented that the Bank should become more integrated with the overall joint donor support framework. In Senegal, stakeholders noted that the joint budget support group has developed an integrated results matrix, but not an implementation matrix, and that each donor is still focusing on its own performance indicators. In summary, while the World Bank has made good progress on harmonization, there is still room for improvement, particularly as regards the rigidities associated with the use of joint PAFs in harmonized environments.

Principle 3: Customization

The evidence from the 166 operations reviewed for this retrospective is that the use of conditionality in World Bank DPOs has been customized to country circumstances and broadly reflects governments' priorities and strategic interests. This general finding was largely confirmed during consultations. Stakeholders in Tanzania and Senegal, for example, affirmed that policy actions included in the PRSC program are selected from the government's strategy in consultation with the government. CSO stakeholders in Vietnam noted that the Bank's added value has been to help the government to define policy priorities, and they appreciated the flexibility of Bank DPOs. In general terms, this retrospective confirms that DPOs can be tailored to country circumstances and designed to respond to the most varied government priorities in a broad range of countries. In countries with weaker institutional and technical

capacity, DPOs tend to be simpler and focused on fewer sectors, themes, and policy and institutional actions, and usually have a stronger emphasis on public sector governance and financial management. In countries where institutional and technical capacity is stronger, DPOs can cover a broader spectrum of reform areas and sectors that may range from business competitiveness to climate change, for example. In both cases, DPOs are designed in a way that reflects the borrower's preferences and are based on mutually agreed actions that reinforce country ownership of reforms

Principle 4: Criticality

The use of a programmatic design in the context of growing harmonization and alignment with country priorities has reinforced DPOs' focus on the most critical aspects of country reforms supported by the Bank. Government representatives confirmed during consultations that the prior actions included in DPOs are drawn from a mutually agreed policy matrix. In Tanzania and Senegal, stakeholders agreed that carefully selected conditions in key areas were seen as incentives for reform progress. In Vietnam, the coverage of the PRSC has expanded over time to include other critical areas for development, but donors and civil society thought that more attention needs to be given to the social sector, the environment, land protection against climate change, and other second-generation reforms. In Colombia, the government acknowledged the importance and criticality of the prior actions in the Sustainable Development DPL series, for example.

Principle 5: Transparency and Predictability

External stakeholders recognize that the World Bank has continued to make progress on both the transparency and predictability of its DPOs. The Bank is an active member of MDBS frameworks in several IDA countries where there is a transparent annual review process of program implementation, and this process is seen as conducive to predictable and performance-based financial support. Stakeholders in Tanzania, however, believe that while it is clear which conditions influence the level of financial support, it is not always clear how much individual conditions influence the monetary value of the financial support provided by the Bank and other development partners, and that this factor can affect the degree of predictability. Governments generally also saw room for improvement in terms of the timing of disbursements, the level of cofinancier resources that would be available, and the ability to commit finances beyond the current year. The Bank now discloses the content of its DPOs by publishing on-line its database on development policy actions that are used as disbursement conditions (available at <http://www.worldbank.org/dplretrospective>); also, it makes all the PDs of operations approved by the Board available for public consultation.

B. Macroeconomic Policy Framework

85. To process a DPO, Bank staff must be convinced that it promotes the fundamental objectives of growth and poverty reduction in the medium term and that the associated risks (including financial) are manageable. In addition, for subnational development policy lending, the Bank must also be convinced that the state or region has an appropriate expenditure program, as well as appropriate fiscal arrangements with the central government. The emphasis on appropriate macroeconomic policies originates from evidence that development initiatives succeed best when fiscal, monetary, and exchange rate policies support growth and do not increase the probability of macroeconomic shocks and instability. In the context of development policy lending, a macroeconomic assessment should determine the following:

- Are the country's macroeconomic policies likely to achieve sustainable external and fiscal balances over the medium term (i.e., have sustainable debt dynamics);

- Will the DPO (including its associated reform program *and* its financing) support, not undermine, those macroeconomic policies;³⁸ and
- For subnational DPOs, in addition to the two considerations above, is the state or region's expenditure program appropriate, and are its fiscal arrangements consistent with the central government's arrangements?

86. ***Analysis in Program Documents.*** The PDs of all operations reviewed described recent economic developments and macroeconomic policies, supporting the analysis with key macroeconomic data and projections. The quality of the assessment was generally satisfactory—that is, the PDs typically provided a good overview of recent economic developments and prospects for the short to medium term. But the analysis generally emphasized short-term growth performance, and typically focused the discussion on fiscal issues and debt sustainability. In many PDs, the assessment also briefly reviewed the balance of payments situation, with a particular focus on the current account, and provided some assessment of balance of payments vulnerabilities. However, other important aspects of macroeconomic policies, such as monetary and exchange rate risks, were rarely discussed. And because the attention was often devoted to short-term macroeconomic performance, only a minority of PDs presented a bottom-line assessment as to whether the government's policy stance was sustainable over the medium term.

87. ***Reporting IMF Views.*** The Bank's assessment of the country's macroeconomic policy framework is typically informed by the views of the IMF, and many PDs stated explicitly that there is no divergence of views between the Bank and the IMF. In general, PDs appropriately reported on the status of the IMF arrangement in the country and described any areas of Bank-Fund collaboration. To communicate to the Board the views of the IMF, all PDs attach either a recent Public Information Note, a Chairman's Statement, or an Assessment Letter. Since the onset of the global financial crisis, and on temporary basis the Bank has also been attaching an assessment of the IMF's views that is no more than 2 months old.³⁹

88. ***Collaborating with the IMF.*** Collaboration with the IMF goes well beyond the sharing of information on the macroeconomic outlook. In a number of cases, the Bank and the Fund have coordinated intensively to ensure that the two institutions give consistent policy advice and that areas of overlap are limited to supporting politically challenging and important reforms where the weight of both institutions is needed. The PD for the Macedonia Second Programmatic DPL (FY07), for example, describe close Bank-Fund collaboration in structural areas that have a particular effect on macroeconomic stability. The IMF arrangement in Macedonia emphasized structural issues and reinforced several reforms that were also supported by the Bank's DPO.

89. ***Macroeconomic Assessment in Sectoral and Subnational DPOs.*** Sector-specific DPOs generally focused on sector-specific reforms. While they did discuss recent economic developments, they also tended to pay less attention to the macroeconomic policies and outlook and to the subnational government's expenditure program. The discussion of past growth and macroeconomic performance was often extensive, but the

³⁸ See *Good Practice Note on Designing Development Policy Operations*, October 2004, for details.

³⁹ The Fund has no similar requirement regarding Bank structural policy assessments.

analysis of the prospects and the outlook tended to be limited to the current year. The PDs for sector-specific DPOs also tended to strongly emphasize the IMF's leading role on macroeconomic issues and the IMF's favorable assessment. But there are good examples, such as the PD for the Indonesia First Infrastructure DPL (FY08), which presented a detailed and comprehensive analysis of the macroeconomic situation and outlook based on the Bank team's analysis and projections. For subnational DPOs, in general the PDs provided a comprehensive review of recent economic outcomes at both national and state level, but they did not always explain well whether the state-level fiscal outlook was consistent with the central government's fiscal arrangements.

90. ***Need for Improvements.*** Further improvement is warranted with respect to the medium-term macroeconomic outlook supporting DPO PDs and the Bank's own macroeconomic assessment. It should be reemphasized that the macroeconomic discussion in the DPO PDs should be a forward-looking assessment, not a snapshot of past economic performance. The medium- and long-term macroeconomic and growth forecasts are important to the DPO design, as they provide the context for policy discussions with the client country and are a critical component of debt sustainability and risk analyses. The importance of collaboration with the IMF cannot be underestimated in this regard. Further attention should also be devoted to the assessment of the adequacy of the public expenditure underpinnings for subnational DPOs; guidance to staff needs to be revisited to make this point more explicitly.

C. Analytic Underpinnings

91. Under OP 8.60, PDs are expected to describe the main pieces of analytic work (produced by the Bank, the country, and third parties) used in the preparation of the operation and indicate how they are linked to the proposed development policy program. In many operations reviewed, the links between the findings of recent analytic work and the program were not appropriately articulated in the PDs. Most of the PDs presented the main findings of the studies only; some went on to supply a table listing the main policy areas of the operation and the corresponding studies, but many of these were too general to reveal much about whether the studies actually did influence the program. A fraction (23 percent) proceeded to show that there were linkages between the studies and the program by citing specific examples.⁴⁰ On average, some 10 items were listed per operation and their main findings briefly cited. In almost all cases, studies by the Bank figured in the list; government-sponsored studies were used in 45 percent of cases, donor-funded studies in 56 percent, and studies in the open literature by academics or think-tanks in 15 percent. Participants in the consultations generally lauded the Bank for its capacity to undertake analytic work that could underpin policy formulation, but they also expressed a general feeling that Bank analysis could be even more demand-driven, delivered in a more timely fashion, and involve the participation of government counterparts and local stakeholders.

92. ***Need for Improvement.*** This aspect of PDs will need considerable improvement. The use of analytic work is an essential component in the design of an operation, and its

⁴⁰ There is some evidence of a slight improvement over the period. A regression of [*linkages shown*] on [*report date in years*] gives a slope of 0.12 with a standard error of 0.05.

importance for the effectiveness of a DPO cannot be overemphasized. PDs need to indicate more explicitly how the findings of recent analytic work are linked to the proposed DPO and how they have influenced the choice of focus and thematic coverage of the operation, the proposed sequencing of reforms, and the choice of prior actions and triggers (in a programmatic series). Guidance to staff will be revisited to clarify how to explain the extent to which analytic work has informed the design and the content of DPOs.

D. Consultations and Participation

93. According to the Bank's operational policy and corporate guidelines on development policy lending (see OP 8.60, paragraph 6), as part of country dialogue, the Bank advises borrowing countries to consult with key stakeholders and engage their participation in the process of formulating the country's development strategies. For a DPO, the country draws on this process of strategy formulation to determine the form and extent of consultations and participation in preparing, implementing, and monitoring and evaluating the operation. Therefore, the PD is expected to describe the country's arrangement for consultations and participation relevant to the operation, and the outcomes of the participatory process used in formulating the country's development strategy. As part of the consultation process, the Bank makes available to the public relevant analytic work, particularly on poverty and social impacts and on environmental impacts, in line with the Bank's disclosure policy.

94. **Implementation.** PDs usually explain the participation and consultation processes used by governments to define their programs, but with varying quality and depth. For a large majority of the operations reviewed—60 of 70 IDA operations reviewed—the PD explicitly referred to consultations with and participation by key stakeholders that underpinned the formulation of the country's national or sectoral development strategies.

- The PD of the Tanzania PRSC 5 (FY06), for example, reported that consultations were undertaken within government and through nationwide events with Parliament, civil society, faith-based groups, the private sector, districts and villages, and development partners, and that the comments and suggestions received were incorporated in the final draft that was approved by the Cabinet in February 2005.
- In Nicaragua, the PD for the PRSP 2 (FY07) cited consultations in 17 workshops at the departmental level, engaging civil society, the private sector, and donors, noting that these consultations culminated at the national level with the discussion of the National Development Plan 2005-2009 at the National Commission for Economic and Social Planning.
- The Ghana Programmatic Natural Resources and Environmental Governance PD explained in detail how ongoing consultations and participatory processes were informing not only the design, but also the implementation, of the reforms supported by the Bank's DPO. It explained that the Government had consulted broadly with key stakeholders on the program matrix, and that consultations and workshops with stakeholders had been carried out as part of program preparation with the aim of taking into account the comments and

concerns of civil society. In addition, the PD indicated that a Risk and Stakeholder Analysis (as a first phase of a PSIA) began in 2008 to look at broader impacts on vulnerable communities.

- In Brazil, the Minas Gerais Partnership for Development DPO (FY06) supported the state government’s development priorities. These priorities reflected not only rigorous technical analyses but also a genuinely participatory process of decision making, because the state’s development agenda encoded laws decreeing a participatory process, including the active participation of civil society.

95. *Need for Improvement.* PDs’ discussion of the country’s arrangements for consultation and participation relevant to the operation needs to be strengthened; it should refer to the outcomes of the participatory processes used by governments to define the country’s development programs.

E. Environment, Forest, and Other Natural Resource Aspects

96. OP 8.60 requires Bank staff to determine whether specific policy and institutional actions supported by the proposed operation are likely to cause significant effects on the country’s environment, forests, and other natural resources. If the country policies are likely to have such significant effects, the PD should summarize the borrower’s systems for reducing adverse effects and enhancing positive ones, drawing on relevant country-level or sectoral environmental analysis (SEA). If there are significant gaps in the analysis or shortcomings in the borrower’s systems, the Bank should describe in the PD how those gaps or shortcomings would be addressed before or during program implementation. This section reviews the extent to which PDs have addressed the environmental consequences of the reform program supported by Bank DPOs.

97. *Discussion of Likely Effects on the Environment.* Of all the prior actions supported by the operations reviewed in this retrospective, 90 percent were considered to be neutral to the environment—that is, unlikely to have significant positive or negative effects on the environment, forests, and other natural resources. About 10 percent of the prior actions were identified as likely to have significant environmental effects, with a higher proportion of them in MNA, ECA, and AFR.⁴¹ Only 1 percent of the prior actions were identified as having possible negative effects on the environment, 6 percent were identified as having only potentially positive effects, and for about 3 percent the PDs did not indicate whether the likely significant effects would be positive or negative (for example, in the Vietnam PRSC 6, one prior action was to “issue strategy to strengthen linkages between protective and economic functions of forests, and promote local ownership”—and the PD presented no further assessment of the action’s possible impacts on the environment, forests, or other natural resources).

⁴¹ The DPL toolkit (World Bank, 2008) notes specific policy areas in the following sectors that have at least some possibility of negative effects on the environment: (a) macroeconomic and fiscal reforms, (b) trade liberalization in agriculture and natural resources, and (c) health, transport, water, and energy sector reforms.

98. *Analytic Underpinnings.* Experience with the treatment of environmental issues in DPOs indicates that teams continue to struggle to assess situations in which country policies supported by the operations might have some lagged impacts on the environment. Although for most operations supporting reforms with likely environmental impacts the PDs have readily identified and discussed these impacts, only about 61 percent of them referred to relevant analytic work and showed how the findings of existing environmental studies informed the design of the operation (see Box 8 for good practice examples).

Box 8. Assessment of Environmental Impacts in DPOs: Good Practice Examples

The Punjab Irrigation Sector Development Policy Loan for Pakistan supported policy reform actions that were considered likely to have significant adverse environmental impacts. The PD identified policy areas supported by the operation that might have positive as well as negative effects on the environment. To mitigate the potentially negative effects, the operation included support for strengthening the Social and Environment Management Unit. The PD also referred to a study of water quality and surface drains, with a focus on identifying pollution loads on the system undertaken by the Unit. A Bank-supported SEA of water basins was also mentioned. Additional analytic rigor was applied in the PD in the form of an environmental screening matrix included in an annex.

In Tanzania's Fifth Poverty Reduction Support Credit, the PD recognized that policy reforms included actions related to the rehabilitation of roads and promotion of agricultural exports that could adversely affect the environment, forests, and other natural resources. The PD referred to SEAs undertaken under previous operations as the analytic underpinnings of the assessment and identified the country's own capacity-building initiatives, as well as those included in the specific policy actions supported by the operation, as helping to mitigate potential negative environmental effects

99. *Supporting Country Capacity and Institutional Building.* All the DPOs with some potentially negative effects on the environment mentioned capacity-building activities as one of the mitigating measures. In more than half of the DPOs reviewed, the PDs indicated that institutional capacity-building efforts to deal with possible environmental effects would be part of the program supported by the operation. About 45 percent of the DPOs also indicated ongoing institutional capacity-building efforts to deal with possible environmental effects of policies supported outside the operation. In the Regions with the highest numbers of DPOs with likely significant environmental effects—ECA and AFR—references to within-DPO capacity-building efforts were less frequent than outside-DPO capacity-building initiatives. DPOs in EAP, LCR, and SAR more frequently incorporated capacity-building efforts within the scope of the operation.

F. Poverty and Social Impact Analysis

100. OP 8.60 requires the Bank to determine whether specific country policies supported by a DPO are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups. When they are, the PD is expected to summarize the analytic knowledge of these effects, identify who will be affected and how they will be affected, and discuss the borrower's systems for reducing adverse effects and enhancing positive ones. For this retrospective, all prior actions were reviewed to

identify those that were likely to have significant negative poverty and social impacts.⁴² The PDs were then reviewed to verify whether they (a) identified the vulnerable groups that could potentially be adversely affected by the reforms being supported by the operation; (b) summarized analytic work by the Bank, the borrower, or others on the possible adverse effects of the reforms being supported;⁴³ and (c) discussed the borrower's systems to reduce such effects and to enhance positive ones.

101. ***Determination of Likely Significant Impacts.*** The 166 DPOs approved by the Board during the period covered by this retrospective had a total of 1,671 prior actions. Only 101 (6 percent) of them were considered likely to have significant negative poverty and social consequences on poor people and vulnerable groups. The remaining prior actions were considered either to have positive impacts (17 percent) or to be distributionally neutral (77 percent). Thus most of the prior actions appear to have uniform benefits to all groups of the population. A large number of them relate to improvements in PFM and public sector governance and transparency—for example, approval of an action plan for enhancing transparency of and compliance with accepted standards for management of public funds in Egypt (Financial Sector DPL, 2006), or approval of a strategy to ensure competitive merit-based recruitment of civil servants in Moldova (PRSC 1, 2007).

102. ***Steady Improvement over Time.*** Of the small subset of 101 prior actions that were identified as likely to have significant negative effects on the poor and vulnerable groups, about 65 (64 percent) were underpinned by some form of PSIA, and the PDs identified the vulnerable groups that were likely to be affected and discussed the borrower's systems to mitigate the negative effects and enhance positive ones. Attention to the likely poverty and social impacts of reforms supported by Bank operations have improved substantially over time. The 2006 Development Policy Retrospective found that only 29 percent of the operations reviewed discussed the likely negative impacts of policies supported and concrete measures to reduce these impacts.⁴⁴ By contrast, in FY07 25 out of 47 prior actions with likely significant negative impacts were not underpinned by any form of PSIA, and in FY08 only 4 out of 22 and in FY09 (up to third quarter) only

⁴² An important caveat, however, is that there is no definitive criterion for classifying prior actions as likely to have significant poverty and social impact, which means that the classification must rely to some degree on subjective judgment.

⁴³ It is important to note that the assessment in this section does not reflect the full range of analyses on poverty and equity issues that the Bank carries out to inform its policy dialogue with its clients and the design of operations. The Bank conducts a significant amount of economic and sector work in countries it is engaged in—for example, comprehensive reports like poverty assessments, Country Economic Memoranda, and Public Expenditure Reviews, many of which examine the growth and equity implications of a broad reform program. Much of this analytic work focuses on structural issues, rather than one narrow policy action, and takes a longer-term view rather than a short-term focus on impacts on specific groups. In other words, poverty, social and distributional analysis of specific prior actions in DPOs represents only a small subset of the body of work on poverty and distributional issues that informs the Bank's policy advice and operations.

⁴⁴ See *2006 Development Policy Lending Retrospective* which, on paragraph 53, page 27 states that only 10 out of 35 DPLs reviewed for the purpose of compliance with the PSIA requirements under OP 8.60 explicitly discussed potential negative impacts of policies supported by the operation and offered concrete measures to reduce these impacts.

5 out of 28 prior actions with likely significant negative impacts were not (Table 10). This represents a substantive improvement.

103. **Regional Differences.** There were noticeable differences across Regions: policy reforms with likely significant negative impacts were most frequent in AFR, ECA, and SAR, and in IDA countries. These were also the Regions whose PDs could have explained more clearly the likely significant negative impacts of specific prior actions in the operation, made better reference to analytic underpinnings and the vulnerable groups likely to be affected, and described better the country systems to mitigate the effects. In MNA and EAP, most of the operations covered these areas well: in MNA 83 percent, and in ECA 70 percent of the prior actions with likely negative impacts were clearly underpinned by some form of PSIA referenced in the PDs (Figure 12). Some PDs referred to likely distributional impacts but often failed to clearly link the general data on poverty and measures tailored to specific social groups to an analysis of distributional impacts of key reforms. In these cases, the PDs would have benefited from a more specific bottom-line assessment of the likely significant impacts and how they were being addressed, to convey that the supported policies had been adequately screened. In LCR, all operations with prior actions with likely significant negative impacts demonstrated clearly how these prior actions were underpinned by analytic work, which groups were identified as vulnerable, and what mitigating measures were being put in place.

Table 10. Prior Actions with Likely Significant Poverty and Social Impacts

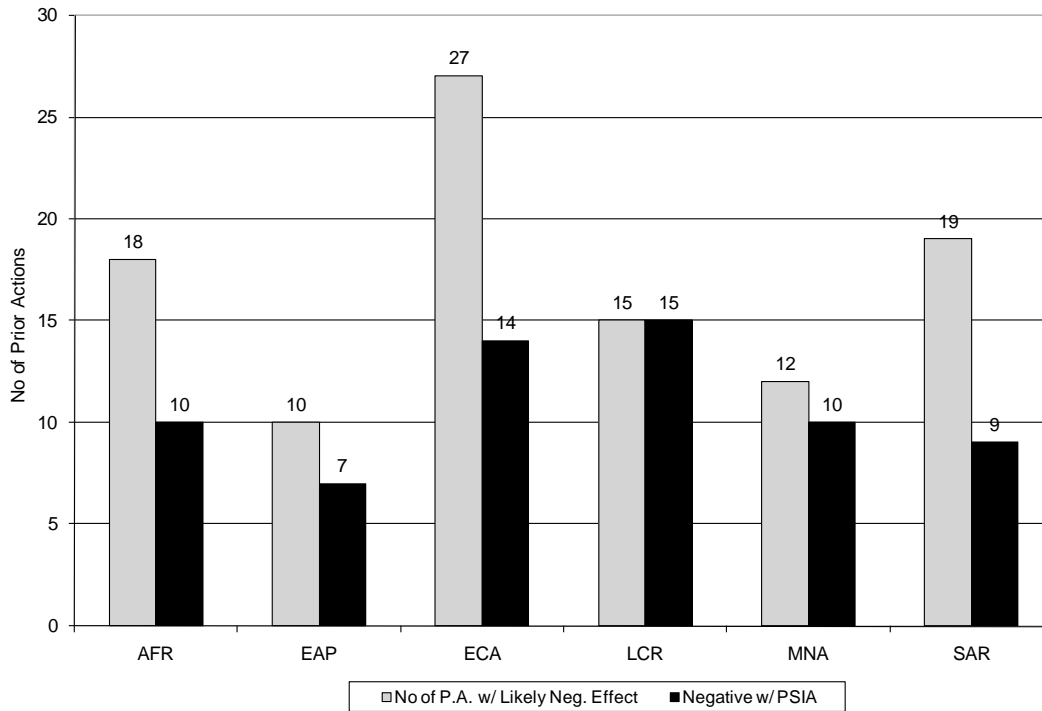
FY and Region	Total Prior Actions	PA w/ likely negative effects		PA w/ likely negative effects w/ PSIA		PA w/ likely negative effects w/o PSIA	
		No	%	No	%	No	%
	1671	101	6	65	64	36	36
FY06 (Q4 only)	203	4	2	2	50	2	50
FY07	614	47	8	22	47	25	53
FY08	432	22	5	18	82	4	18
FY09 (up to Q3)	422	28	7	23	82	5	18
AFR	589	18	3	10	56	8	44
EAP	186	10	5	7	70	3	30
ECA	222	27	12	14	52	13	48
LCR	327	15	5	15	100	0	0
MNA	113	12	11	10	83	2	17
SAR	234	19	8	9	47	10	53

Source: World Bank.

104. **Upstream Consideration of Poverty and Social Impacts.** Country teams preparing DPOs need to give greater attention to the upstream consideration of poverty and social impacts; there are few examples of such upstream consideration among the operations reviewed for this retrospective. A good practice example is the FY07 Morocco Water Sector DPO, which used a phased approach to assess the poverty and social impacts of DPO-backed reforms (see Box 9). Other examples are the Uruguay Programmatic Reform Implementation DPO, for which the need for upstream

consideration of poverty and social impacts was identified in the CAS and mainstreamed in the country's economic and sector work program; and the Ghana PRSC series, for which the PD explained that the Government and development partners identify the reform areas in the PRSP that are likely to have poverty and social consequences and that studies are prepared early enough to inform policy decisions and the program supported under PRSCs.

Figure 12: Regional Breakdown of Prior Actions with Likely Significant Negative Effects with PSIA – FY06(Q4) to FY09(Q3)



Source: World Bank.

Box 9. Upstream Consideration of Poverty and Social Impacts of Water Sector Reform in Morocco

In Morocco, the Bank and the Government teamed up to assess the poverty and social impacts of water sector and irrigation reform. The PSIA focused on documenting and assessing the stakes of tariff and subsidy reform aimed at promoting access to service by the poor, cost recovery, and water conservation. Such a reform implies reducing the revenue loss impact and consumption incentive of a heavily subsidized and untargeted first block tariff (“tranche sociale”), while making network connections more affordable, in particular through subsidies designed for poor households. The desk review assessed (a) the impacts of tariff adjustments on users’ capacity to pay and on operation and maintenance costs and operators’ cash flow, and (b) the need for and constraints to expanding connections to water supply and wastewater services. The analysis concluded that, to keep the cost of service at an acceptable level, further assessments of consumption patterns and capacity/willingness to pay should be conducted, and a methodology developed for assessing impacts of future tariff increases, with a special focus on poor and vulnerable people. The analysis recommended reducing the scope of untargeted aid such as lifeline tariffs (first block “tranche sociale”), while designing specially targeted subsidies to promote service connection for poor households. These findings will be further developed in the Phase 2 PSIA, and will guide the Government’s working group responsible for tariff reform design. DPO-supported measures also included the development of a national strategy to develop network service in poor peri-urban belts.

The PSIA on irrigation reform focused on the trade-offs of promoting water conservation through tariffs adjustments and subsidies to encourage farmers to invest in efficient irrigation technology. The Phase 1 desk review assessed (a) the ability of farmers, especially poor farmers, to adopt and finance new irrigation technologies for water conservation; and (b) impacts of tariff adjustments on ORMVA’s operation and maintenance costs. The analysis indicated that farmers in water-scarce areas are willing to pay increased water tariffs or to convert to modern localized irrigation if they get service quality improvements and productivity gains. However, farmers’ ability to afford water tariff increases and the cost of transition to modern irrigation depends on the size of their farm, their land ownership status, and their productivity. The analysis stressed that the main obstacles to successful irrigation reform are lack of understanding of its benefits, confusion over who will gain from it, and the limitations in ORMVA governance and responsiveness for its implementation. The study recommended special measures to accompany the reform process, to better define the responsibilities of local and regional stakeholders and to put in place a clear and transparent financial and legal framework for the implementation of the reform. It also stressed the need for setting performance targets and objectives for each ORMVA.

During DPO preparation, members of the DPO Steering Committee and other technical experts from the Government were actively involved in the preparation of the preliminary, or Phase 1, PSIA reports. The steering committee also provided comments on the draft reports that were reflected in the finalized documents. The PSIA will continue to feed into the policy dialogue with the Government during DPO implementation. A more in-depth Phase 2 analysis of the poverty and social impacts of the reform will be conducted during the implementation of the DPO and will draw on the issues identified for further study in the two Phase 1 reports.

105. **Staff Guidance.** The Bank has reviewed its guidance to staff on PSIA and has published an updated version of its Good Practice Note on using PSIA to support DPOs. The findings of two recent partial reviews of the Bank’s experience with PSIA,⁴⁵ along with those from a recent IEG evaluation of PSIA in the World Bank,⁴⁶ have informed

⁴⁵ See *Assessing the Use of Poverty and Social Impact Analysis in World Bank Development Policy Loans*, Poverty Reduction Group, World Bank, April 2009; and *Poverty and Social Impact Analysis: Reviewing the Link with in-country Policy and Planning Processes - Synthesis Report*, Joint World Bank-ODI Study, May 2009.

⁴⁶ *How Effective Have Poverty and Social Impact Analyses (PSIAs) Been? An IEG Study of World Bank Support to PSIAs*, Independent Evaluation Group, May 2009;

ongoing initiatives to improve the frequency and effectiveness of PSIA: enhancing outreach and learning efforts to build Bank staff awareness of and capacity in PSIA; improving guidance on using PSIA in specific country and policy contexts, and initiating a new multidonor trust fund that will become effective early in FY10.

G. Fiduciary Arrangements

106. This section assesses how fiduciary issues have been treated in DPOs in the following three dimensions: the foreign exchange control environment at the central bank, the disbursement and audit arrangements for the DPO, and the fiduciary risk arising from the government's PFM system⁴⁷.

1. Foreign Exchange Control Environment

107. It is common practice to indicate in the PD whether the IMF safeguard assessment of the foreign exchange control environment has taken place and discuss the findings of the assessment and the status of the remedial actions it identified. When such an assessment had not taken place, the PDs either demonstrated knowledge of the environment through alternative sources or retained the right to audit the deposit account, or both. However, the treatment of the foreign exchange control environment varies considerably among the DPOs, and sharing of good practices may be helpful. The Ukraine DPL 2 is a good example where the foreign exchange control environment presents no major issues, and the Yemen Institutional Reform DPG provides an example of a good treatment in a country whose IMF safeguard assessment is out of date.

2. Disbursement and Audit Arrangements

108. Development policy lending funds are disbursed against satisfactory implementation of the program supported by the operation, including completion of prior actions (and tranche-release conditions in the case of multi-tranche operations) and maintenance of a satisfactory macroeconomic policy framework. The funds are normally disbursed into an account that forms part of the country's official foreign exchange reserves, and an amount equivalent to the loan proceeds is credited to an account of the government to finance the budget. When the Bank identifies weaknesses in the borrower's central bank control environment or budget management system, or when an acceptable action plan to deal with identified weaknesses is not in place, the Bank can identify additional steps need to secure acceptable fiduciary arrangements for the operation, for example, requiring dedicated accounts for loan proceeds and the right to request an audit on the dedicated account. All PDs reviewed described the funds flow, including the bank account into which the funds would be deposited. Additional fiduciary arrangements were identified in 40 percent of the DPOs, and 21 percent required a dedicated deposit account. The PDs of Lao PDR PRSC 3 (which includes additional fiduciary arrangements), Moldova PRSC 1, and Pakistan PRSC 2 are good practice examples of the treatment of disbursement and auditing requirements.

⁴⁷ A total of 120 DPOs were reviewed for the purposes of this section.

3. PFM Systems

109. Program Documents systematically summarize PFM system weaknesses and demonstrate the government's commitment to reform by identifying the reforms that had been and were being carried out. However, a significant share (43 percent) did not provide a clear bottom-line assessment that the PFM system and the government's commitment to reform, taken together, were adequate to support the DPO. Practices vary widely: for example, although most DPOs summarized PFM system weaknesses, not all did so comprehensively. Good examples include the Pakistan Punjab Education DPO, which assessed PFM and procurement, demonstrated progress and commitment, and drew conclusions about risks to the operation. The Bangladesh Railway Reform DPO included a fiduciary assessment of Bangladesh Railway itself and of the broader PFM/procurement system. These DPOs also tended to make good use of analytic work in the fiduciary section. The Macedonia PDPL 2, which had only a very small PFM component in its program, provided a comprehensive summary of CFAA and CPAR findings in the fiduciary section, and also used the CFAA to identify key PFM issues in the health sector.

110. For the assessment of the country's overall fiduciary risks, the Bank reviews the country's public financial management and procurement arrangements through diagnostic work and through reports prepared by the borrower and others, including published annual audit reports of the central bank and of the government. There were a few cases in which DPOs significantly considered the risks posed by the country's current procurement system and the frequency of these more detailed assessments was higher in sectoral DPOs. This is an area where improvements are needed.

V. OPERATIONAL LESSONS, GUIDANCE, AND NEXT STEPS

111. The *2009 Development Policy Lending Retrospective* confirms the overall robustness of DPOs as a useful instrument to provide financing and policy advice in support of a country's medium-term development agenda. In addition, it identifies three main messages:

- **Flexibility.** The flexibility embedded in DPOs has proved to be a valuable feature, particularly in times of crisis. DPOs have supported country-owned reforms aimed at achieving specific development results in a broad range of countries with different needs—from middle-income countries to fragile states emerging from conflict. DPOs have been provided in the form of grants, credits, or loans, and have supported borrowers in designing and implementing their medium-term development programs or have provided emergency financing to meet crises or exogenous shocks. Their increasingly programmatic nature has allowed the Bank to stay aligned with country processes and respond more flexibly to changing country circumstances and government priorities, which has been essential to strengthen ownership of reforms supported by the Bank.
- **Customization.** DPOs have supported borrowing countries with both the “what” and the “how” of development. They have provided financing and

policy advice in areas where borrowers lack expertise and technical knowledge. IBRD countries, for example, have demanded DPOs that focus on single sectors or themes requiring specialized Bank knowledge—such as housing, energy, and climate change. In IDA countries, DPOs have served as a useful platform for dialogue, harmonization, and alignment around the key policy and institutional reforms to achieve country goals. In both IBRD and IDA countries, the majority of the operations have supported public sector governance reforms.

- **Results.** DPOs remain focused on results. They have been associated with positive results and outcomes in the delivery of social services in the sectors of health and education, for example, and in PFM. All Bank DPOs include a results framework that lays out the country goals, the objectives of the operation, and the expected results of the program supported by the Bank. Results frameworks have facilitated the supervision of DPOs, but their quality has varied. Improvements are needed in the areas of defining the appropriate causality between the actions supported by the Bank and the expected results of the Bank’s operation, and selecting appropriate indicators.

A. Guidance on Areas for Strengthening

112. The retrospective’s bottom line is that DPOs remain a robust instrument to provide budget financing and support countries in designing and implementing results-focused policy reforms. But while the overall policy framework for the provision of development policy lending remains robust, there are areas where there is scope for continued strengthening: (a) the assessment of the country’s macroeconomic policy stance and underlying public expenditure framework for the DPO; (b) the discussion of the consultation and participation processes the country used to define its development programs; (c) the use of environment analysis and PSIA to inform DPOs; (d) the assessment of the adequacy of fiduciary arrangements and residual fiduciary risks in the context of the DPO; and (e) the overall quality of results frameworks.

113. **Operational Guidance.** Management will provide operational guidance to staff on how to address these weaknesses (see Box 10).

Box 10. Operational Guidance to Strengthen Development Policy Operations

<i>Operational policy requirement</i>	<i>Current practice</i>	<i>Operational guidance</i>
Macroeconomic assessment		
Bank determines adequacy of country’s macroeconomic policy framework for DPO; for subnational DPOs, in addition,	Excessive focus on past economic performance and sometimes insufficient assessment of sustainability of	<ul style="list-style-type: none"> • Include forward-looking assessment of the macroeconomic policy framework. • For subnational DPOs, discuss

<i>Operational policy requirement</i>	<i>Current practice</i>	<i>Operational guidance</i>
<p>Bank determines whether state or region has an appropriate expenditure program, as well as appropriate fiscal arrangements with the central government.</p>	<p>macroeconomic policy framework over the medium term. Macroeconomic assessments are weaker in sectoral/subnational DPOs.</p>	<p>whether state or region has an appropriate expenditure program, as well as adequate fiscal arrangements with central government.</p> <ul style="list-style-type: none"> • Seek IMF views on adequacy and sustainability of macroeconomic policy framework and report any divergences in Program Document. • Present a bottom-line assessment of the adequacy of the macroeconomic policy framework.
<p><u>Participation and consultation</u></p> <p>As part of its country dialogue, the Bank advises borrowing countries to consult with key stakeholders and engage their participation in the process of formulating the country's development strategies. Program Documents describe the country's arrangement for consultations and participation relevant to the operation, and the outcomes of the participatory process used. Relevant analytic work conducted by the Bank, particularly on poverty and social impacts and on environmental impacts, is made available to the public as part of the consultation process, in line with the Bank's disclosure policy.</p>	<p>Participation and consultation processes used by governments to define their programs are usually explained in Program Documents, but with varying quality and depth.</p>	<ul style="list-style-type: none"> • Program Documents need to describe the country's arrangements for consultations and participation relevant to the operation; the main outcomes of the participatory processes used by the government to define the country's development programs; and whether and how stakeholder views were taken into consideration in the definition of the government's program.
<p><u>Analytic underpinnings</u></p> <p>Program Documents need to describe the main pieces of analytic work (produced by the Bank, the country, and third parties) used in the preparation of the operation and indicate how they are linked to the proposed development policy program.</p>	<p>In many cases, the links between the findings of recent analytic work and the program were not appropriately articulated in the program documents.</p>	<ul style="list-style-type: none"> • Include information in the Program Document on relevant conclusions and main findings of recent analytic work produced by the Bank, the country and third parties. • Articulate in the text how these findings were used to inform the design and content of the operation (for example, choice of focus and thematic coverage of the operation, the proposed sequencing of reforms, and the choice of prior actions and triggers in a programmatic series). • Good practice examples have included a table summarizing how findings from analytic work are linked to the proposed operation.

<i>Operational policy requirement</i>	<i>Current practice</i>	<i>Operational guidance</i>
<p><u>Environmental, Forest, and Other Natural Resource Aspects</u></p> <p>Bank staff determine whether specific policies supported by the operation are likely to have significant effects on the country's environment, forests, and other natural resources. For country policies with likely significant effects, the Program Document should summarize the borrower's systems for reducing adverse effects and enhancing positive ones. If there are significant gaps in the analysis or shortcomings in the borrower's systems, the program document should describe how such gaps or shortcomings would be addressed before or during program implementation.</p>	<p>There has been progress in using environmental analysis, but there is still scope for improvement.</p>	<ul style="list-style-type: none"> • For the purpose of environmental analysis, the PD must identify the likely significant impacts of specific policies supported and summarize the borrower's systems for reducing adverse effects and enhancing positive one.
<p><u>Poverty and Social Impact Analysis</u></p> <p>Bank staff determine whether specific policies supported by the operation are likely to have significant poverty and social impacts on the poor and vulnerable groups. For country policies with likely significant effects, the Program Document should summarize the borrower's systems for reducing adverse effects and enhancing positive ones. If there are significant gaps in the analysis or shortcomings in the borrower's systems, the program document should describe how such gaps or shortcomings would be addressed before or during program implementation.</p>	<p>Management efforts over the past year and lessons from recent reviews of the experience, including an IEG evaluation of PSIA have contributed to improve the use of PSIA to underpin DPOs, but there are still marked differences across regions.</p>	<ul style="list-style-type: none"> • For the purpose of PSIA, the PD must (a) determine whether specific policies supported by the operation are likely to have substantive poverty and social impacts on the poor and vulnerable groups; (b) identify the vulnerable groups that could potentially be adversely affected by the reforms being supported by the operation; (c) summarize existing analytic work that was carried out by the Bank, the borrower, or others on the possible adverse effects of the reforms being supported; and (d) discuss the borrower's systems to reduce negative effects and enhance positive ones.
<p><u>Fiduciary arrangements</u></p> <p>Drawing on relevant analysis of the country's PFM system, the Bank determines whether the operation should include measures to address identified fiduciary weaknesses.</p>	<p>Most DPOs provided a summary of PFM system weaknesses, but with varying quality and depth. There is scope to make a more explicit and operational link between</p>	<ul style="list-style-type: none"> • Clearly demonstrate how the findings of PFM assessments contributed to the analysis and design of the PFM component of the program. • Provide a clear and concise

<i>Operational policy requirement</i>	<i>Current practice</i>	<i>Operational guidance</i>
	the risk assessment and potential benefit, to enable an informed decision on which risks are appropriate to take, while implementing mitigating actions, to contribute to improved development outcomes	<p>explanation of the rationale for the PFM content of the DPO, including the assessment of weaknesses, the explanation of the government's reform program, and the link with the DPO's policy actions.</p> <ul style="list-style-type: none"> • Discuss existing foreign exchange control environment, disbursement and audit arrangements, and PFM and procurement systems. • Ensure adequate coverage of procurement issues. • Present a clear overall bottom-line assessment of the adequacy of fiduciary arrangements and residual fiduciary risks in the context of the DPO
<p><u>Results frameworks</u></p> <p>During the supervision of the DPO, Bank staff review the focus of the operation on development impact, assessing the changes in outputs and outcomes resulting from the operation.</p>	<p>All DPOs include results frameworks that are useful to monitor progress in program implementation. However, the quality of these results frameworks has varied.</p>	<ul style="list-style-type: none"> • Set a clear overall Program Development Objective and contributory objectives for the components of the operation. • Include expected end-of-program results with quantified baselines and targets, but avoid excessive use of indicators. • Do not try to link each action under the program to a specific result but be specific about the causal chain and time lags when selecting monitoring indicators. • Do not include results that are not directly influenced by actions that are part of the program supported by the operation. • As appropriate, include intermediate indicators with baselines and targets that will be used to track progress during supervision. • Do not include results that are likely to be realized beyond the timeframe of the program.

B. Proposed Next Steps

114. The significant increase in financing provided through DPOs over the past year, as well as their faster preparation in response to crises, calls for closer monitoring of how these operations are prepared and implemented. In this context, it is essential to strengthen and update the quality control mechanisms and resources available to staff preparing DPOs. Going forward, addressing the areas where improvements are needed

will require follow-up action by the Regions, Networks, and anchors, in consultation with OPCS. The following next steps are proposed:

- ***Update guidance to staff.*** Guidance to staff on how to design DPOs in line with current operational policy has not been revised to reflect the lessons of experience with results-focused DPOs, the updated the Good Practice Note on using PSIA to support DPOs, and a new toolkit for assessing the environmental impacts of actions supported by DPOs. Revised internal guidance on DPOs will be produced in FY10 and will be made available on OPCS's website.
- ***Make better use of good practice.*** Strengthening the quality of DPOs will require that Regions implement operational guidance thoroughly and follow advice provided at the corporate review stage. Regions are also expected to encourage DPO task team leaders to attend OPCS's DPL Academy, which is offered twice a year and covers in depth the nuts and bolts of how to prepare a DPO. In consultation with OPCS, Networks and anchors are encouraged to collect and share good practice with staff involved with development policy lending and to continue providing advice and support to teams that are preparing DPOs.
- ***Consolidate good practice on PSIA.*** The Bank has reviewed its guidance to staff on assessing the poverty and social impacts of policies supported by DPOs and has published an updated version of its Good Practice Note on the subject. Lessons from two recent partial reviews of the Bank's experience with PSIA and from a recent IEG evaluation on PSIA have suggested the need to focus more on outreach and learning efforts to build Bank staff awareness of and capacity in the PSIA approach. To carry on its efforts to consolidate good practice on PSIA, the Bank is initiating a multidonor trust fund, to become effective early in FY10, that will support more routine use of PSIA and support partner governments in examining the poverty, social, and distributional impacts of key policy reforms and operational activities. This trust fund will facilitate better upstream planning of poverty, social, and distributional analysis within the Bank, promote integration of PSIA-type analysis into Regional and country work programs, and explore options to strengthen in-country capacity in such analysis, as called for in the Accra Agenda for Action.
- ***Develop guidance to staff on DPOs in the context of joint budget support.*** Given the growing experience with multidonor budget support frameworks, it is appropriate to reflect on the lessons of this collaborative engagement and to use these lessons to identify ways to do better in the future. Updated guidance on how to process and implement DPOs in harmonized environments will be produced and made available to staff in FY10.

ANNEX A. INTERNAL AND EXTERNAL VIEWS

1. The Bank has been analyzing its experience with policy-based lending since it introduced structural adjustment lending in the early 1980s.¹ Most recently, the Bank has carried out a review of experience with poverty reduction support credits (PRSCs) in 2005,² a Development Policy Lending Retrospective in 2006,³ a comprehensive review of conditionality in 2005⁴ that led to the development of the Good Practice Principles for the Application of Conditionality, and an assessment of the use of conditionality in development policy lending in 2007.⁵ There have also been several reviews of the experience with development policy lending by independent researchers, other development partners, and civil society organizations. This annex briefly presents the main findings of these reviews and summarizes the main issues that continue to be the focus of attention by outside parties.

2. ***Stocktaking of PRSCs (2005)***. The PRSC, a programmatic approach to development policy lending in low-income countries, typically consists of three or four annual, single-tranche operations, phased to support the government's medium-term development objectives. The stocktaking paper published by the Bank in 2005 reviewed the experience with the 33 PRSCs approved between May 2001 and March 2005. The paper concluded that the PRSC had evolved as an integral part of the PRSP process, helping to improve the operational relevance of the PRSP and providing key support to the government's policy reform agenda. The review noted that PRSCs varied in content, scope, and coverage, and in their role within country portfolios. They were also found to have a strategic selectivity in favor of good performers, strong analytic underpinnings, and a sustained, yet flexible support for complex medium-term institutional and policy improvements. The stocktaking exercise also highlighted that the PRSC's flexible design had established a strong record of stabilizing and improving resource predictability while maintaining a clear performance orientation.

3. ***Development Policy Lending Retrospective (2006)***. The 2006 DPL retrospective focused primarily on process issues and compliance with the new operational policy on development policy lending introduced in 2004. It reviewed 50 DPOs for 37 countries approved in FY05 and the first three quarters of FY06 and concluded that OP 8.60 provides a robust policy framework for development policy operations (DPOs). The retrospective noted that compliance with the policy had been high, even where policy set new expectations, and that good practice standards were generally being followed. DPO

¹ For earlier reviews, see: *Structural Adjustment Lending: A First Review of Experience*, Operations Evaluation Report No. 6409, World Bank, September 24, 1986; *Report on Adjustment Lending: Policies for the Recovery of Growth* (R90-51, IDA/R90-49), March 26, 1990; *The Third Report on Adjustment Lending: Private and Public Resources for Growth* (R92-47, IDA/R92-29), March 24, 1992; and *Programmatic Adjustment Lending Retrospective*, Operations Policy and Country Services, The World Bank, March 2004.

² *Poverty Reduction Support Credit: A Stocktaking*, Operations Policy and Country Services, The World Bank, June 24, 2005.

³ *Development Policy Lending Retrospective*, Operations Policy and Country Services, The World Bank, July 7, 2006.

⁴ *Review of World Bank Conditionality*, Operations Policy and Country Services, The World Bank, September 2005.

⁵ See, respectively, *Good Practice Principles for the Application of Conditionality: A Progress Report*, Operations Policy and Country Services, The World Bank, November 2006; *Conditionality in Development Policy Lending*, Operations Policy and Country Services, The World Bank, November 2007.

quality at completion was also found to be high. The retrospective noted that a large majority of DPOs had been extended to countries in the upper ranges of CPIA ratings and that higher CPIA ratings were positively correlated with satisfactory DPO outcomes (as for investment loan outcomes).

4. ***External Assessments of Policy-Based Lending.*** There have been numerous assessments of policy-based lending. For example, Morrissey (2004) stressed that, by its nature, policy-based lending fosters the development of a policy dialogue that culminates in a consensual choice of policy actions to be supported by donors, and that this policy dialogue approach promotes ownership and facilitates donor coordination.⁶ A policy paper recently produced by DFID⁷ recognizes that budget support builds the governments' capability to manage their public finances effectively, equipping them to prioritize more resources according to their own national development strategies.⁸ A joint report recently published by ODI and other development partners⁹ evaluated different forms of budget support and concluded that policy-based budget financing is more effective than outcome-based budget financing at bolstering policy changes and signaling particularly important reforms that are necessary to achieve outcomes in a medium-term reform program.

5. ***Joint Evaluation of General Budget Support (2006).*** A joint evaluation of general budget support covering the period 1994-2004, conducted in 2006, was based on the findings from seven country case studies (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam).¹⁰ This evaluation focused on the different aspects associated with general budget support, including conditionality, policy dialogue, technical assistance, harmonization, and alignment. Overall the evaluation indicated that general budget support has been an efficient, effective, and sustainable way of supporting national poverty reduction strategies; it did not find evidence of significant crowding-out of private investment nor of the undermining of domestic revenue efforts. On the use of conditionality associated with general budget support, the evaluation found that agreed performance targets and conditions are useful to create managerial, not political, pressure to deliver results and that, in this context, conditionality helps countries with the "when" and "how", not the "what" of reforms.

⁶ See Morrissey, Oliver (2004), *Alternatives to Conditionality in Policy-Based Lending*, CREDIT and School of Economics, University of Nottingham; and Collier, Paul et al. (1997), *Redesigning Conditionality*, World Development, 25, pp. 1399-1407.

⁷ *Poverty Reduction Budget Support: A DFID Policy Paper*, Department for International Development, February 2008.

⁸ See also, Rosa Alonso, Lindsay Judge, and Jeni Klugman, "PRSPs and Budgets: A Synthesis of Five Case Studies," and Tim Williamson, "General Budget Support and Public Financial Management Reform: Emerging Lessons from Tanzania and Uganda," in *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*, Koeberle et alli, (eds.), April 2006.

⁹ *Good Governance, Aid Modalities and Poverty Reduction: From Better Theory to Better Practice – Final Synthesis Report*. Research Report (RP-05-GG) of the Advisory Board for Irish Aid, jointly prepared by ODI, CDD-Ghana, ESRF, and CMI. London, United Kingdom, February 2008.

¹⁰ See *Evaluation of General Budget Support: Synthesis Report*, International Development Department (IDD), School of Public Policy, University of Birmingham, Edgbaston, May 2006.

6. **Controversy.** Policy-based lending has also inspired considerable controversy. Much of the debate has revolved around the use of economic policy conditions, which are criticized as being ineffective, intrusive, and sometimes even harmful.¹¹ Such concerns are voiced by international civil society organizations (CSOs), which argue that the policy-based lending approach is incompatible with government ownership of policy and reduces the space for aid recipient governments to make their own decisions in dialogue with their citizens.¹² In addition, these CSOs are also of the view that DPOs tend to focus excessively on controversial reforms in the areas of privatization and trade liberalization; that they rely on an excessive number of disbursement conditions; that they do not fully account for the possible poverty and social impacts of the policy actions being supported; and that more could be done in the area of donor coordination and harmonization in order to improve aid predictability.

7. **Critiques of conditionality.** A traditional criticism of policy-based lending is that when it is anchored on strong conditionality without strong domestic leadership and political support it generally fails to produce lasting change. Academic research suggests that the threat of donor sanctions carries little weight in the implementation of the requested reforms. The literature attributes the failure of externally imposed conditionality to the difficulty that donors have in sanctioning noncompliance. According to this view, the weakness of the donors induces recipients to agree on conditions *ex ante*, because they anticipate that they can renege and still obtain donor aid.¹³ Additional concerns with budget-support aid refer to the fiduciary aspects of recipient budget systems¹⁴ and the potential for leakage into unintended areas such as patronage or military expenditure.¹⁵ There are also broader concerns about the effectiveness of aid overall in fostering growth even in environments with sound policies. This more general criticism stresses that large inflows of aid can have adverse effects on a country's competitiveness and institutions.¹⁶

¹¹ For a summary of the controversy, see Koeberle, Stephan (2003), *Should Policy-Based Lending Still Involve Conditionality?*, The World Bank Research Observer, Vol. 18, pp. 249-73.

¹² See, for example, the following reports: *Turning the Tables: Aid and Accountability under the Paris Declaration – A Civil Society Report*, Eurodad, April 2008; *Challenging Conditions: A New Strategy for Reform of the World Bank and IMF*, Christian Aid, July 2006; *What Progress? A Shadow Review of World Bank Conditionality*, Action Aid International, September 2006; and *From 'Donorship' to Ownership? Moving Towards PRSP Round Two*. Oxfam, 2004.

¹³ See, for example, Collier, P. (1997), "The Failure of Conditionality", in *Perspectives on Aid and Development*, ed. Catherine Gwin and Joan Nelson, Washington, DC: Overseas Development Council; Burnside, C. and D. Dollar (2000), "Aid, Policies, and Growth," *American Economic Review* 90 (4): pp. 847–868; Easterly, W. (2001), *The Elusive Quest for Growth*, Cambridge, MA: MIT Press; and Easterly, W. (2005), "What Did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans", *Journal of Development Economics* 76:1-22.

¹⁴ See Alexander, N. (2008), *Budget Support and the New Approach to Conditionality: How the World Bank Contravenes its 'Good Practice Principles' for Conditionality*, Report to the U.S. House of Representatives, Financial Services Committee.

¹⁵ See Collier, P. (2009), *Wars, Guns, and Votes: Democracy in Dangerous Places*, New York, Harper Collins.

¹⁶ See Rajan, R. and A. Subramanian (2005), "What Undermines Aid's Impact on Growth" NBER Working Paper No. 11657, National Bureau of Economic Research, Cambridge, MA; and Rajan, R. and Subramanian (2008), "Aid and Growth: What Does the Cross-Country Evidence Really Show?", *The Review of Economics and Statistics* 90:653-665.

Annex B: Development Policy Operations Approved between FY 06-Q4 and FY 09-Q3

Country	Proj ID	Name	Approval date	IBRD	IDA
Brazil	P088543	Minas Gerais Partnership for Development	04/11/2006	170	
Cameroon	P100965	Debt Relief Grant	04/27/2006		31.5
Guyana	P078703	Poverty Reduction & Public Management	04/27/2006		9.6
Lao PDR	P096635	PRSO-2	04/27/2006		8
Tanzania	P095509	PRSC-4	05/09/2006		200
Bhutan	P078807	DPG-1	05/25/2006		15
Cape Verde	P090875	PRSC-2	06/01/2006		10
Pakistan	P090689	North West Frontier Province DPC-1	06/01/2006		90
Pakistan	P096962	Punjab Irrigation Sector DPL	06/01/2006	100	
Pakistan	P097636	Third Punjab Education Sector DPC	06/01/2006		100
Brazil	P095675	Loan for Sustainable & Equitable Growth 2	06/06/2006	601.5	
Niger	P096411	Rural & Social Policy Reform Credit	06/13/2006		50
Egypt	P088877	Financial Sector DPL	06/15/2006	500	
Ghana	P095730	PRSC-4	06/15/2006		140
Burkina Faso	P078996	PRSC-6	06/20/2006		60
Vietnam	P086361	PRSC-5	06/22/2006		100
Turkey	P071052	Programmatic Public Sector Development DPL	06/29/2006	500	
Tajikistan	P074889	Programmatic DPG	07/06/2006		10
Madagascar	P096102	PRSC-3	07/13/2006		40
Colombia	P094097	Third Labor & Social DPL	07/25/2006	200	
India	P097036	Orissa Socio-Economic Development Program-2	08/01/2006	150	75
Burundi	P091475	Economic Reform Support Grant	08/01/2006		60
Guatemala	P094897	Second Broad-Based Growth	08/29/2006	100	
Panama	P098376	Public Finance & Institutional DPL	10/05/2006	60	
Georgia	P093245	PRSO-2	10/12/2006		20
Bangladesh	P100330	Railway Reform Programmatic DPC	10/19/2006		40
Moldova	P099166	PRSC	10/19/2006		10
Benin	P083313	PRSC-3	11/02/2006		30
Nicaragua	P089816	PRSC-2	11/07/2006		25
Central Afr. Rep.	P102576	Re-Engagement & Institutional-Building Support Program	11/28/2006		82
Colombia	P095213	Business Productivity & Efficiency DPL-2	12/05/2006	300	
Rwanda	P098129	PRSG-3	12/07/2006		50
Mauritius	P101570	Trade & Competitiveness DPL	12/12/2006	30	
Sierra Leone	P095575	Governance Reform and Growth Grant	12/14/2006		10
Indonesia	P100327	DPL-3	12/19/2006	530	70
Peru	P101335	Fiscal Mgmt & Competitiveness DPL	12/19/2006	200	
Philippines	P100706	DPL-1	12/21/2006	250	
India	P075174	Andhra Pradesh Economic Reform Loan/Credit 3	01/11/2007	150	75
Mozambique	P083459	PRSC-3	01/25/2007		70
Haiti	P100564	Economic Governance Reform 2	01/30/2007		23
Mali	P083803	PRSC-1	03/06/2007		45
Armenia	P093460	PRSC-3	03/08/2007		28
Bulgaria	P094967	Social Sector Institutional Reform DPL-1	03/21/2007	150	
Vietnam	P104097	Program 135 Phase 2 Support Operation	03/21/2007		50
Macedonia	P098548	Programmatic DPL- 2	03/27/2007	30	

Country	Proj ID	Name	Approval date	IBRD	IDA
Cape Verde	P100807	PRSC-3	03/27/2007		10
Albania	P096205	DPL-1	03/29/2007		10
Tanzania	P095657	PRSC-5	04/24/2007		190
Uganda	P090219	PRSC-6	04/26/2007		125
Morocco	P095840	Water Sector DPL	05/01/2007	100	
Pakistan	P090690	PRSC-2	05/22/2007		350
Namibia	P086875	Education & Training Sector Improvement	05/24/2007	7.5	
Ghana	P099287	PRSC-5	05/24/2007		110
Morocco	P099618	Energy Sector DPL	05/29/2007	100	
Afghanistan	P102709	Programmatic Support for Institutional Building 3	05/29/2007		80
Bangladesh	P074801	DSC-4	05/29/2007		200
Croatia	P094341	PAL-2	05/30/2007	197.4	
Uruguay	P083927	Reform Implementation DPL	05/30/2007	100	
Peru	P101086	Results & Accountability DPL	06/05/2007	150	
Lao PDR	P096710	PRSO-3	06/05/2007		10
Colombia	P095877	Sustainable Development DPL-2	06/07/2007	200	
Pakistan	P102333	Punjab Irrigation Sector DPL-2	06/07/2007	100	
Pakistan	P097471	North West Frontier Province DPC-2	06/07/2007		130
Pakistan	P100846	Sindh Education Sector DPC-1	06/07/2007		100
Pakistan	P101243	Punjab Education DPC-4	06/07/2007		100
Chile	P100854	Institutional Strengthening of Min of Public Works DPL	06/14/2007	30	
Georgia	P099882	PRSO-3	06/14/2007		20
Niger	P098963	Rural & Social Policy Reform Grant 2	06/19/2007		50
Bhutan	P104931	DPG-2	06/20/2007		12
Senegal	P098964	PRSC-3	06/20/2007		20
Bangladesh	P102541	Education Sector DPC-3	06/21/2007		100
Vietnam	P101724	PRSC-6	06/21/2007		175
Turkey	P074181	Competitiveness & Employment DPL	06/28/2007	500	
Benin	P096928	PRSC-4	06/28/2007		40
Burkina Faso	P099010	PRSC-7	07/05/2007		90
Cambodia	P071103	Poverty Reduction and Growth Grant	07/17/2007		15
Tajikistan	P096930	Programmatic DPG-2	07/19/2007		10
Madagascar	P099420	PRSC-4	07/31/2007		40
Guatemala	P101311	Broad-Based Growth DPL-3	08/02/2007	100	
Lebanon	P094288	Reform Implementation DPL	08/02/2007	100	
India	P105124	Himachal Pradesh DPL/C-1	09/25/2007	135	65
Bangladesh	P108843	DSC-4	09/27/2007		75
Malawi	P099313	PRSG-1	10/30/2007		20
Armenia	P101486	PRSC-4	11/27/2007		18.5
Mexico	P101342	Affordable Housing & Urban Poverty Reduction DPL	11/27/2007	200.5	
Panama	P105710	Competitiveness & Public Financial Mgmt DPL 1	11/29/2007	75	
Indonesia	P105637	DPL-4	12/04/2007	600	
Indonesia	P107163	Infrastructure DPL-1	12/04/2007	200	
Liberia	P102915	Re-engagement & Reform Support Grant	12/04/2007	0	430
Yemen	P101453	Institutional Reform DPG	12/06/2007	0	50.9
India	P102737	Bihar DPL/C	12/20/2007	150	75

Country	Proj ID	Name	Approval date	IBRD	IDA
Ukraine	P096389	DPL-2	12/20/2007	300	
Bangladesh	P110110	DSC-4 (Supplemental)	01/10/2008		100
Mozambique	P103277	PRSC-4	01/29/2008		60
Mali	P103466	PRSC-2	02/05/2008		42
Mauritius	P106650	Trade & Competitiveness DPL-2	02/28/2008	30	
Rwanda	P104990	PRSG-4	02/28/2008		70
Cote d'Ivoire	P083583	Economic Growth & Recovery Grant	04/01/2008		308
Colombia	P105029	Business Productivity & Efficiency DPL-3	04/08/2008	550	
Mexico	P110849	Climate Change DPL	04/08/2008	501.3	
Uganda	P101231	PRSC-7	05/06/2008		200
Moldova	P103941	PRSC-2	05/13/2008		10
Macedonia	P101296	Programmatic DPL-3	05/13/2008	25	
Morocco	P095759	Public Administration Reform DPL	05/15/2008	100	
Zambia	P074445	Economic Mgmt & Growth Credit	05/20/2008		10
Lesotho	P102302	PRSC-1	05/22/2008		15.9
Central African Republic	P106458	Economic Mgmt and Governance Grant	05/27/2008		7.9
Georgia	P105255	PRSO-4	05/27/2008		22.7
Egypt	P094551	Financial Sector DPL-2	05/29/2008	500	
Togo	P110618	Economic Recovery & Governance Grant	05/29/2008		175
Ghana	P102675	Agriculture SWAP 2	06/03/2008		25
Ghana	P102971	Environmental Governance DPO	06/03/2008		20
Ghana	P103631	PRSC-6	06/03/2008		100
Sao Tome and Principe	P106468	DPG	06/10/2008		6
Bangladesh	P107797	Power Sector DPC	06/17/2008		120
Bangladesh	P110167	Transitional Support Credit	06/17/2008		200
Lao PDR	P107242	PRSO-4	06/17/2008		10
Senegal	P105279	Energy Sector Recovery DPC	06/19/2008		80
Turkey	P088837	Programmatic Public Sector Development DPL 2	06/19/2008	400	
Madagascar	P105135	PRSC-5	06/26/2008		50
Vietnam	P105287	PRSC-7	06/26/2008		150
Cape Verde	P106502	PRSC-4	07/08/2008		10
Brazil	P106767	Rio Grande do Sul Fiscal Sustainability for Growth	07/31/2008	1,100	
Burundi	P102508	Economic Reform Support Grant 2	08/05/2008		30
Peru	P101590	Fiscal Mgmt & Competitiveness DPL-2	08/05/2008	370	
Honduras	P112023	Food Crisis Supplemental Financing	08/07/2008		10
Costa Rica	P111926	CAT DDO	09/16/2008	65	
Burkina Faso	P099011	PRSC-8	09/23/2008		100
Nicaragua	P106747	DPC	09/25/2008		20
Georgia	P114167	PRSO-4 (Supplemental)	10/02/2008		40
Mexico	P095510	Environmental Sustainability DPL	10/02/2008	300.8	
Sierra Leone	P102040	Governance Reform & Growth Credit 2	10/07/2008		10
Guatemala	P112312	Fiscal and Institutional DPL	10/21/2008	200	
Tanzania	P101229	PRSC-6	10/21/2008		160
Bangladesh	P112761	Food Crisis DPC (under GFRP)	10/28/2008		130

Country	Proj ID	Name	Approval date	IBRD	IDA
Bulgaria	P102160	Social Sector Institutional Reform DPL-2	11/04/2008	150	
Mozambique	P107313	PRSC-5	11/04/2008		90
Namibia	P109333	Education & Training Sector Improvement DPL 2	11/18/2008	7.5	
Indonesia	P110191	DPL-5	12/09/2008	750	
Indonesia	P111905	Infrastructure DPL-2	12/09/2008	200	
Philippines	P113492	Food Crisis DPO (under GFRP)	12/10/2008	200	
Panama	P106641	Competitiveness & Public Financial Mgmt DPL-2	12/16/2008	100	
Turkey	P096840	Competitiveness & Employment DPL-2	12/16/2008	500	
Colombia	P101301	Sustainable Development Programmatic DPL-3	12/18/2008	450	
Colombia	P113084	Disaster Risk Mgmt DPL (CAT DDO)	12/18/2008	150	
Mexico	P115101	Environmental Sustainability DPL (Supplemental)	12/18/2008	401	
Peru	P115120	Fiscal Mgmt & Competitiveness DPL-2	12/18/2008	330	
Poland	P112765	Public Finance Mgmt, Employment & Private Sector DPL	12/22/2008	1,250	
Ukraine	P107365	DPL-3	12/22/2008	500	
Jamaica	P101321	Fiscal & Debt Sustainability DPI	01/15/2009	100	
Benin	P107498	PRSG-5	01/22/2009		30
El Salvador	P114910	Public Finance & Social Sector DPL	01/22/2009	450	
Uruguay	P106724	Reform Implementation DPL-2	02/03/2009	400	
Peru	P101471	Environmental DPL	02/17/2009	330	
Indonesia	P115199	Public Expenditure Support Facility DPL-DDO	03/03/2009	2,000	
Brazil	P095205	Sustainable Environmental Mgmt DPL-1	03/05/2009	1,300	
Serbia	P096711	Private and Financial Programmatic DPL	03/05/2009	50	
Rwanda	P106083	PRSG-5	03/17/2009		80
Morocco	P104937	Solid Waste Sector DPL	03/19/2009	132.7	
Niger	P107741	Growth Policy Reform Grant	03/24/2009		40
Tunisia	P095388	Integration & Competitiveness DPL	03/24/2009	250	
Pakistan	P113372	Poverty Reduction & Economic Support	03/26/2009		500
Tajikistan	P106963	Programmatic DPG-3	03/26/2009		20
Central African Rep.	P113176	Economic Governance & Reform Grant 2	03/30/2009		5
Cote d'Ivoire	P112368	Economic Governance & Reform Grant 2	03/31/2009		150
Mauritius	P112369	DPL-3	03/31/2009	100	

Additional Operations Approved in FY09-Q4

Country	Proj ID	Name	Approval Date	\$ IBRD	\$ IDA
Rwanda	P106834	First Community Living Standards	4/2/2009	0.0	6.0
Peru	P101177	Second Results & Account. (REACT) DPL	4/9/2009	330.0	0.0
Guatemala	P112544	CAT DDO	4/14/2009	85.0	0.0
Panama	P115177	Protecting the Poor Under Global Uncertainty DPL	4/21/2009	80.0	0.0
Togo	P113456	Economic Recovery and Governance Grant 2	4/21/2009	0.0	20.0
Costa Rica	P115173	Public Finance & Competitive DPL DDO	4/30/2009	500.0	0.0
Paraguay	P113457	Public Sector DPL	5/5/2009	100.0	0.0
The Gambia	P107398	Public Sector Reform and Growth Grant	5/12/2009	0.0	7.0
Bulgaria	P115400	Social Sectors Institutional Reform DPL 3	05/14/2009	200.0	0.0
Mali	P113451	PRSC 3	5/19/2009	0.0	65.0
Liberia	P113450	Reengagement and Reform Support DPL 2	5/21/2009	0.0	4.0
Vietnam	P107062	Second Program 135 Phase 2 DPL	5/21/2009	0.0	100.0
Bhutan	P111222	Development Pollicy Grant 3	5/26/2009	0.0	20.2
Malawi	P107303	PRSC 2	5/28/2009	0.0	30.0
West Bank and Gaza	P113621	Support for Fiscal Sustainability and Public Financial Management 2	5/28/2009	0.0	40.0*
Afghanistan	P107921	Strengthening Institutions DPG	6/4/2009	0.0	35.0
Rwanda	P115816	EFA-FTI Catalytic Fund Bridge Grant	6/4/2009	0.0	25.0*
Tanzania	P101230	PRSC 7	6/9/2009	0.0	190.0
Turkey	P110643	Programmatic Electricity Sector DPL	6/11/2009	800.0	0.0
Guinea-Bissau	P107493	Economic Governance DPL 1	6/16/2009	0.0	8.0
Vietnam	P104694	Higher Education DPO 1	6/23/2009	0.0	50.0
Vietnam	P111164	PRSC 8	6/25/2009	0.0	350.0
Burkina Faso	P099033	PRSC 9	6/25/2009	0.0	100.0
Mongolia	P115737	Development Policy Credit	6/25/2009	0.0	40.0
Burkina Faso	P115264	EFA-FTI Catalytic Fund Bridge Grant	6/29/2009	0.0	102.0*
Senegal	P107288	Public Finance Support Credit	6/29/2009	0.0	60.0
Ghana	P113172	Natural Resources and Environmental Governance DPO	6/30/2009	0.0	10.0
Ghana	P113301	Economic Governance and Poverty Reduction Credit	6/30/2009	0.0	300.0
Poland	P116125	Employment, Entrepreneurship & Social Service Delivery DPO	6/30/2009	1,300.2	0.0
Georgia	P112700	Programmatic Development Policy Credit 1	07/02/2009	0.0	85.0
Armenia	P115626	First Development Policy Operation	7/2/2009	0.0	60.0
Cambodia	P117203	Smallholder Agriculture & Social Protection Support DPO	7/9/2009	0.0	5.0
Romania	P102018	DPL 1	7/16/2009	423.0	0.0
Pakistan	P102607	Higher Education Development Program Project	7/28/2009	0.0	100.0
Guatemala	P114373	Second Fiscal & Institutional DPL	7/28/2009	350.0	0.0
Nigeria	P117088	Nigeria DPO	7/28/2009	0.0	500.0

Note: (*) Operations financed by IBRD Surplus or Trust Funds