

GOOD PRACTICE NOTE FOR DEVELOPMENT POLICY LENDING

RESULTS IN DEVELOPMENT POLICY LENDING

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GOOD PRACTICE NOTE FOR DEVELOPMENT POLICY LENDING RESULTS IN DEVELOPMENT POLICY LENDING

Abbreviations and Acronyms

CAS	Country Assistance Strategy
ESW	Economic and sector work
GDP	Gross domestic product
ICR	Implementation Completion Report
ICS	Investment Climate Survey
IDA	International Development Association
M&E	Monitoring and evaluation
MDG	Millennium Development Goal
OP/BP	Operational Policy/Bank Procedure statement
OPCS	Operations Policy and Country Services
PRSC	Poverty Reduction Support Credit
PRS	Poverty Reduction Strategy
PSIA	Poverty and social impact analysis
StatCap	Statistical Capacity Building Program

FOREWORD

This Good Practice Note is being issued in conjunction with Operational Policy/Bank Procedure statement 8.60, *Development Policy Lending*. The authors of this note are Manuel Penalver, and Olga Sulla with input from John Factora, Erika Jorgensen, Stefan Koeberle and Jan Walliser. Henry Chase provided editorial support. This note is intended to provide recommended guidance to staff in the preparation of development policy operations and is not mandatory operational policy. The contents will be updated periodically to reflect emerging lessons of experience. For further updates and other Good Practice Notes, access the Operations Policy and Country Services (OPCS) website under development policy lending or contact the Country Economics Unit in the OPCS Vice Presidency.

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I. INTRODUCTION

1. This Good Practice Note provides guidance to Bank staff and their client counterparts on designing results-oriented development policy operations.¹ The note includes examples from actual operations and references to other Bank sources useful for focusing a development policy operation on achieving results. This note complements other Good Practice Notes (GPN) for development policy operations issued by Operations Policy and Country Services (OPCS).²

2. *Development policy operations aim to help a borrower achieve sustainable poverty reduction through a program of policy and institutional actions.* These include, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. development policy operations support such reforms through non-earmarked financing that is subject to the borrowing government's own financial management, procurement, auditing, and implementation processes and systems.

3. *The Bank's decision to use development policy lending to support a country's development program is determined in the context of the Country Assistance Strategy (CAS).*³ The CAS bases the decision on assessments of the country's:

- policy and institutional framework—including the country's economic situation and its governance, environmental/natural resource management, and poverty and social aspects;
- commitment to and ownership of the desired reforms, typically demonstrated by a track record of reform and/or broad-based national poverty reduction strategy; and,
- capacity to effectively implement the program to be supported, drawing on economic and sector work (ESW).⁴

¹ Development policy lending is rapidly disbursing policy-based financing, which IBRD and IDA provide in the form of loans or grants to help a borrower address actual or anticipated development financing requirements that have domestic or external origins. See Operational Policy statement (OP) 8.60 and Bank Procedure statement (BP) 8.60 in the *World Bank Operational Manual* on the World Bank's external website.

² *Good Practice Notes for Development Policy Lending* as of May 2005 include "Designing Development Policy Operations," "Using Poverty and Social Impact Analysis to Support Development Policy Operations," "Financial Management Issues in Development Policy Lending," "Environmental and Natural Resource Aspects of Development Policy Lending," "Supporting Participation in Development Policy Operations," and "Development Policy Lending and Program Conditionality in Fragile States," available on the OPCS website under development policy lending and on the Bank's external website.

³ Or an Interim Strategy Note, which is prepared when a country is not ready for a full CAS, e.g. in post-conflict and low-income countries under stress. Interim Strategy Notes have replaced Transition Support Strategies and Country Reengagement Notes. See BP 2.11 *Country Assistance Strategies*.

⁴ See OP/BP 8.60 *Development Policy Lending*.

4. ***The Bank's results agenda focuses strongly on country results.*** This approach to development effectiveness holds that the country, and not the operation, is the critical unit of account for the Bank. As such, the results orientation of development policy lending needs to be fully integrated in the country results framework,⁵ as reflected in the CAS. (If the Bank has not yet prepared a results-based CAS⁶ for a prospective borrower, design of a results-oriented development policy operation will be more challenging. See further discussion in Sections III and IV below.) This focus at the country level underlines the view that the whole is greater than the sum of its parts: that while operations can be important instruments of change, at the end of the day, what counts is the impact the Bank program as a whole has made on the country's development and poverty alleviation.

II. RESULTS ORIENTATION IN DEVELOPMENT POLICY LENDING

5. In the past, policy-based lending did not always include a strong results orientation. Some operations mistakenly focused almost exclusively on compliance with the policy actions that constitute the program without giving much attention to their intended outcomes or their contributions to achievement of CAS objectives or the country's long-term development goals. If the impact of an operation was neither measured nor tracked, recalibration during implementation to improve results could not occur, success of the operation proved difficult to judge, and useful lessons for subsequent operations were limited.

6. ***The last comprehensive review of the Bank's policy-based operations found that results orientation fell short of what is needed.*** The 2001 *Adjustment Lending Retrospective* reported that slightly more than half of adjustment loans during FY98-00 contained monitoring indicators, but a clear definition of expected outcomes was rare. Both Bank supervision of policy-based operations during implementation and evaluation of these operations at completion typically focused on compliance with loan conditionality rather than on the program's impact. The paper described the operational challenge of improving results orientation: the Program Matrix of the operation would need to incorporate "a practical framework that links the strategy to results on the ground through monitorable progress indicators."⁷

7. ***The shift from adjustment lending to development policy lending includes a heightened focus on results.*** The 2004 policy paper on development policy lending explains that the Bank's new operational policy "aims to sharpen the focus on achieving results in supporting developing countries' poverty reduction strategies and contributing

⁵ A CAS results framework is the logic, usually expressed in a matrix, that explains how country development goals are to be achieved, including causal relationships and underlying assumptions.

⁶ A results-based CAS is a country assistance strategy that contains a strong orientation toward achieving realistic outcomes and a results-oriented monitoring and evaluation system. See *Results Focus in Country Assistance Strategies: A Stocktaking of Results-Based CASs*, (R-2005-0042), Operations Policy and Country Services, World Bank, February 23, 2005.

⁷ *Adjustment Lending Retrospective*, Operations Policy and Country Services, World Bank, June 2001, p.88.

toward the Millennium Development Goals.”⁸ This would require new efforts both by borrowers and the Bank to measure results, monitor progress during program implementation to improve outcomes, and provide evidence after completion to demonstrate results. In particular, at the design stage, clearer articulation of expected outcomes is necessary as well as strengthened systems to monitor progress and evaluate results.

8. ***The Operational Policy statement on development policy lending (OP 8.60) clarifies how a results orientation should be pursued.*** As part of preparation of the operation, the OP advises that, “The Program Document sets out the country’s program being supported and the specific results expected from the resource transfer. The program design includes measurable indicators for monitoring progress during implementation and evaluating outcomes on completion.” During supervision and completion, “The borrower implements the development policy operation, monitors progress during implementation, and evaluates results on completion. Bank staff assess and monitor the adequacy of the arrangements by which the borrower will carry out these responsibilities, with due regard to the country’s capacity. In addition, Bank staff review implementation progress during supervision to verify fulfillment of program conditions and compliance with legal covenants, and to validate monitoring and evaluation findings. Supervision includes a focus on development impact, assessing the changes in outputs and outcomes resulting from the operation.”

9. ***Three key features help to create a useful results orientation: a results framework, a system of performance indicators for monitoring and evaluation (M&E), and arrangements for collecting and using M&E information.*** A results framework lays out the objectives of the operation and the causal relationships and underlying assumptions about how program actions will lead to the intended outcomes. A system of performance indicators enables tracking of the key links in the causal chains underlying the results framework. Appropriate organizational arrangements, consideration of institutional capacity, and allocation of responsibilities for data collection, analysis, and utilization are key for successful implementation.⁹

10. ***Results orientation in development policy operations, as in any other Bank instrument, requires formulation of a results framework for the operation.*** A results framework specifies expected linkages between the program of policy and institutional actions supported by a development policy operation, the objectives of the operation, and the broader or longer-term results aimed at in the CAS, based on a series of underlying results chains. The elaboration of logical chains that extend from actions supported under the operation through to intended CAS outcomes (and therefore, as laid out in the CAS, to long-term country development goals)¹⁰ is key to improving the results orientation of development policy operations. The results framework is summarized in the operation’s

⁸ *From Adjustment Lending to Development Policy Lending: Update of World Bank Policy, Operations Policy and Country Services*, World Bank, July 2004. p. 6.

⁹ *2004 Annual Report on Operations Evaluation*, Operations Evaluation Department, World Bank, July 2004.

¹⁰ As noted above, if the CAS is not results-based, then the results framework of the operation will not be able to rely on that of the CAS for much of its underlying logic.

Program Matrix and drives the exposition in the Program Document, including the statement of the Program Development Objective. (See Box 1 for useful definitions of some of these terms.)

Box 1. A Vocabulary for Results in Development Policy Operations

Actions are the policy and institutional actions of the government that are expected to bring about desired outcomes. Actions usually involve *modifications* in policies or institutions. However, they may involve *sustained implementation* of policies or *analytic work*.

Intended **outcomes** are the desired changes resulting from the set of *actions* associated with the development policy operation. Generally outcomes are the short- and medium-term effects on broader society of government actions.

A **program** is the set of actions (and occasionally outcomes that are largely under government control) supported by the development policy operation or, in the case of a programmatic development policy operation, by a closely linked series of operations.

The **Program Development Objective** is a succinct statement of the principal intended outcomes aimed at by the program. It brings together the various objectives of the program's components (sometimes called "pillars"). It should focus on the outcomes for which the program reasonably can be held accountable, given the its content, scope, and duration. It should not encompass higher level-objectives that depend on other efforts outside the scope of the program, although the program contributes to the higher-level objectives.

Conditions are the actions (or occasionally outcomes largely under government control) that are deemed critical to achieving the objectives of the program supported by the development policy operation *and* are included in the operation documents as legal conditions for disbursements under a Bank loan, credit, or grant. Conditions that must be met before presentation of a loan, credit, or grant to the Bank's Board are termed *prior actions*.

Triggers, as used in the context of programmatic development policy operations, are the planned actions in the second or later year of a program that are deemed critical to achieving the outcomes of the program and that will be the basis for establishing the prior actions for later operations. In other words, triggers are the expected prior actions for a subsequent loan, credit, or grant. The Bank evaluates achievements with respect to triggers to decide on the scope, timing, and prior actions for each later operation in a programmatic series. The details of prior actions for a subsequent operation may differ somewhat from the triggers in the preceding operation due to changes in circumstances or information.

Milestones are progress markers of implementation of the program. A milestone can be an action or an outcome largely under government control that is supported by the development policy operation but not deemed critical to achieving the outcomes of the program. Milestones are *not* legal conditions for disbursement or triggers.

The **Program Matrix** summarizes all of the conditions, triggers (for a programmatic operation), milestones and results of the program supported by an operation. It communicates the key relationships in the results framework of the operation.

Results are the completed actions, outcomes, or impact of a program. **Indicators** are qualitative or quantitative measures of results. Well-defined indicators have baselines (the ex ante level of the indicator) and targets (the intended ex post level of the indicator). **Benchmarks** are the standards against which performance or achievements can be assessed; the standards refer to the performance that has been achieved in the recent past by comparable organizations.

A **Results Framework** is the logic that explains how program objectives are to be achieved, including causal relationships and underlying assumptions. The key relationships in the results framework are communicated through a matrix usually referred to as the CAS Results Matrix.

III. PROGRAM DESIGN FOCUSED ON RESULTS

11. This and the following section focus on results at the design stage of a development policy operation, providing guidance for Bank staff on formulating an operation that will clearly support a borrower's program and will relate to the CAS results framework for the country (or CAS objectives more generally if a results-based CAS has not yet been prepared). This section starts from the understanding that definition and monitoring of desired outcomes to determine whether a program's actions are having the expected effects permits learning during the process of implementation, allows for the possibility of midcourse corrections, and heightens accountability. The section discusses: (a) the required links to the CAS; (b) developing a results framework; (c) the Program Matrix, (d) special aspects of different types of development policy operations; and (e) results in development policy operations extended to subnational borrowers.

A. Explicitly Linking Development Policy Operation Objectives to the CAS

12. The Bank's approach is focused on achieving country results, as articulated in the CAS. Thus, all Bank interventions, including development policy lending, should be fully aligned with CAS objectives, and the links between the outcomes expected to be directly influenced by development policy lending and expected CAS outcomes in the CAS results framework¹¹ should be made explicit (for example, by noting that the expected improved alignment in actual budget expenditures with those planned set as an outcome of a development policy operation contributes to the improved budget management objective/outcome in the CAS).

13. *The links between development policy operations and CAS outcomes are likely to be more easily established where a results-based CAS is in place.*¹² This is because a results-based CAS includes a clearly defined, measurable, and monitorable results framework. Where a more traditional CAS is in effect, the development policy operation should still refer to CAS objectives and should try to be as specific as possible on links to intended CAS outcomes (if these are specified in the CAS).

- *Do check that the operation's outcomes are consistent with and drawn from those in the CAS.*

14. *Development policy lending not foreseen in the CAS still should contribute to CAS results.* It may happen that circumstances shift during the implementation of a CAS such that the Bank wishes to prepare a development policy operation not planned in the CAS, perhaps in response to a crisis or a shift in the policy environment. If there is not time to prepare, or the situation does not warrant preparation of, a new CAS, a CAS Progress Report, or an Interim Strategy Note which could link the new operation to CAS objectives, then the results framework of the operation should specify the relation to the original CAS objectives and the ways in which the modified program of Bank support will lead to achieving country results.

¹¹ CAS objectives or stated expected outcomes more generally if a results-based CAS has not yet been prepared.

¹² See *Results Focus in Country Assistance Strategies: A Stocktaking of Results-Based CASs*, (R-2005-0042), Operations Policy and Country Services, World Bank, February 23, 2005.

Example: Linking the Objectives of an Operation to the CAS. *The Turkey Third Programmatic Financial and Public Sector Adjustment Loan*¹³ notes that the operation is part of the high-case scenario in the CAS and summarizes the progress made in the areas where the high-case CAS triggers are included as part of the development policy program. Two brief sections discuss the Bank's assistance strategy in the financial and public sectors, including progress achieved under previous operations and the main objectives of the proposed operation and of subsequent planned operations as presented in the CAS. The overall links are also presented in a table where the relevant CAS outcomes and indicators become expected outcomes of the program and are complemented with specific triggers for the subsequent operations.

Example: Using CAS Outcomes as Program Outcomes. An example of a development policy operation drawing its outcomes directly from the CAS explicitly is *Zambia- Economic Management and Growth Credit*.¹⁴ The text of the Program Document contains the summary table shown below, and the full Program Matrix uses the fourth column below (CAS outcomes) as the intended outcomes of the operation.

Zambia: Reform Program Supported by EMGC and Alignment with the Strategic Priorities of the CAS				
Objectives	Reform Areas	Priorities	CAS Outcome Indicators to which the policy actions contribute	Longer-Term Country Outcomes
A. Returning to a macroeconomic framework conducive to robust growth	Fiscal and monetary policy Pensions	Correcting macro imbalances Working towards a financially sustainable pension system	Reduced domestic borrowing requirements from an estimated 3% of GDP in 2003 to less than 1% of GDP annually by 2006; Reduced arrears of Government (including parastatals) from an estimated 2% of GDP in 2003 to zero.	Growth Conducive Macroeconomic Environment
B. Strengthening the role of the financial sector	Financial sector	Resolution of the state owned non-bank financial institutions. Building a better governance structure for the Central Bank	Resolution of state-owned financial institutions	Growth Conducive Macro Environment
C. Strengthening credibility and institutional capacity of the public sector	Public expenditure management Civil service	Upgrading government's debt management capacity to support fiscal sustainability. Improving public expenditure management and accountability. Streamlining ministerial structures and improving incentives for service delivery	Variation between planned budget and actual expenditure at sector level no greater than 10%. Budget presentation reflects summary of proposed budget alongside with actual expenditures in previous years. Allowances are consolidated into base salary.	Increased Accountability and Transparency Government
D. Improving the business environment	Private sector development Infrastructure regulation	Improving the investment climate. Reducing administrative barriers to investment. Developing a comprehensive national energy sector policy. Developing telecommunication policy framework	Improved perception of foreign and domestic investors of the investment climate); Pay refund for duty drawback are of an acceptable speed for the private sector; Exporters are sufficiently informed of the opportunities available under AGOA and EBA to be able to take advantage of them.	Sustainable, diversified and export oriented economy

¹³ *Turkey-Third Programmatic Financial and Public Sector Adjustment Loan Project*, Report No. 25795-TU, World Bank, May 2004 and *Turkey-Country Assistance Strategy*, Report No. 26756-TU, World Bank, October 2003.

¹⁴ *Zambia-Economic Management and Growth Credit*, Report No. 29294-ZA, World Bank, December 2004.

B. Establishing a Detailed Results Framework

15. The results framework of a development policy operation, which underpins the design of the program, motivates the discussion in the Program Document, and is captured in the Program Matrix, would benefit from the following points:¹⁵

- ***Set a clear overall Program Development Objective and contributory objectives for each component (or “pillar”) of the program, with intended end-of-program outcomes for each.*** Objectives and outcomes should be sufficiently specific to ensure that monitoring and evaluation during implementation and completion will be able to judge if they were met or not. Specific program objectives (or intended outcomes), whose achievement can be verified by the tracking of indicators through monitoring and evaluation, allow the borrower and the Bank to make informed decisions on whether or not program actions are leading toward intended outcomes and to judge the success of the program ex post.
- ***Include at least one end-of-program outcome for each component of the program, but don’t try to identify a separate end-of-program outcome for each action.***
- ***Be specific about the causal chain and time lags.*** Specification of the links from the Bank-funded program (and its supported actions) to intended outcomes and of the expected time lags between different steps is important. For a development policy operation, the link between the Bank program and outcomes is often related to a combination of adequate financing for the program and to the knowledge transfer involved in the preparation of the program and in the discussion of conditionality.
- ***Don’t include outcomes that are beyond the timeframe of the program.*** The Program Document should indicate how outcomes beyond the timeframe of the program will be monitored, including through the CAS.
- ***Don’t include outcomes that are not directly influenced by actions that are part of the program.***
- ***Consider the role of exogenous factors.*** Because the outcomes of the programs supported by development policy operations are often affected by exogenous factors, the potential exogenous factors most likely to affect outcomes should be explicitly considered at the program design stage. Listing exogenous factors, assessing their potential impact, and establishing mechanisms to monitor their evolution and actual impact are important components of the results framework used during the design phase of an operation.

¹⁵ See 2004 Annual Report on Operations Evaluation, Operations Evaluation Department, World Bank, July 2004, Box 1.3, and “Designing Development Policy Operations,” in *Good Practice Notes for Development Policy Lending*, Operations Policy and Country Services, World Bank, October 2004.

- **Explore the possibility of unintended consequences.** Unintended consequences, whether positive or negative, often constitute part of the impact of reform programs and should be considered in the results framework. In particular, identifying potential unintended consequences, their impact on program outcomes, and ways to mitigate the risks of negative consequences (such as costs to specific groups or to some areas of the country) and enhance the probability of positive consequences is important. The role of exogenous factors and the possibility of unanticipated consequences are often discussed in the risks section of the Program Document. The discussion should try to focus on specific actions, objectives, and indicators. Poverty and social impact analysis (PSIA) is a useful tool to determine possible social consequences of the policies supported by development policy programs.¹⁶

Example: *Bolivia-Second Social Sector Programmatic Development Policy Credit*¹⁷ explicitly discusses possible exogenous factors and unintended consequences. The introduction section of the program document states the risk that economic and fiscal difficulties may detract attention from the social sectors in the coming years. In line with this concern, the program document includes a section on the fiscal costs of the proposed program.

C. Summarizing the Results Framework in a Simple Program Matrix¹⁸

16. The Program Matrix communicates the key relationships in the results framework of the operation. It presents the program and its intended results in summary form, including (a) a definition of program objectives and selection of outcomes that are expected to be directly influenced or achieved by the operation, (b) actions that are expected to bring about the desired outcomes (including conditions, the critical actions: triggers, if a programmatic operation; and milestones), and (c) outcome indicators with baselines and targets to measure progress along the way and at completion.¹⁹

17. **Several principles should be taken into account when preparing these matrices.**

- **Distinguish between the Program Matrix for the development policy operation and the content of the overall government program, when relevant.** While there is only one reform program in the country (that of the government), the development policy operation typically focuses on a subset of actions and outcomes of the government's program. Distinction between the two, and a matrix for the subset, helps better define the results framework of the operation and monitor its progress. Separate presentation of the overall government program in a similar format can be useful, particularly if the areas supported by the operation are highlighted.

¹⁶ For the operational policy on PSIA, see OP 8.60, *Development Policy Lending*, para. 10. For good practice on PSIA, see "Using Poverty and Social Impact Analysis to Support Development Policy Operations," in *Good Practice Notes for DPL*, Operations Policy and Country Services, World Bank, October 2004.

¹⁷ *Bolivia-Second Social Sector Programmatic Development Policy Credit*, Report No. 28275-BO, World Bank, May 2004.

¹⁸ See Table 1 for a good practice template for a Program Matrix.

¹⁹ See Box 1 for definitions. For more on defining conditions, triggers, and milestones, see "Designing Development Policy Operations," in *Good Practice Notes for Development Policy Lending*, Operations Policy and Country Services, World Bank, October 2004.

- **Include columns for the policy actions and intended outcomes (with baselines and targets).** The three basic components (actions, objectives or outcomes, and indicators) should always be present, and time-bound targets and baselines for the indicators should be included. (See Section IV for more on indicators and Table 1 for a good practice template.)
- **Keep it short and simple.** Policy matrices are tools for design and monitoring and evaluation, not detailed blueprints for implementation. Rather than using lengthy matrices, which tend to lose their effectiveness, it is helpful to include text annexes (or create separate implementation documents). Discussion of exogenous factors and unintended consequences, issues important during formulation of the results framework, could be included in the main text, instead of in the matrix itself. Comments and footnotes should be kept to a minimum in the matrix.

Examples: A Simple Program Matrix. Brazil Programmatic Sustainable and Equitable Growth²⁰ describes in the main text and summarizes in a two-page matrix the four areas supported by the program. The list of objectives for this operation is a subset of a much longer matrix of government objectives. This is what allows the Program Matrix for the operation to be short and specific. For every objective, there are one to three quantifiable outcome indicators. These indicators include the baselines and are time-bound. The causal chains are specified through the list of prior actions, key next steps, and medium-term actions that will become triggers for the next operations.

Brazil: Matrix of Key Actions and Indicators (excerpt)				
Area/Policy	Prior Actions	Key Next Steps	Medium-Term Actions	Expected Outcome Indicators
Reduce Logistics Costs: e.g., improve customs	Customs reform strategy approved	Selectivity level cut from 40% to 30%; average net release time cut by 20%	Clearance systems and procedures streamlined and adapted to expanded custom's mission. Selectivity cut to 20%	Average gross release time decreased from 5 to 3 days (imports) and from 2 days to 1 day (exports)
Improve Business Environment: e.g. strengthen infrastructure regulation	Creation of land and water transport regulation agencies (ANTT and ANTAQ)	PPP Law approved by Congress; draft law on Career Development Plan for Regulators submitted to Congress	Law on career Development Plan for Regulators approved by Congress	5 Public-Private Partnerships projects approved
Enhance the efficiency and depth of the financial system e.g. improve efficient financial access for the poor and for SMEs	Provisional law and resolutions passed to expand financial access at banks	Evaluate impact of new microfinance measures in terms of cost, outreach and impact; introduce small claims courts for small credits	Passage through Congress of new factoring law; enhance use of positive information for credit reporting; etc.	Bank accounts expanded from 95 to 103 from between 2001-06; increased credit availability on sound footing to small borrowers
Increase Innovation capacity to transform knowledge into productivity gains e.g. increase public R&D effectiveness	Innovation law sent to Congress		Innovation law approved by Congress	Number of technology transfer contacts between public universities/research centers and the private sector increased by 20%.

²⁰ *Brazil-Programmatic Sustainable and Equitable Growth*, Report No. 31756, World Bank, January 2004.

D. Designing Results in Multiple-Tranche, Programmatic, and Single-Tranche Development Policy Operations²¹

18. *Multiple-tranche development policy operations set out the conditions for each tranche (usually two) at the beginning of the operation.* This requires the detail of key steps in a medium-term reform process to be well understood up front.

- *Make sure that the Program Matrix contains end-of-program outcomes that will be monitorable at the time of completion.*
- *If indicators for these outcomes are not available annually, also include intermediate outcomes and indicators that can be monitored more frequently to allow regular tracking of progress.*

19. *Programmatic development policy operations are a series of operations (usually three) linked to a medium-term framework.* Each Program Document indicates the prior actions that have been taken in advance of that operation as well as the triggers for subsequent operations in the series. Completion reporting for intermediate operations is simplified and resembles supervision of a multiple-tranche operation.

- *Select end-of-series outcomes for the Program Matrix. Although each programmatic operation is a self-standing loan, credit, or grant, results should be set for the series.*
- *Include intermediate outcomes and indicators in the Program Matrix for each programmatic operation in the series to allow for needed more frequent monitoring.*
- *Select a handful of policy actions for the next operation as triggers (expected prior actions) on which the Bank will base its decision to proceed with the next operation. Triggers should be critical to achieving the results of the program, but may be adjusted in response to changes in circumstances or information.*

20. *A subset of programmatic development policy operations are Poverty Reduction Support Credits (PRSCs).* A PRSC is a specific approach to development policy lending intended for well-performing IDA countries with a demonstrated track record of reform and commitment to a national development strategy—a Poverty Reduction Strategy (PRS). It uses a programmatic design that comprises a series of typically three single-tranche, annual operations set in a medium-term timeframe with flexible triggers determining the move to the next operation.²² PRSC content draws from the PRS (which

²¹ For general program design issues, see “Designing Development Policy Operations,” in *Good Practice Notes for Development Policy Lending*, Operations Policy and Country Services, World Bank, October 2004.

²² *Poverty Reduction Support Credits: A Stocktaking*, (IDA/SecM2005-0238), Operations Policy and Country Services, World Bank, May 2005.

should already be carefully reflected in the CAS) and is aligned with the PRS annual cycle. The objectives of PRSCs derive from, and are closely linked to those of the CAS based on the country's PRS. Therefore, the results framework of PRSCs should draw directly from the CAS, or, if the CAS is not well linked to the PRS, then directly to the PRS, and include specific reference to the CAS's or PRS's objectives and indicators.

- *Use titles (or “pillar” names) found in the PRS in the Program Matrix for a PRSC to reflect the tight links between them and cite the relevant part of the PRS if outcomes or indicators are taken directly from it.*
- *Present operations in series of three, with outcomes to be delivered by the completion of the third operation, even if PRSCs are expected to provide regular annual budget support for many years.*

Examples: The *Fourth Poverty Reduction Support Operations* in Uganda and Burkina Faso²³ provide clear links with the countries' PRSs, as well as the operations' specific place in the Bank's program in the country (as each of them were preceded by previous PRSCs and plan for subsequent operations). Program documents discuss these links in the text and add relevant columns or comments in the matrices. In both cases, the operations are linked to a PRS recently concluded (for the 2000-03 period) and to a new one recently prepared or near completion (for the period 2004-06). Thus, expected outcomes under these operations are closely interrelated with expected outcomes of the PRSs and, through the latter, with progress toward the Millennium Development Goals.

21. *For single-tranche development policy operations, all conditions are met fully before the operation is presented to the Board.* Still, the actions supported by the operation should be part of a reasonably well-defined medium-term program. One-off single tranche operations are typically discouraged since they risk being episodic and most programs require a longer-term engagement.

- *Include end-of-program outcomes that will be monitorable at the time of completion in the Program Matrix.*
- *Provide key actions of the medium-term program in a column of the Program Matrix (even though these are to occur outside the timeframe of the single-tranche operation).*
- *Indicate how the medium-term program and its results will be monitored, such as through the CAS, since for a one-tranche operation, end-of-program outcomes are likely to be near-term results.*

²³ *Uganda-Fourth Poverty Reduction Support Operation*, Report No.29287-UG, World Bank, August 2004, and *Burkina Faso-Fourth Poverty Reduction Support Credit*, Report No.28293- BUR, World Bank, April 2004.

E. Focusing on Results in Development Policy Operations Extended to Subnational Borrowers

22. A growing number of development policy operations are prepared for subnational²⁴ entities such as provinces, states, and other parts of a borrower's territory. While all the comments above apply to these operations, there are some additional features. While designing a subnational development policy operation, the following steps are advisable.

- ***If the CAS does not fully integrate subnational objectives into overall CAS objectives, link the subnational development policy lending results to the CAS outcomes related to both the subnational entity and the country.*** The objectives of the development policy operation should be placed in the context of the CAS outcomes for the state, province, or other subnational entity, but should also identify a role in achieving overall country results (for example, Bank activities for individual states could provide useful demonstration effects to other states or at the national level).
- ***Discuss potential intended and unintended impacts outside the subnational entity.*** It is important to consider how the achievement of the sub-national results may affect the country's national goals, including possible unintended effects (for example, improved investment climate in a state may result in higher investment in the state, but only part of this investment is a net gain for the country, as some of it may be diverted from other states).
- ***Link the subnational development policy lending results to the objectives of the relevant subnational entity program.*** In subnational development policy operations, the detailed links with in-country results often refer primarily to results in the relevant state or province, embedded in the relevant strategic plans and documents of these entities.

Example: *Second Andhra Pradesh Economic Reform Loan/Credit*²⁵ focuses on results at the subnational level (a state in India), while placing its objectives in the context of the economic program of the Government of India and its relations with the states, as well as in the context of the Bank's CAS.

²⁴ See also *Good Practice Note on Subnational Development Policy Lending*, Operations Policy and Country Services, World Bank, (forthcoming).

²⁵ *India-Second Andhra Pradesh Economic Reform Loan/Credit*, Report No. 26534-IN, World Bank, January 2004.

IV. SELECTING INDICATORS TO MEASURE RESULTS²⁶

23. This section discusses the desirable characteristics of indicators—the measures of outcomes and important integral components of the results framework. Starting with program design and continuing through implementation and evaluation, indicators play a very significant role in focusing on results. During program design, indicators focus the attention of all parties on defining realistic objectives and the strategies necessary for their achievement. During implementation, indicators allow the Bank and borrowers to assess progress toward an operation’s development objectives and, if needed, point toward areas where an operation needs to be redirected in order to achieve its objectives. Finally, indicators included in the Program Matrix play a very significant role in the process of evaluation of program results.

24. *To be a useful tool guiding the process of implementation and measuring the impact of an operation, the set of indicators in a development policy operation need to be carefully selected.* They should track the key links in the causal chains underlying the results framework, the status of exogenous factors important to realizing program objectives, and the emergence of unintended consequences of the program’s actions. The choice of indicators should generate good quality information and be time and cost effective. Limitations of resources (time, budget, and capacity), along with the nature and complexity of the development environment, constrain the ability to create perfect information for indicators.

25. *Indicators should be reliable, valid, comparable, specific, measurable, realistic, and targeted.*

- **Reliable** indicators are unambiguous, when repeated investigations of the data yield the same result (for example, similar tests of water quality should yield the same results when testing the same sample of water).
- **Valid** indicators are viewed as an appropriate measure of a desired outcome by the borrower (for example, choosing an indicator measuring food security or financial income as the best measure for economic well-being should be discussed with the borrower).
- **Comparable** indicators allow analysis across time and groups, with the disaggregation level being particularly important for subnational development policy operations. Attention to possible future uses is important when selecting an indicator.
- Indicators measuring program objectives should be **specific** to the intended outcomes they are meant to measure.
- **Measurable indicators should indicate quantity, quality, and timeframe.** *Quantity* is a numeric measure of how much change is to be observed, for example, five percent increase in household income. *Quality* is an indication of what kind of change is expected: for example, 20,000 new households have

²⁶ This section draws on the *2004 Annual Report on Operations Evaluation*, Operations Evaluation Department, World Bank, July 2004. See especially Box 1.3 “Three Criteria for Assessing the Results Orientation of the Bank’s M&E System.”

electricity with no more than 15 percent outages. The *timeframe* over which quantity and quality aspects are to be measured is critical: *baselines*, demonstrating the status of important objectives prior to the program, and *time-bound targets*, setting a clear goal for program impact, are essential.

- **Realistic** indicators establish a level of performance likely to be achieved in a practical and cost-effective manner. Basing indicators on ones already developed by the borrower (for example, in the context of a national strategy or a PRS) and designing operations in partnership with the borrower are clearly the best mechanisms for setting realistic indicators and eventually achieving results. Comparisons against *benchmarks* can be used to determine whether indicator targets are realistic and achievable.
- **Targeted** indicators measure impact on particular borrower groups that are expected to be affected differentially by the program. PSIA during the design phase of the operation can help reveal the likely distributional impact of policy changes on different categories of the population, especially on the poor and vulnerable. If this analysis finds that some groups are likely suffer large costs or receive large benefits, then indicators may need to be disaggregated by poverty, gender, age, or geographical cohorts.

Example: Using High-Quality Indicators. A useful illustration of set of indicators possessing most of the above listed qualities can be found in *Armenia-Poverty Reduction Support Credit*.²⁷ The Program Matrix suggests desired outcomes by category, key monitoring indicators (based on those developed by the government for the PRS), the indicator's current level, and the targeted level (mostly quantitative) of the indicators for each of the next three years and at the final outcome.

26. **Work is currently underway on producing comprehensive sets of sectoral indicators and harmonizing them.** The system of indicators for a development policy operation typically includes indicators at both economy-wide and sector levels. The sector-level indicators in a development policy lending could be similar to those used for other Bank activities in the sector, such as investment lending and ESW. Work on selecting and improving indicators at the sector level has been underway. These sectoral indicators are meant to be useful in designing Bank operations, including development policy lending. Moreover, an effort to harmonize these indicators with other donor agencies (multilateral and bilateral) to produce sets of widely acceptable indicators has been progressing at both Bank-wide and sector levels.²⁸ The Annex provides an overview of the some sources available at the Bank, with special attention to the sectors most frequently supported by development policy operations (public sector management, education, health, agriculture and rural development, environment, private sector development, and finance).

²⁷ *Armenia-Poverty Reduction Support Credit*, Report No: 30179-AM, World Bank, October 2004.

²⁸ As a follow-up to the Second International Roundtable on Managing for Development Results, held in Marrakech, Morocco, February 2004, and in preparation for the High-Level Forum on Harmonization, Alignment, and Results, held in Paris in March 2005, the Results Secretariat in OPCS, in close collaboration with the OECD/DAC-MDB Joint Venture on Managing for Development Results compiled a *Sourcebook on the Principles and Emerging Good Practices on Managing for Development Results*.

Table 1. Programmatic Development Policy Operation Program Matrix: an Annotated Template²⁹

Medium Term Objectives	POLICY ACTIONS			Indicators	Baseline (Year)	Expected Outcomes			Responsible Entity
	PDPL 1 (prior actions are bolded)	PDPL 2 (triggers are bolded)	PDPL 3			2005	2006	2007	
Component 1: Promote Good Governance, Reinforcing Effectiveness and Guaranteeing Equity (for example) (These objectives should be drawn directly from the CAS Results Matrix and, for IDA-eligible countries, the PRS.)									
A. Budget Planning and Execution (for example)									
These objectives should derive from the CAS Results Matrix, and, for IDA-eligible countries, from the PRS. They are expressed as end-of-series outcomes.	Bolded statements are conditions (critical actions also included in the operation's legal agreement).	Milestones are progress markers of implementation of the program. A milestone can be an action or an outcome largely under government control that is supported by the development policy operation but not deemed critical to achieving the outcomes of the program.	Policy and institutional actions, to be distinguished into milestones and triggers when PDPL 2 is prepared.	Qualitative or quantitative measures of results	No. (year)	Target	Target	Target	Who will monitor, and based on what source of data? Existing monitoring, especially in CAS and PRS, should be used if possible.
				Another indicator only available at end of program	No. (year)	--	--	Target	
				Another indicator	No. (year)	Target	Target	Target	
Another objective	Another condition	Bolded statements are triggers (planned actions deemed critical to achieving program outcomes of the program; the expected prior actions).	Another action.	Another indicator	No. (year)	Target	Target	Target	
B. Improve Internal and External Controls in Public Financial Management (for example)									
Objectives	Conditions and milestones	Triggers and milestones.	Actions.	Indicators.	No. (year)	Target	Target	Target	

²⁹ This template is derived from the Program Matrix of *Cape Verde—First Poverty Reduction Support Credit*, Report No. 30056-CV, World Bank, January 2005.

V. PROGRAM IMPLEMENTATION AND SUPERVISION

27. While the two previous sections focused on setting the results framework and selecting the indicators at the design stages of a development policy operation, this section discusses the implementation and supervision of a development policy operation. While implementation is the responsibility of the borrower, the Bank can play the following significant roles: (a) supporting implementation by the borrower; (b) complementing a development policy operation by a separate parallel operation for capacity building; (c) focusing the Bank's own supervision on results, and (d) ensuring timeliness of supervision.

A. Supporting Implementation by the Borrower

28. In light of the importance of borrower ownership of the program, OP 8.60 reiterates borrower responsibilities for implementation of the actions supported by the development policy operation, monitoring of progress during implementation, and evaluation of results on completion.³⁰ The role of the Bank in the process of supporting implementation by the borrower can be summarized as follows:

- **Assess borrower implementation capacity** for achieving the expected outcomes and reflect this assessment in the Program Document. Attention both to the overall capacity of the implementing agencies and to the specific capacity issues related to the actions in the program is of particular importance. For example, if a development policy operation focuses on the education sector, the Bank's Program Document will assess the overall capacity of the ministry at the central and local levels to carry out the program, as well as the specific capacity needs for each of the components and subcomponents (for example, teacher training, curricula development).

*Example: Bolivia-Second Social Sector Programmatic Development Policy Credit*³¹ is a good example of assessing borrower capacity to monitor results and the borrower's experience with results-based management. The Program Document includes an Annex on the country's "Experience with Results-Based Management" that describes the overall efforts on results-based management, the recent improvements in information systems, and some more specific sector-level efforts in the health sector.

- **Assess the M&E systems to be used by the borrower** to monitor progress and performance. This should include the adequacy of the M&E system to monitor the appropriate indicators for the program's actions (conditions, triggers, and milestones) and outcomes (both intermediate and end-of-program), and the adequacy of baseline data to track progress. To the extent possible, the program's indicators should be anchored in the borrower's existing systems, to minimize the burden of the operation's M&E and to maximize the

³⁰ See "Designing Development Policy Operations," in *Good Practice Notes for Development Policy Lending*, Operations Policy and Country Services, World Bank, October 2004.

³¹ *Bolivia-Second Social Sector Programmatic Development Policy Credit*, Report No. 28275-BO, World Bank, May 2004.

prospects for appropriate monitoring. Where existing systems are inadequate explicit consideration of what steps need to be taken to strengthen the system, and the contribution the Bank might make to this, should be identified.

- ***Include capacity enhancement measures*** in the program (or as a separate operation—see below), when initial capacity is found to be insufficient.³² Although simplicity of the program and selectivity of objectives typically constitute priorities in designing a development policy operation, in some cases program success may hinge on activities and components where implementation or monitoring capacity is inadequate. In such cases, capacity enhancement measures should be made an integral part of the program.

Examples: *Vietnam-Third Poverty Reduction Support Credit*³³ mentions several areas that have faced implementation challenges in earlier operations (hard budget constraints for public enterprises, financial sector reform, tackling corruption) and builds on this experience. It also assesses the country's *monitoring arrangements*, noting that efforts to implement the country's Poverty Reduction Strategy at the provincial level rely on the development of appropriate monitoring *indicators*, and that these have been gradually narrowed to around 40, from about 140 when the process started.

B. Including Related Operations for Capacity Building

29. Borrower capacity enhancement in some cases could be supported by the Bank through a separate operation, designed in parallel with a development policy lending program. In these cases, the development policy operation should specify the links and expected support to be received from the parallel operations. When capacity needs are linked to the monitoring aspects of the program's results, support for statistical capacity building becomes essential. Box 2 below provides details on statistical capacity building, including a new umbrella lending program, StatCap.

Example: *Burkina Faso-Fourth Poverty Reduction Support Credit*³⁴ assessed experience with implementation of the PRS and the Bank support through three previous PRSCs. The assessment was based on a *participatory stocktaking exercise*, during a joint seminar with participants from the Ministry of Finance, line ministries, the donor community, and the private sector. The findings of the seminar included the need to improve capacity and analytic tools to program and evaluate budgetary spending and to process the statistical information more regularly. The PRSC Program Document notes that the Bank will support these objectives through targeted technical assistance and capacity building, including a StatCap operation.

Box 2. Initiatives on Statistical Capacity Building

In March 2004, a new umbrella lending program, the Statistical Capacity Building Program (StatCap), was approved by the Bank's Board of Executive Directors. The program aims to address countries' differing statistical capacity needs while offering a simplified preparation and approval process. StatCap provides a sectorwide approach to building capacity, based on a strategic plan for providing reliable and timely data on countries' core development outcomes as articulated in their PRSs or national development strategies. StatCap was piloted in five countries in FY04.

³² This applies to statistical capacity building and explicitly building the capacity of the borrower to manage for results.

³³ *Viet Nam-Third Poverty Reduction Support Credit*, Report No. 28916-VN, World Bank, May 2004.

³⁴ *Burkina Faso-Fourth Poverty Reduction Support Credit*, Report No. 28 293-BUR, World Bank, April 2004.

Overall, a significant multilateral effort is under way to improve the availability and quality of data, especially in IDA countries through the PARIS21 initiative. This initiative is an international consortium of users and producers of statistics that promotes evidence-based decisionmaking and emphasizes the need for investment in statistical systems, including household surveys. Detailed case studies were undertaken to examine the constraints countries face in monitoring their poverty reduction strategies and in providing data to monitor the Millennium Development Goals. A global action plan to strengthen statistical systems was agreed on at the Second Roundtable on Managing for Development Results in Morocco, 2004.

C. Focusing Supervision on Results

30. The importance of results-oriented Bank supervision needs to be reinforced to address the strong pull toward process and input-oriented (compliance-based) supervision. The Bank's role in supervising a development policy operation is composed of the following steps:

- ***Monitor the borrower's initial steps, from inputs to outputs and outcomes.*** The focus on results in Bank supervision increases attention to the steps leading from actions and other inputs to results through the causal chain in the results framework. This also includes attention to exogenous factors that may affect the expected outcomes as well as to the possible unintended effects of the program. This attention will allow the Bank to give advice on, and the borrower to implement, any corrective actions needed to achieve the expected results in the face of changing circumstances.
- ***Monitor quality and performance of M&E systems associated with the operation.*** Bank supervision includes attention to the performance of the borrower's M&E systems associated with the operation, to ensure that adequate data on progress achieved is available for decisionmaking. Delays or failures in the M&E systems may have a serious impact on the ability of the borrower and the Bank to track progress towards program objectives.
- ***Monitor progress with capacity enhancement activities*** required for full implementation and monitoring and evaluation of the program. Bank supervision should assess the extent to which the necessary capacity enhancements are being achieved. This is the case whether Bank support is provided directly through the development policy operation or through a parallel capacity-building operation. In the latter case, the supervision of the development policy operation may rely on parallel supervision of the capacity-building project, but it needs to validate the progress achieved and its impact on the development policy lending-supported program.

D. Ensuring Timeliness of Supervision

31. Supervision of development policy operations has the risk of falling behind the pace of expected implementation when time lags between the actions are short and when possible delays or exogenous factors adversely affecting the program are not promptly noticed. This calls for exceptional timelines in supervision of development policy

operations, including monitoring of program implementation and progress in the results framework. When the operation is part of a series of programmatic operations, timeliness of supervision is crucial to ensure adequate adjustments in the succeeding operations.

VI. EVALUATING PROGRAM RESULTS

32. As noted, borrower ownership of the program means that implementation and monitoring and evaluation are borrower responsibilities.³⁵ At the same time, the Bank fully shares the M&E activities through its own supervision and evaluation as well as through its support of the borrower's work by: (a) assessing performance of the borrower's M&E systems; (b) monitoring and assessing the borrower's evaluation of results; (c) linking supervision to instruments of evaluation; (d) and making the Bank's own evaluation process results-oriented as far as possible.

A. Assessing Performance of Borrower M&E Systems

33. Bank staff assess performance of borrower M&E systems related to the operation, as well as the impact of any capacity enhancement measures linked to the program. The evaluation should include an assessment of how the M&E systems helped the borrower monitor progress in the program and use the information learned to influence subsequent decisionmaking.

34. *Any shortcomings found in M&E systems are important elements for subsequent involvement* and particularly important in programmatic development policy operations. When development policy operations include capacity enhancement measures (or when parallel capacity-building projects are in place), achievements and/or shortcomings in these areas could be integrated with the evaluation of results in the development policy operation.

B. Monitoring and Assessing Borrower Evaluation of Results

35. To assist the borrower in evaluating results and channeling them into the decisionmaking process, the Bank monitors results, assesses their quality, and provides assistance when necessary. Timely evaluation of results by the borrower is particularly important in programmatic operations where results of succeeding operations are closely interlinked and constitute important elements in the preparation of new steps in the program.

C. Linking Supervision to Instruments of Evaluation

36. The main instruments for conducting the evaluation of results are the borrower's evaluation of the program at completion and the Bank's Implementation Completion Report (ICR). In programmatic operations, a simplified ICR is prepared after each operation and a full ICR on completion of the program.³⁶ As a result, in most

³⁵ OP 8.60, para 16 states: "The borrower implements the development policy operation, monitors progress during implementation, and evaluates results at completion."

³⁶ BP 8.60, para. 23.

programmatic development policy operations, evaluating achievement of results at completion is closely linked to monitoring progress during supervision. Thus, supervision of a first programmatic operation is often part of the ongoing evaluation of results that will guide preparation of the following operation. Moreover, evaluation of results of an earlier operation is part of supervision of a succeeding one, as triggers become baselines for subsequent operations and guide the further steps in the program.

D. Making the Bank's Own Evaluation Process Results-Oriented

37. Making the Bank's evaluation results-oriented requires focusing the Bank's ICR on the fulfillment of the program's objectives, including outputs and outcomes achieved. The Bank's ICR should also:

- assess the extent to which actual outcomes match the ones expected in the results framework, including causal chains, time lags, exogenous factors, and unintended consequences;
- evaluate the Bank's contribution to the achievement of results through its support of the borrower's program; and
- Evaluate the performance of borrower M&E systems and of capacity improvements.

SECTOR-LEVEL INDICATORS: WORK IN PROGRESS

1. Bank staff in all sectors is currently engaged in producing comprehensive sets of indicators to be used in designing Bank operations, including development policy lending. This Annex provides an overview of some sources available at the Bank, with special attention to sectors most frequently supported by development policy operations (which include public sector management, health, education, rural development, environment, private sector development, and finance).

A. Public Sector Management

2. Work on a set of indicators to measure results of the Bank's work on public sector management is currently in progress and encompasses all the themes, including anticorruption, public expenditure management, administrative and civil service reform, legal and judicial reform, tax policy and administration, and decentralization.

- ***Governance.*** The Bank is developing governance indicators that can inform clients, stakeholders, and partners about the quality of governance and of possible progress. The two major existing initiatives are the Bank's Country Policy and Institutional Assessment and the Worldwide Aggregate Governance Indicators, supplemented by specific indicators covering civil service reform, public financial management, private sector regulation, and public services delivery.
 - ***Human Resource Management.*** Public administration reform projects in Albania, and more recently in Macedonia and Romania, include monitoring a set of indicators on affordability, meritocracy, and depoliticization of the civil service. Among other indicators, this set includes the wage bill as a share of government spending and GDP, turnover rates for political appointees and other civil servants, and percent of open positions advertised and filled through competitive processes.
 - ***Public Financial Management Performance Measurement Framework.*** This ongoing work will comprise 30 indicators that build on the 15 developed for the Heavily Indebted Poor Countries Initiative. A first draft (developed by a working group involving staff from the Bank, IMF, and the Public Expenditure and Financial Accountability Secretariat) is available at the PEFA website.
- Examples:* The Bank has applied these indicators as part of analytic work in several Latin America and Caribbean Region countries including *El Salvador* and *Argentina*. *Albania* has been monitoring a similar set of indicators for several years as part of its *Public Administration Reform Project*.
- ***Public Sector Procurement Baseline Indicators.*** Three tools have been developed to assist the Bank in progressing toward greater reliance on country

systems: (a) a set of baseline indicators that look at the systems and structures of a country's public procurement; (b) a performance measurement framework, including proposed indicators to capture data related to the performance; and (c) an implementing agency performance measurement and data collection tool to support management and capacity development at the implementing agency level.

Example: The *Philippines* has already begun to use baseline indicators system in the context of the CPAR update and in developing their 2005 action plan.

B. Education Sector

3. The education sector program stands on two pillars: the Education for All (EFA) agenda to build the foundation for further education and development, and Education for the Knowledge agenda to enable countries to become competitive in a global economy. In both cases, the key results are access, equity, education, quality, and effectiveness of resource utilization. The EFA-Fast Track Initiative's results framework or the evaluation is based on donor consensus. For tertiary education, Bank-financed projects focus on key indicators of quality, governance, institutional development, and standard setting.

Example: The *Pakistan-Punjab Education Sector Adjustment Credit*,³⁷ defines a clear M&E system with a monitoring matrix based on the one developed by the Government in the Poverty Reduction Strategy Paper. The matrix emphasizes three main output indicators for education sector (number of functioning schools, number of trained teachers, and reduction of teacher absenteeism) and provides quantitative baseline as well as desired levels for the next three years.

C. Health Sector

4. The health sector generally uses impact indicators (precise definitions can be found in data publications, such as the World Development Indicators) including prevalence of underweight in children, under-five mortality rate, immunization coverage rate, and maternal mortality ratio. However, for regular monitoring purposes, a number of intermediate indicators may be included. The Human Development Network worked closely with other agencies to develop a list of such intermediate indicators, which can be assessed in Table 2.1 in *The MDGs for Health: Rising to the Challenge*.³⁸

Example: *Rwanda-Poverty Reduction Support Credit*,³⁹ covering the health sector, includes a clear and concise annex on monitoring indicators.

D. Agriculture and Rural Development

5. Based on the three main pillars of the current Rural Development Strategy, the sector is currently working with DEC to produce a set of indicators on rural development by the end of 2005. The three pillars are: enabling environment (policies, markets,

³⁷ *Pakistan-Education Sector Adjustment Credit*, Report No. 27528-PK, World Bank, January 2004.

³⁸ Claeson, M., and Adam Wagstaff, *The Millennium Development Goals for Health: Rising to the Challenge*, Report No. 29673, World Bank, 2004.

³⁹ *Rwanda-Poverty Reduction Support Credit and Grant*, Report No. 29467-RW, World Bank, September 2004.

infrastructure); growth for rural poverty reduction (poverty, agriculture, non-farm); and natural resource management and biodiversity, and social well-being.

6. Examples of the indicators include agriculture value added, irrigated land (percentage of cropland), percentage of rural households with access to formal credit services in financial institutions, agriculture tariffs. An additional source of information is “Rural Development Indicators Handbook.”⁴⁰

Example: The Uganda PRSC⁴¹ uses a set of indicators for “improved enabling environment for transition from subsistence to commercial agriculture”, like “reduced agro-processing and marketing constraints” and other measurable indicators.

E. Environment

7. Country environmental analysis provides the set of tools that could be used as indicators for operations. The recent papers on Indicators of Environment and Sustainable Development⁴² bring forward lessons on indicators and M&E arrangements, particularly on Millennium Development Goal 7. The program on environmental indicators includes participation in the Global Monitoring Report, the World Development Indicators, and the annual publication The Little Green Data Book.

F. Private Sector Development

8. The Bank uses two key diagnostic approaches as part of its results management framework, the “Doing Business” project and the Investment Climate Surveys (ICS). Results from Doing Business and ICSs jointly serve to underpin Bank Group Investment Climate Assessments, which provide a broader picture of a single country’s business environment.

9. The “Doing Business” project produces transparent indicators, comparable across countries and updated annually, about specific regulations, such as the time, cost, and procedures required to enforce a contract or to set up a small limited liability company. The “Doing Business” database has quantitative measures of business regulation in seven topics: regulations of business entry, labor, property registration, credit, corporate governance, contract enforcement, and bankruptcy. All indicators and a description of the methodology are available online at <http://rru.worldbank.org/doingbusiness/>.

10. ICSs provide a standardized way of measuring and comparing investment climate conditions within and across countries, as experienced by firms. ICSs are launched in some 20 countries every year, covering hundreds of firms within each country, and are designed to be conducted every three years. They provide an analytical framework to identify reform priorities in a country’s investment climate, by linking constraints to

⁴⁰ Rural Development Indicators Handbook – from the World Development Indicators, Report No. 22346, DEC, World Bank, March 2000.

⁴¹ *Uganda - Fourth Poverty Reduction Support Operation*, Report No. 29287-UG, World Bank, August 2004.

⁴² Go to <http://lnweb18.worldbank.org/ESSD/envext.nsf/44ByDocName/EnvironmentalIndicators> for a summary of initiatives on environmentally sustainable development indicators.

firm-level costs and productivity. They also offer specialized modules to allow in-depth coverage of areas, such as access to finance, small-medium enterprise concerns, and informal sector activities. Survey results and a description of the methodology are available online at <http://worldbank.org/investmentclimate>.

G. Financial Sector

11. The Financial Sector Network is working on several innovative approaches to measuring results, including a sharpened focus on development outcomes in the Financial Sector Assessment Program and an expanded set of financial sector indicators. The indicators will provide benchmarks to describe the soundness of a country's financial system and the level of access to financial and insurance services by its population. The indicators will include standard financial sector statistics as well as some new intuitive and quantifiable measures created from the perspective of users of financial services.