2012 Development Policy Lending
Retrospective
Emerging Findings and Issues

Operational Policy and Quality Department
The World Bank

July 2012
Outline

Content and Issues

Key trends

Contribution to country results

Opportunities and Assessment and management of risks

Reforms of the instrument and their effectiveness

Progress made and areas for strengthening
The new spectrum of World Bank lending instruments

<table>
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<th>Country’s National and Sectoral Development Programs</th>
<th>World Bank’s Country Assistance Strategy</th>
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<tr>
<td>Development Policy Lending</td>
<td>Program for Results Lending</td>
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<td>(General Budget Support</td>
<td>(Expenditure Program Support</td>
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<td>– Disburses against Policy/Institutional Actions)</td>
<td>– Disburses against Measurable Program</td>
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<td>Results)</td>
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<td>Investment Lending</td>
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<td>(Project Support – Disburses against</td>
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<td>Specific Investments)</td>
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Policy and Project Based Guarantees

Note: The Bank also provides policy-based and project-based guarantees as well as analytical and advisory services
DPLs contribute to countries’ results through substantive engagement on policy and institutions

Development Program
- The country designs and implements its development program/strategy (World Bank provides support)

Prior Actions
- The World Bank supports key policy/institutional actions, drawn from the country program, which form the basis of the operation

Results
- The country and the World Bank agree on key results, flowing from the prior actions, which will be used to monitor and evaluate impact. When possible results are drawn from government programs.
The DPL Retrospective aims at answering three critical questions:

1. Are DPOs helping countries deliver results?
2. How are risks assessed and managed in DPOs?
3. How effective were the reforms in the operational policy framework for DPOs?
To provide answers it covers all DPOs since the last DPL Retrospective

- Stocktaking from April 2009 to March 2012
- Analysis of 221 operations and 6 supplementals
- 110 IBRD
- 103 IDA
- 6 solely financed by TFs, 2 TF/IDA
- Europe and Central Asia, and Latin America and Caribbean accounted for 62 percent of commitments
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Progress made and areas for strengthening
Total lending and in particular development policy lending increased during crises.
Development policy lending as a share of total IDA has declined (from an average of 25 percent in FY05-09 to 12 percent by end FY11)

Through third quarter
Reforms on public sector governance continue to dominate, and social protection and human development are on the rise.
DPOs are increasingly selective in their use of prior actions
Progress on Aid Coordination

A large proportion of IDA operations are prepared in the context of Joint Budget Support (JBS) partnerships…

JBS partnerships has led to greater alignment in the policy dialogue, policy focus and results framework

…But in some cases at significant costs

Rigidities

Example:
• Economic Governance Grant, in Ghana, to support the country’s challenges during the global economic crisis in 2009

High transaction costs

• 638 coordination structures in 52 IDA countries. Only 60 % of them were found to be performing well

Weakened policy dialogue and ownership

Example:
• In Uganda, dialogue on financial sector reforms was undertaken in the context of a DPL prepared outside the JBS

<table>
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<th>% operations</th>
<th>% commitments</th>
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<tr>
<td>51</td>
<td>46</td>
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<tr>
<td>74</td>
<td>70</td>
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Progress made and areas for strengthening
Strong emphasis on results, evaluation, validation and transparency

**Results Focus.** Each DPO must have an explicit results framework (indicators, baselines and dated targets)

**Evaluation.** Each DPO is evaluated at end of implementation. Bank prepares an Implementation Completion and Results Report (ICRR)

**Independent Validation.** Management evaluation is validated by the Independent Evaluation Group (reports directly to Board)

**Transparency.** New Access to Information policy – public has access to Bank information => public can evaluate DPOs
World Bank policy lending performs as well as investment lending and quality is holding up

IEG evaluation of Bank’s Implementation Completion Results Reports

Note: Later years are based on limited data. For example, in FY10 only half of the ICRRs have been evaluated/validated by IEG. This graph will be updated as more data becomes available.
Bank and IEG evaluations follow a similar trend although with a rating gap -- with Bank ratings slightly higher.

Note: Later years are based on limited data. This graph will be updated as ICRRs and IEG evaluations become available.
Over 60% of the targeted results of the DPOs in the retrospective were fully or partially achieved – Based on available ICRRs

Based on a limited sample 78 ICRRs. This corresponds to 87 DPOs.

Results Frameworks have improved: 85 percent of the results indicators had baselines and targets, while in the last Retrospective only 42 percent of the results indicators had baselines.
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Progress made and areas for strengthening
Countries with a stronger fiduciary and governance environment receive a larger **share of total** Development Policy Lending.

A larger share of the commitments to better **fiduciary** performers (2005-2011) is

- 48.7% in the 3.5-<4 CPIA range
- 26.2% in the 2.5-<3 CPIA range
- 7.8% in the 1.3-<2.5 CPIA range
- 15.9% in the 0.8-<1.3 CPIA range

A larger share of the commitments to better **governance** performers (2005-2011) is

- 61.5% in the 3.5-<4 CPIA range
- 21.3% in the 3.0-<3.5 CPIA range
- 12.9% in the 2.5-<3 CPIA range
- 3.5% in the 2.0-<2.5 CPIA range
- 0.8% in the 1.3-<2.5 CPIA range

CPIA ranges from 1-6. 1 is the lowest and 6 the highest.

Governance measured using CPIA Cluster D (Public Sector Management and Institutions); Public Finance Management (PFM) measured using CPIA 13 (Quality of Budgetary and Financial Management).
Countries with stronger fiduciary and governance environments receive a larger **share** of Bank financing in Development Policy Lending.
Policy content of DPOs focuses more on public finance management and governance when they are weaker.
Operational policy requirements regarding poverty and social impacts:

- The Bank assesses possible distributional and social impact of policies supported by operation.

- In case of significant poverty and/or social effects, Bank summarizes in the program document poverty and social impact analysis (PSIA) and overview of country systems to reduce negative and enhance positive effects.

- In case of gaps in analysis or country systems, Bank describes in the program document how gaps and shortcoming would be addressed during or before program implementation.
Although virtually all prior actions will have positive poverty and social effects in the medium term; in the short term some prior actions may have adverse poverty/social effects.

Of these 6% of prior actions, a PSIA was not undertaken in 36% of cases.

Of these 8% of prior actions, a PSIA was not undertaken in 29% of cases.

Last DPL Retrospective

- Neutral: 77%
- Positive: 17%
- Potentially negative (PSIA required): 6%

Current DPL Retrospective

- Neutral: 75%
- Positive: 17%
- Potentially negative (PSIA required): 8%
Positive trend over time with dip in FY09 due to a larger number of prior actions that required PSIA
Operational policy requirements regarding environment, forests and natural resource aspects

• The Bank determines whether the specific policies supported by a DPO are likely to have a significant impact on the environment, forests, or natural resources

• In case of significant impact, the program document assesses the country’s system for reducing adverse effects and enhancing positive effects drawing on environmental analysis
Very few prior actions indeed have potential adverse environmental effects… … but in those few cases analysis needs significant strengthening.

Of the 0.3% that had possible negative effects only 67 percent of the Program Documents discussed these effects.
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Revisions to the Development Policy Framework since the introduction of the OP 8.60 to enhance the effectiveness of the instrument

- Streamlined verification protocol for Deferred Drawdown Option (DDOs)
- Introduction of Catastrophe- DDO feature (Cat-DDO)
- Revisions to Special Development Policy Lending
- Access to Information Policy
- Development Policy Lending to Political Subdivisions
- Clarification on Budget Transparency Policy in DPOs
- Mainstreaming Policy Based Guarantees
In 2011 the Bank clarified its focus on budget transparency in DPOs

According to a recent rapid survey there have been four examples of DPOs to countries that do not publish the budget, since the introduction of Development Policy Lending:

- Comoros, 2010: Fragile country. Part of a broader reengagement effort on the part of the international community.
- Djibouti, 2008: Food crisis response Development Policy Grant.
- Iraq, 2010: Post-conflict country.

However, some have argued that publishing the budget is just one part of a core of essential elements needed for transparency and accountability.

Barring certain exigent circumstances, appraisal of a DPO should not be authorized for a country (or political subdivision) that does not publish either its executive proposal or the enacted budget.

Note: Percentage of the 97 countries participating in the survey
Source: International Budget Transparency, 2010
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Progress made and areas for strengthening
Progress made and areas for strengthening (1/3 slides)

1. We have consolidated our earlier progress on greater selectivity in use of prior actions
   - Need to maintain the selectivity, focusing of critical prior actions

2. DPOs have been often successful in contributing to the intended results
   - Need to continue improving results frameworks, including enhancing the linkages between policies and results

3. The number of results indicators per DPO have consistently declined over time, reflecting greater focus
   - Need to maintain a focused approach and enhance the assessments of strengths and weaknesses of countries’ monitoring and evaluation systems

4. Despite improvement, more attention should be paid to poverty/social and social impact analysis
   - Need to assess more consistently the poverty and social impacts of prior actions supported by DPOs
   - Need to improve the links between poverty and social impact analysis and the design of DPOs, by conducting upstream analysis
Progress made and areas for strengthening (2/3 slides)

5. We are taking full account of public financial management and governance risks. However, this has gone together with limited support to Fragile Countries and Situations…

   Need to consider how to strike the right balance between risks and opportunities

6. While most DPOs discuss a number of risks there is some unevenness in the deepness of the risks discussions across DPOs

   Need to more thoroughly and consistently assess risks in DPOs

7. Progress was achieved in providing a forward looking discussion of macroeconomic policies, but there are still some weaknesses in the macroeconomic assessments

   Need to strengthen the macroeconomic discussion, especially monetary and external sustainability issues, which have received less attention

   Need to include a more detailed account of expenditure composition and revenue structure

8. While all DPOs discuss the analytical underpinnings some do not articulate the criticality of the selected reforms in light the analytical underpinnings

   Need to better articulate the link between the findings of the analytical underpinnings and the selection of the reforms supported
Progress made and areas for strengthening (3/3 slides)

9. Aid coordination has led to greater alignment in the policy dialogue, but in some cases it led significant costs and inefficiencies

   Need to ask some fundamental questions about Joint Budget Support Partnerships to enhance the effectiveness of DPOs

10. We are pushing the envelope on transparency and participation… but further to go

   Need to consider further strides on budget transparency. For example, publication of budgetary execution. However, rapid progress may be difficult in severely constrained capacity environments

11. There were several revisions to the operational policy framework: DDOs, Cat-DDOs, and DPOs to Political Subdivisions

   Need to consider whether there is room to include anthropogenic disasters with catastrophic consequences in the Cat-DDO

   Need to continue supporting innovation, including regional DPOs

12. Great progress with regard to access to information due to the new Access to Information Policy

   Need to continue supporting access to information, including through more simultaneous disclosure
We would like to have your views on the following:

1. To what extent have DPOs contributed to country results and what can be done to further enhance their results focus?

2. What can be done to further enhance the risk management framework for DPOs?

3. To what extent have recent Bank reforms to its operational policy framework for DPOs increase their effectiveness?

4. How can the Bank engage in productive partnerships that support country-led development results?

5. How can DPOs contribute to further progress in transparency, accountability and participation?

6. Any other suggestions to make use of DPOs more effectively?
Thank you