



THE WORLD BANK

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Operations Policy & Country Services

2015 Development Policy Financing Retrospective: Preliminary Findings



Purpose of this Consultation Meeting on the DPF Retrospective

- The 2015 Retrospective will focus on the Bank's experience with Development Policy Financing (DPF) over the last three years but will also look back over the 10 years since the introduction of the instrument in 2004

The Retrospective focuses on three key questions:

1. How are countries' policies supported by DPF aligned to Bank Group goals of *poverty reduction and shared prosperity*?
2. How successful have Development Policy Operations (DPOs) been at *achieving their intended results*, and have the results been sustained?
3. To what extent do countries' development reforms supported by DPF account for *environmental, social and economic sustainability*?

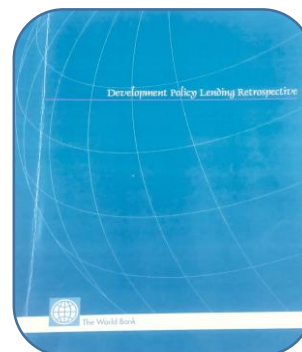
- The purpose of this consultation meeting is to gather feedback on the early emerging findings of the review, and to share experiences
- The feedback received during the consultations will inform the Retrospective

IEG learning products on DPF are also being finalized to inform the Retrospective

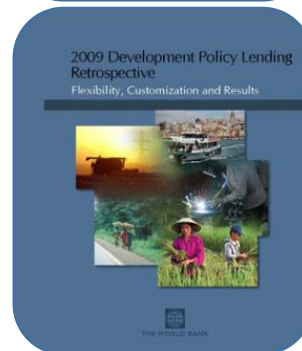
- The Independent Evaluation Group (IEG) is currently finalizing four learning products on DPF:
 1. Quality of macro-fiscal frameworks in DPOs
 2. How does knowledge on public expenditures integrate with the design of DPOs?
 3. The quality of results frameworks in DPF
 4. Managing environmental and social risks in DPF

What is a DPF Retrospective?

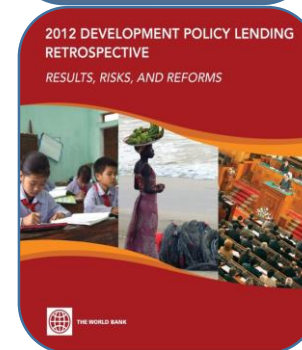
- Since the introduction of OP8.60 in August 2004, the Bank has conducted reviews of Development Policy Financing about every three years
- Lessons from Retrospectives have been critical to improve use of the instrument and have led to policy and practice reforms to enhance its development impact



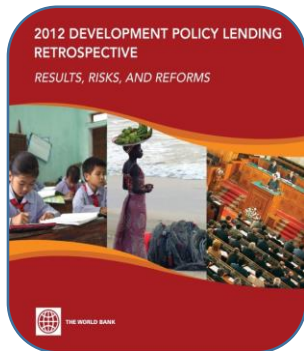
2006: reviewed first 50 operations approved under OP 8.60 between 2004 and Q3 2006



2009: reflected on flexibility, customization and results orientation of DPOs



2012: explored themes of results, risk and reforms of the instrument in the context of coping with the crisis



Key lessons from the 2012 Retrospective and follow up actions

Key Directions:

- Establish a standardized risk assessment framework for DPOs
- Mainstream Policy-Based Guarantees into Operational Policy on DPOs
- Strengthen the quality of macroeconomic assessments
- Enhance analysis of poverty and social impacts
- Enhance focus on sustainable results

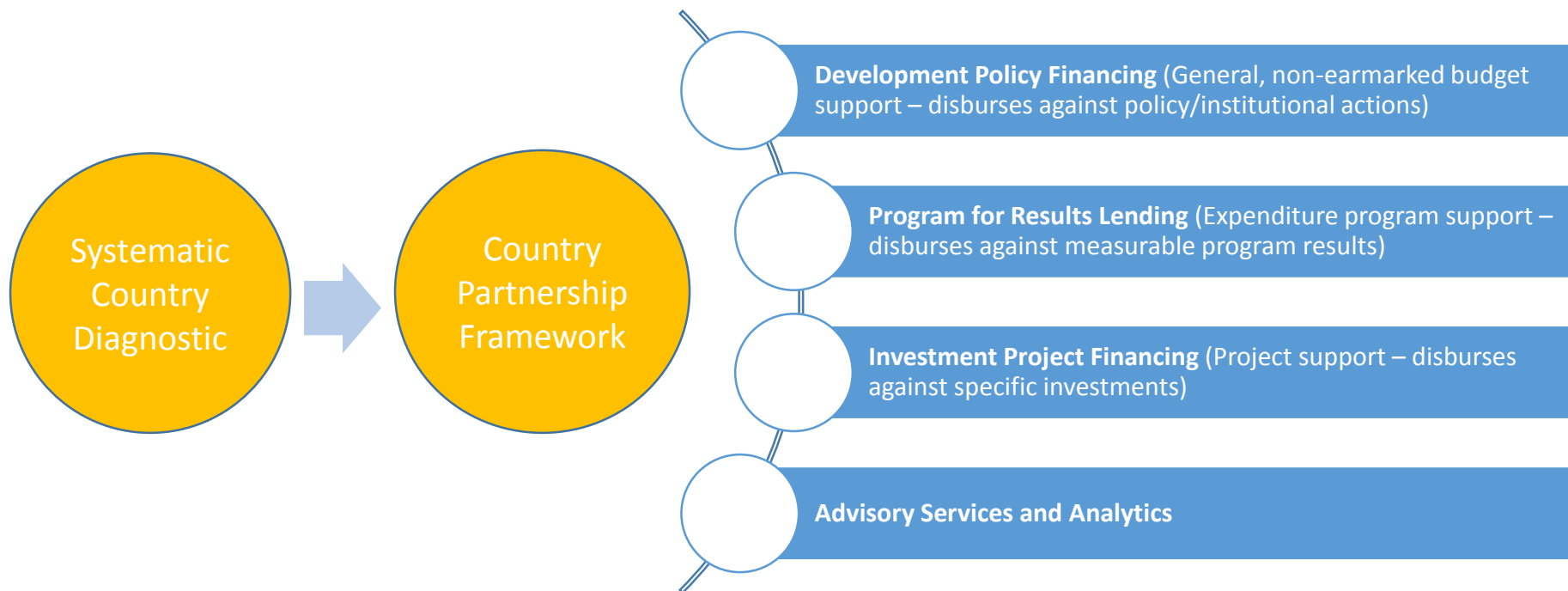
Key follow-up actions

- Introduction of Systematic Operational Risk-Rating Tool (SORT)
- New OP 8.60 approved by the Board in FY14 incorporating Policy-Based Guarantees
- Issuance of a guidance note on the macroeconomic policy framework and collaboration with the IMF
- Revised guidance on PSIA issued and introduction of Systematic Country Diagnostic (upstream analysis of poverty, prosperity and sustainability)
- Measurable improvement in quality of results frameworks

Outline of the Presentation

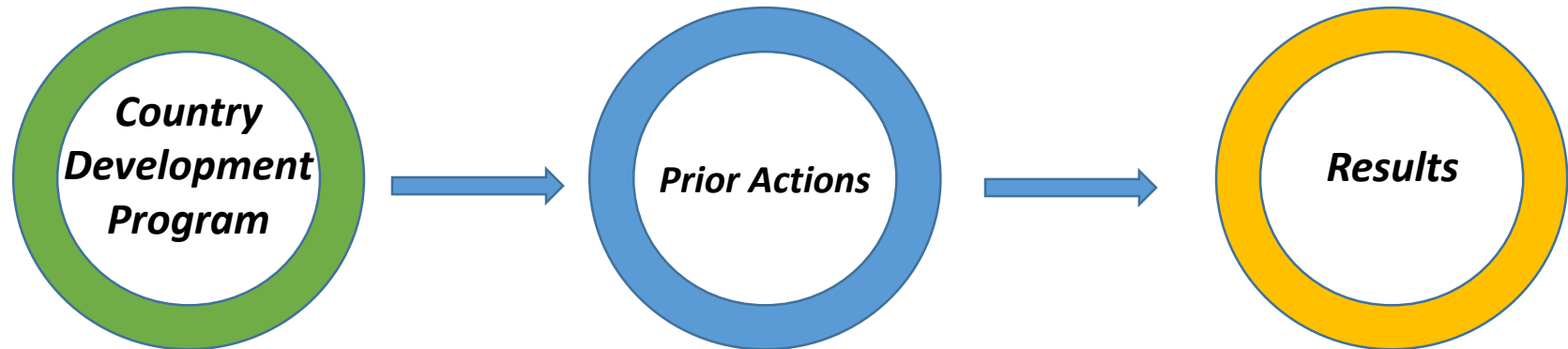
- **Context and coverage**
 - 10 years of Development Policy Financing: key trends
 - Achieving intended results
 - Poverty and social effects of DPF
 - Environmental aspects of DPF
 - Making DPF work better

The spectrum of World Bank support to client countries



RIGHT CHOICE OF INSTRUMENT DEPENDS ON CONTEXT AND OBJECTIVE

DPF contributes to countries' results by supporting policy and institutional reforms



The country designs and implements its development program/strategy

The World Bank supports key policy/institutional actions, drawn from the country program

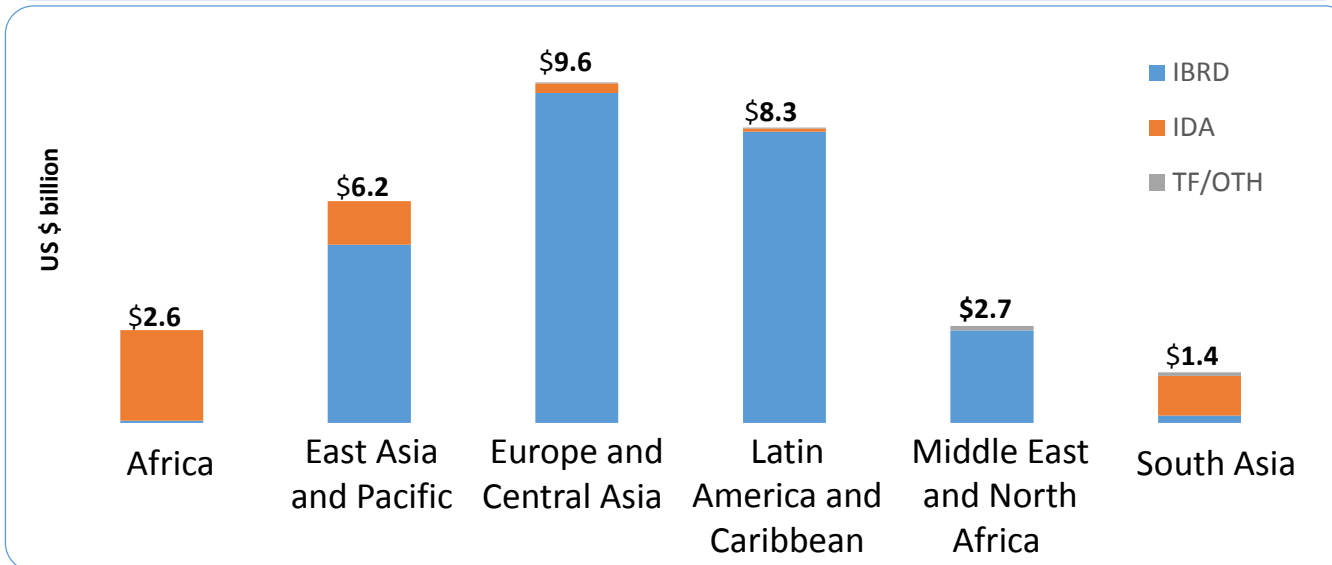
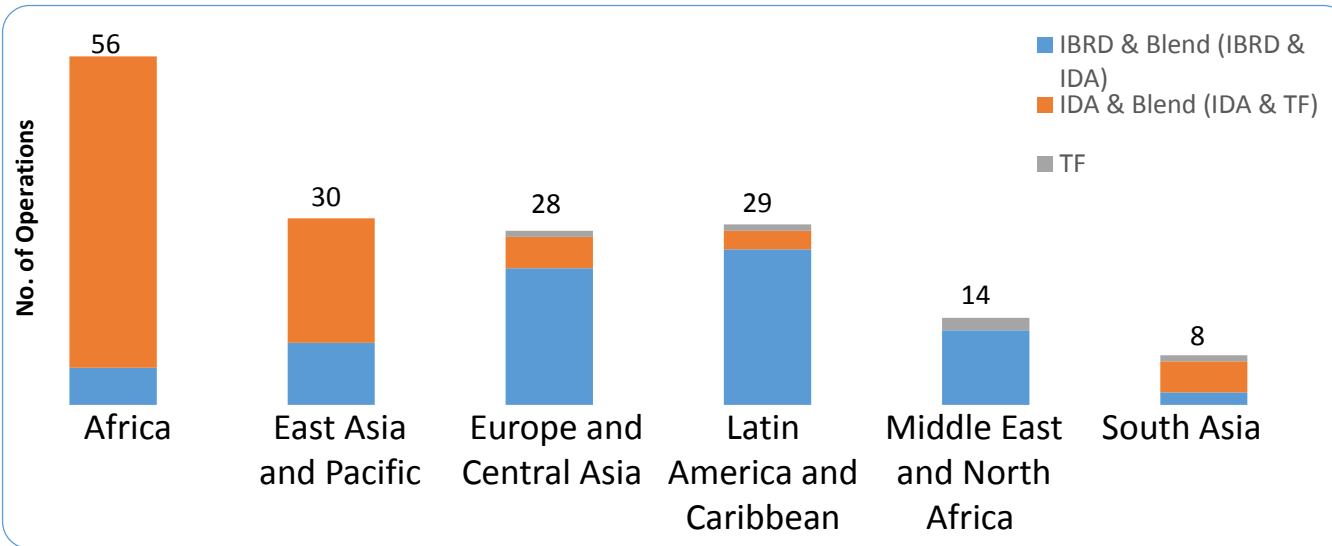
Key results, flowing from the prior actions are used to monitor and evaluate impact. When possible results are drawn from government programs

Adequate macroeconomic policy

Adequate fiduciary systems

DPF is governed by Operational Policy (OP) 8.60

2015 Retro covers all DPOs From April 2012 to December 2014

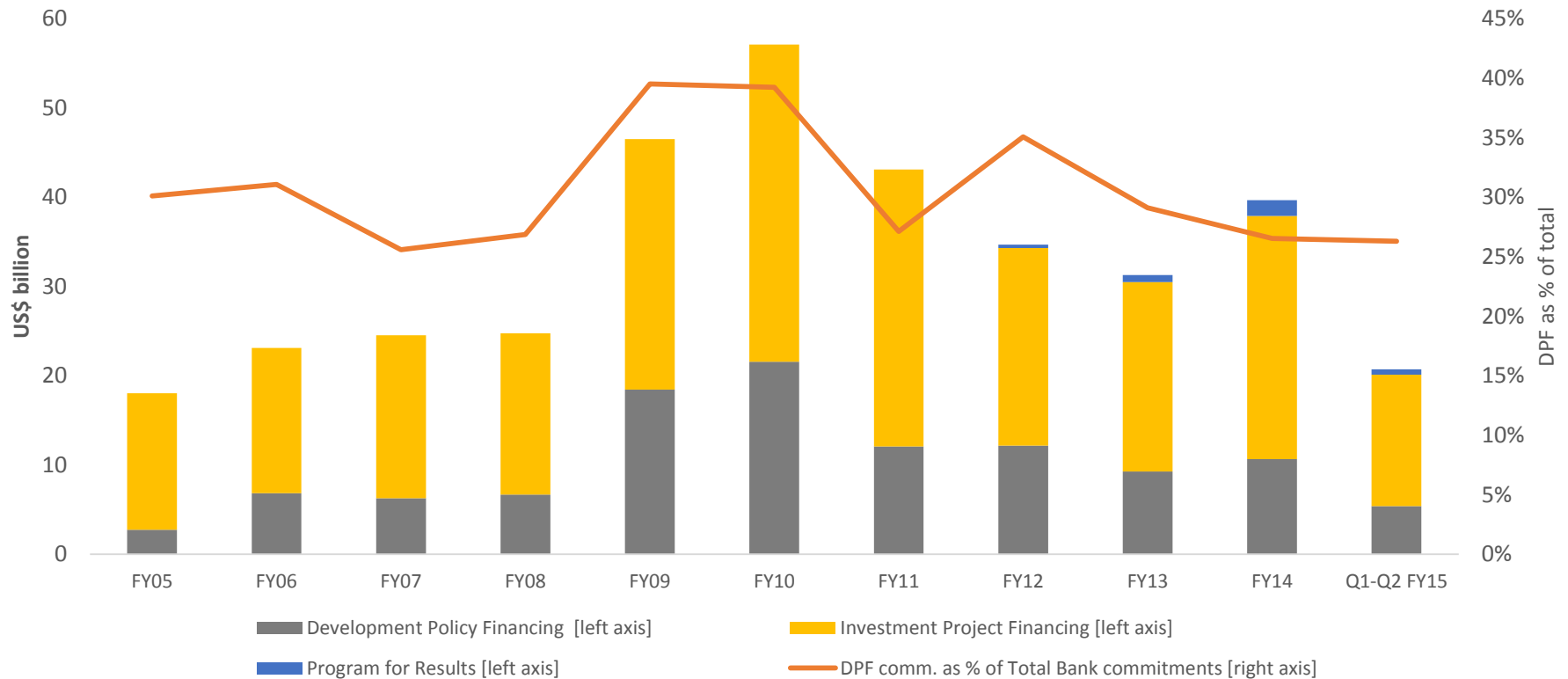


- Analysis of 165 operations and 2 supplementals
- 77 IBRD
- 83 IDA
- 5 solely financed by TFs

Outline

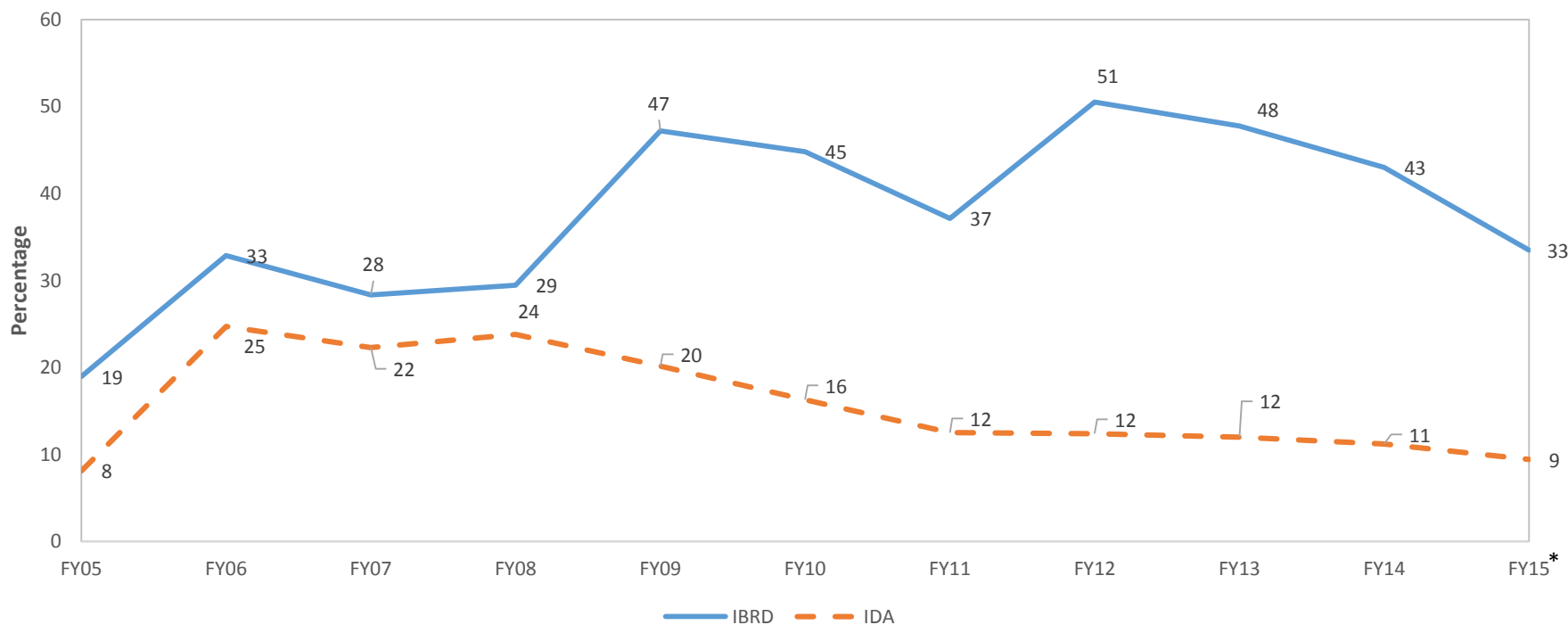
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DPF as a share of total lending is back at pre-crisis levels



Share of DPF is larger in IBRD than in IDA, where it is declining

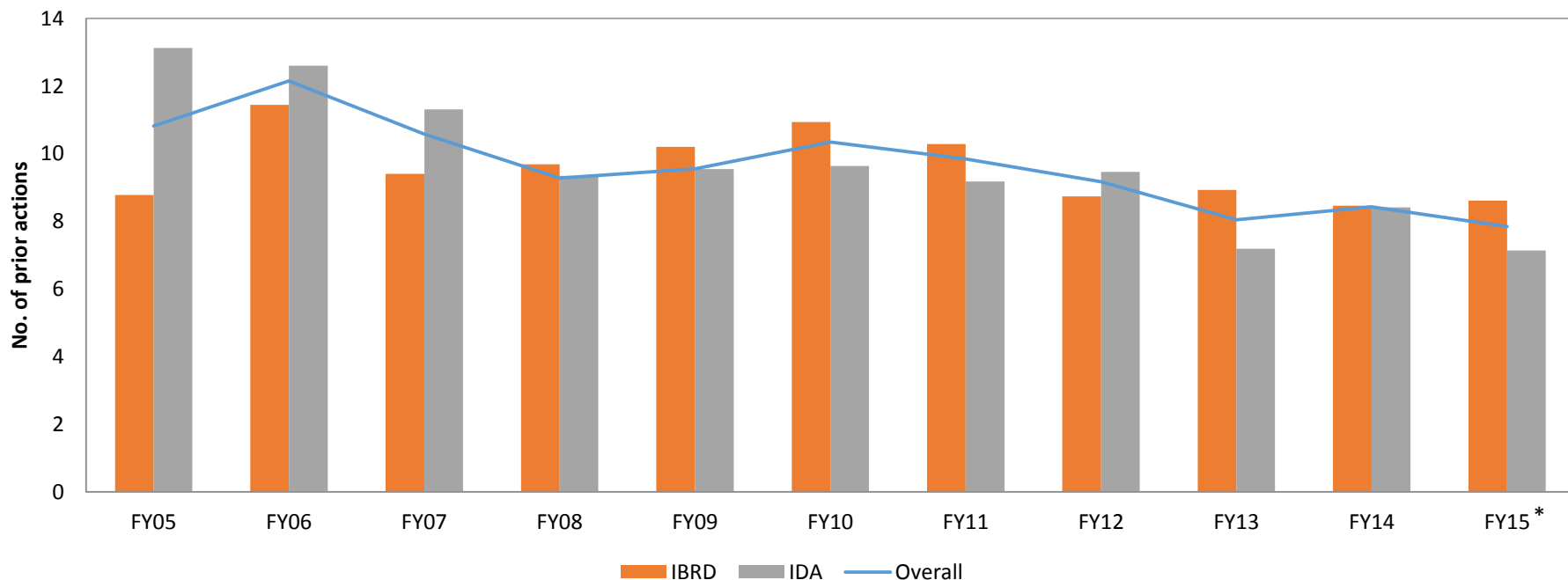
Share of DPF in Total Commitments (FY05-Q2FY15)



*Q1 & Q2 only

DPF continues to be selective in the number of reforms it supports

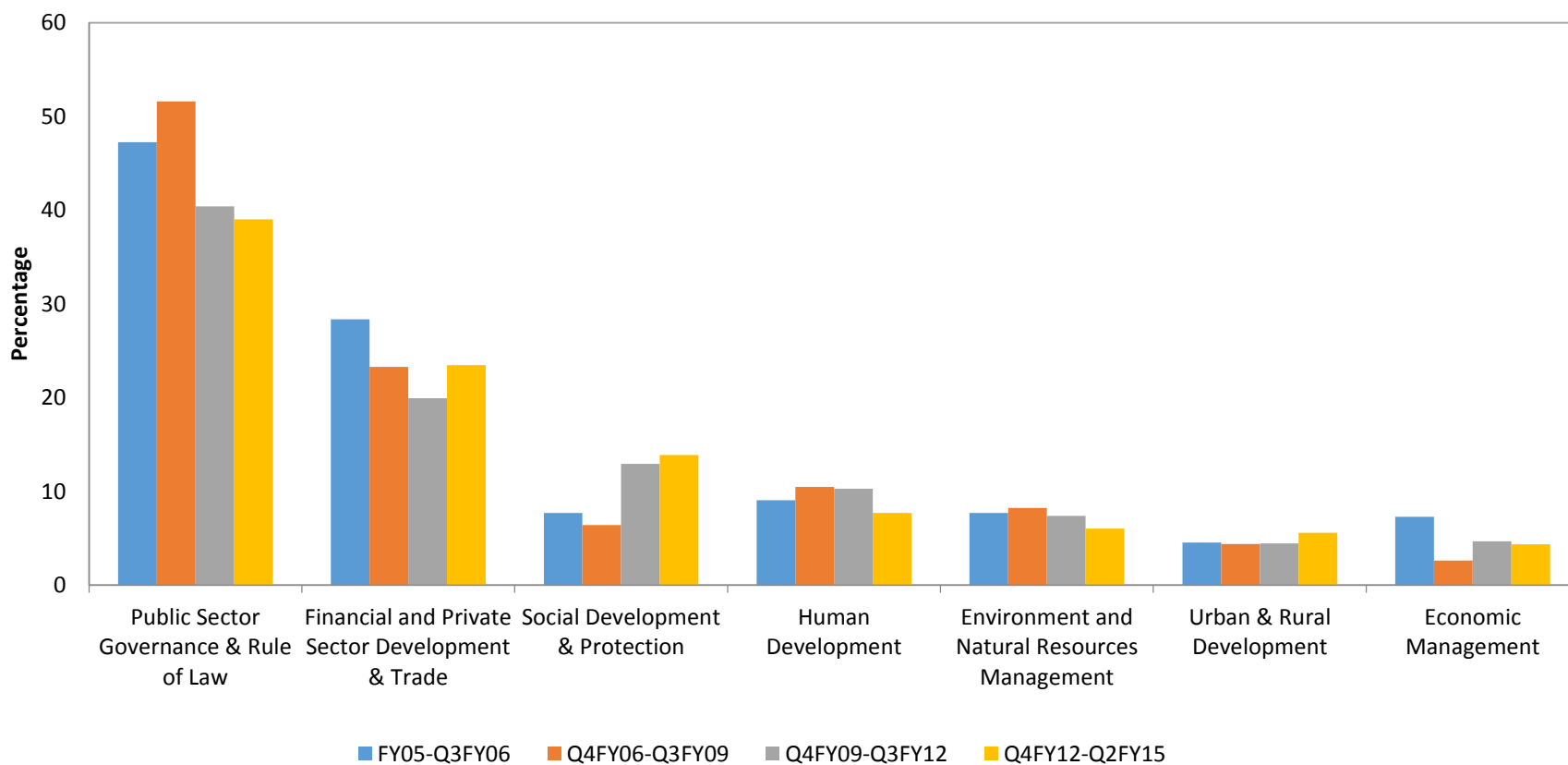
Average number of prior actions (FY05-Q2FY15)



* Q1 & Q2 only

Governance reforms are still dominant, but prior actions with a social focus are increasing

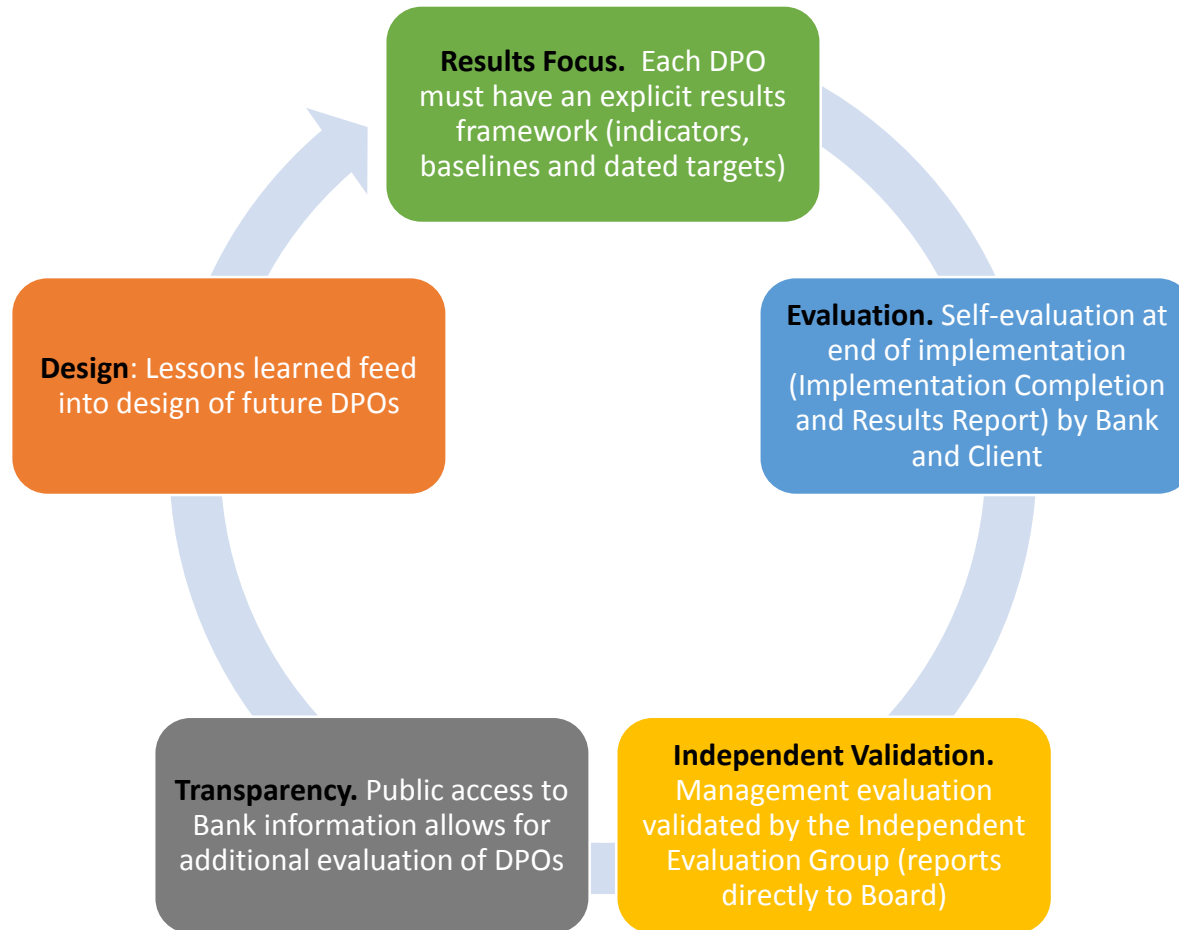
Thematic distribution of prior actions by retro period
(FY05-Q2FY15)



Outline

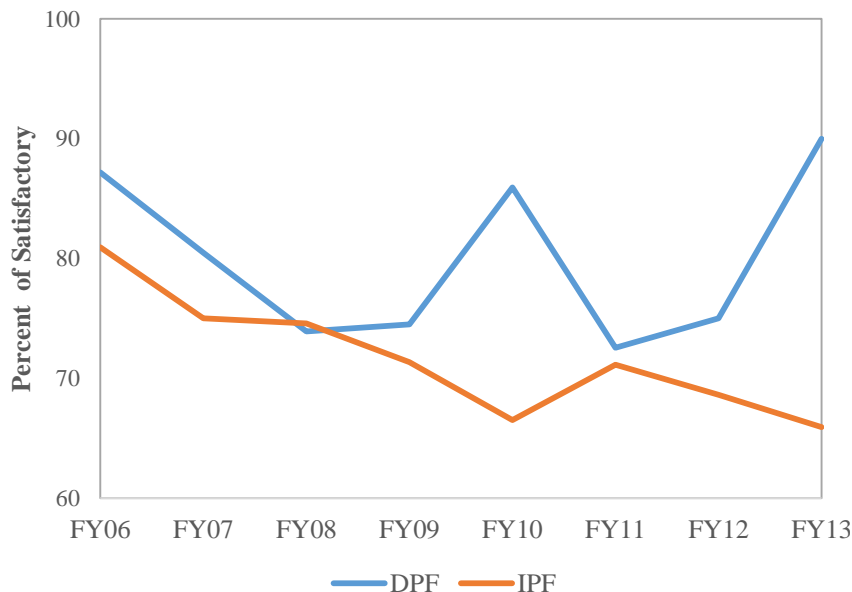
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Strong emphasis on results, evaluation, validation and transparency

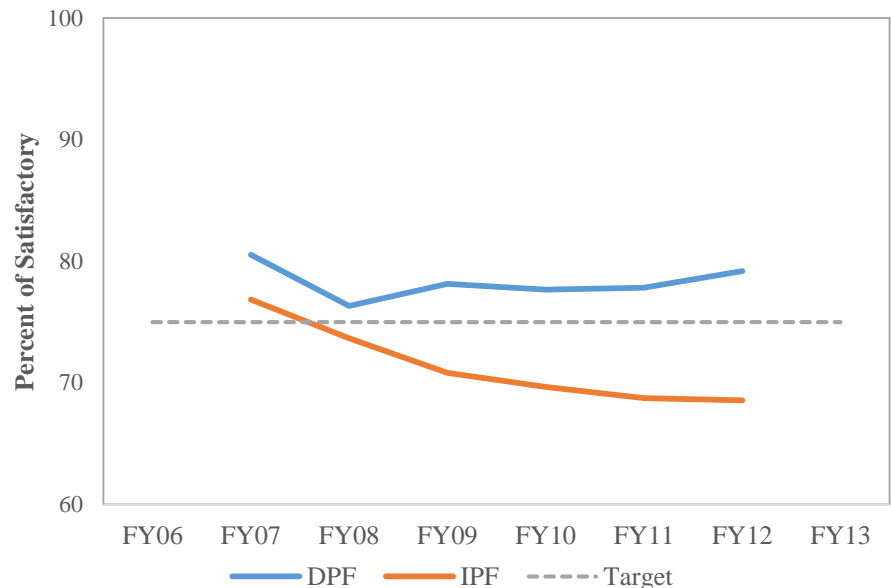


DPF performance has remained consistently above the corporate scorecard target

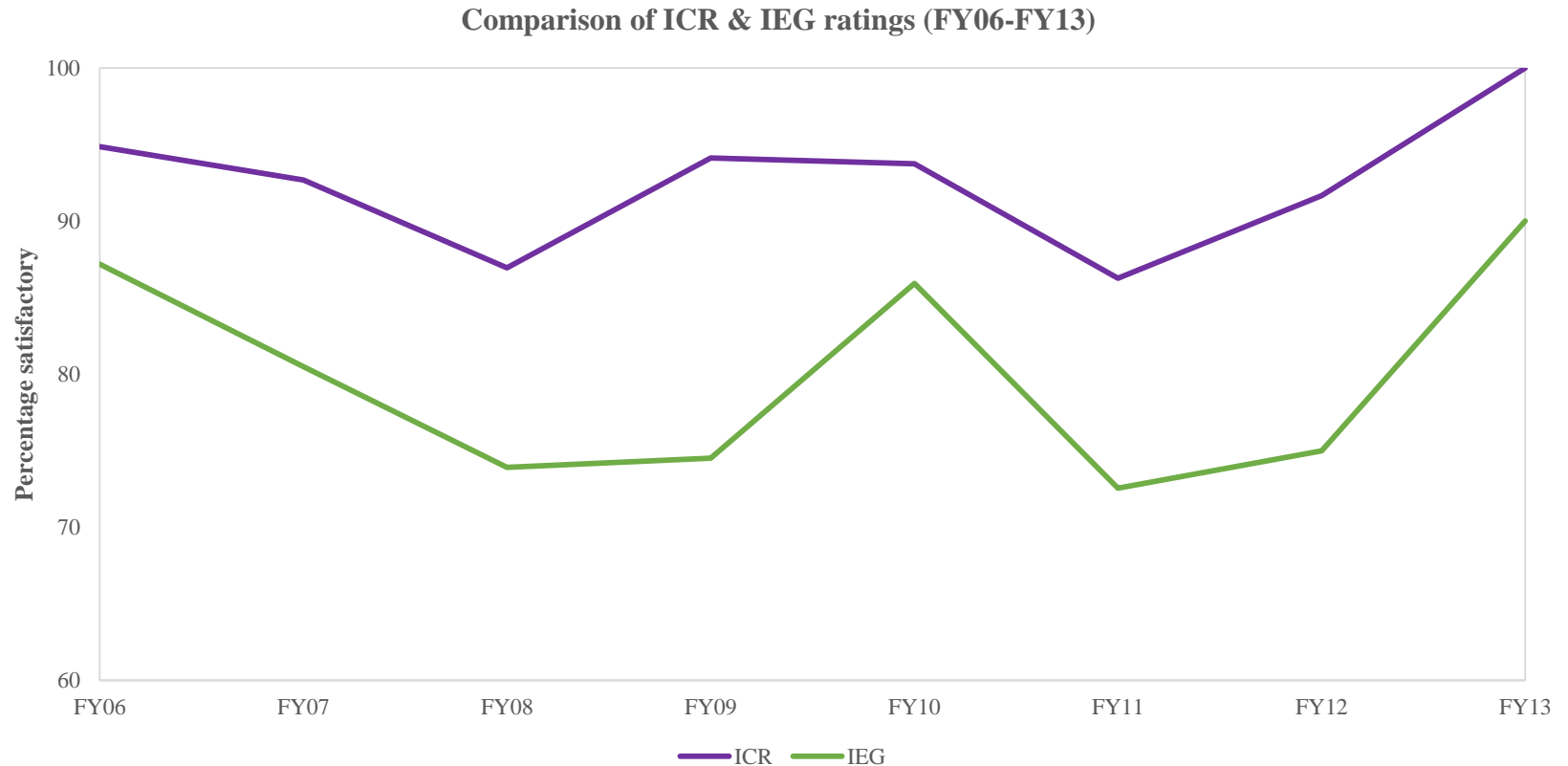
IEG outcome % satisfactory - DPF & IPF
(FY06-FY13)



IEG outcome % satisfactory - DPF & IPF
3 year moving average (FY06-FY13)

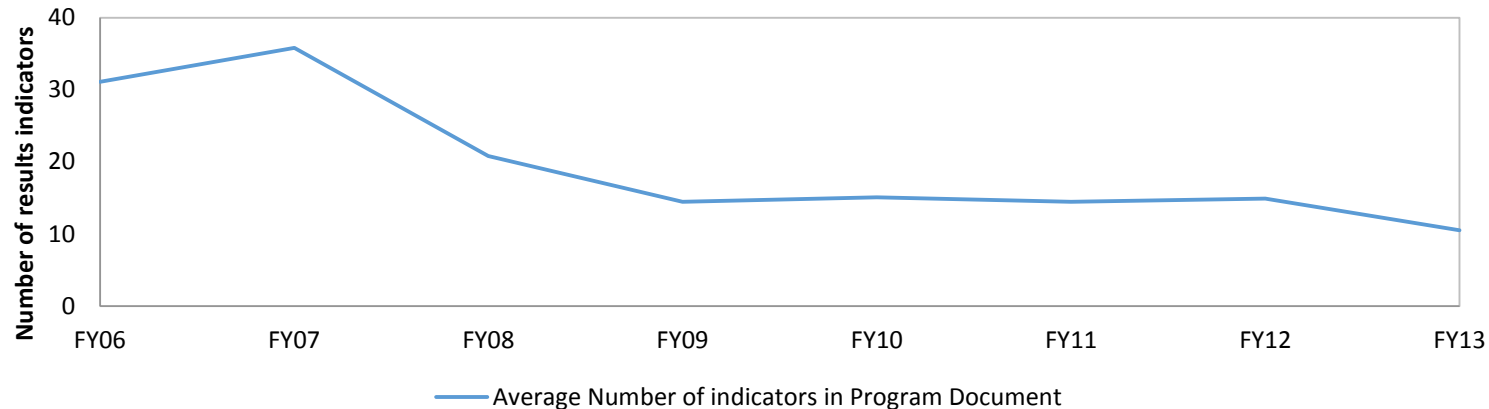


ICR and IEG ratings follow the same trend

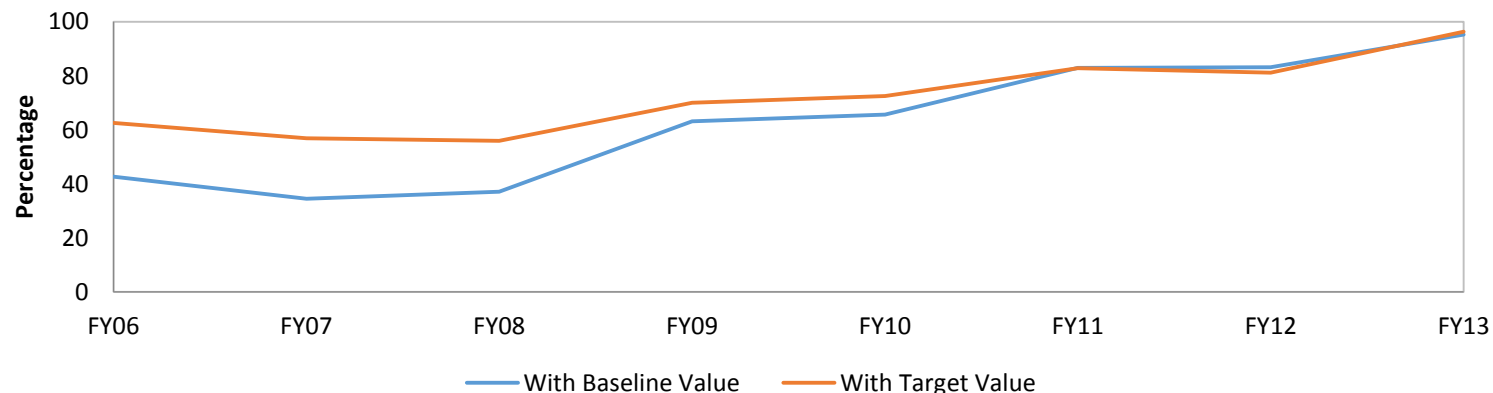


Quality of results frameworks: more selectivity in indicators, more indicators with baselines and targets

Average number of results indicators in Program Document (FY06-FY13)

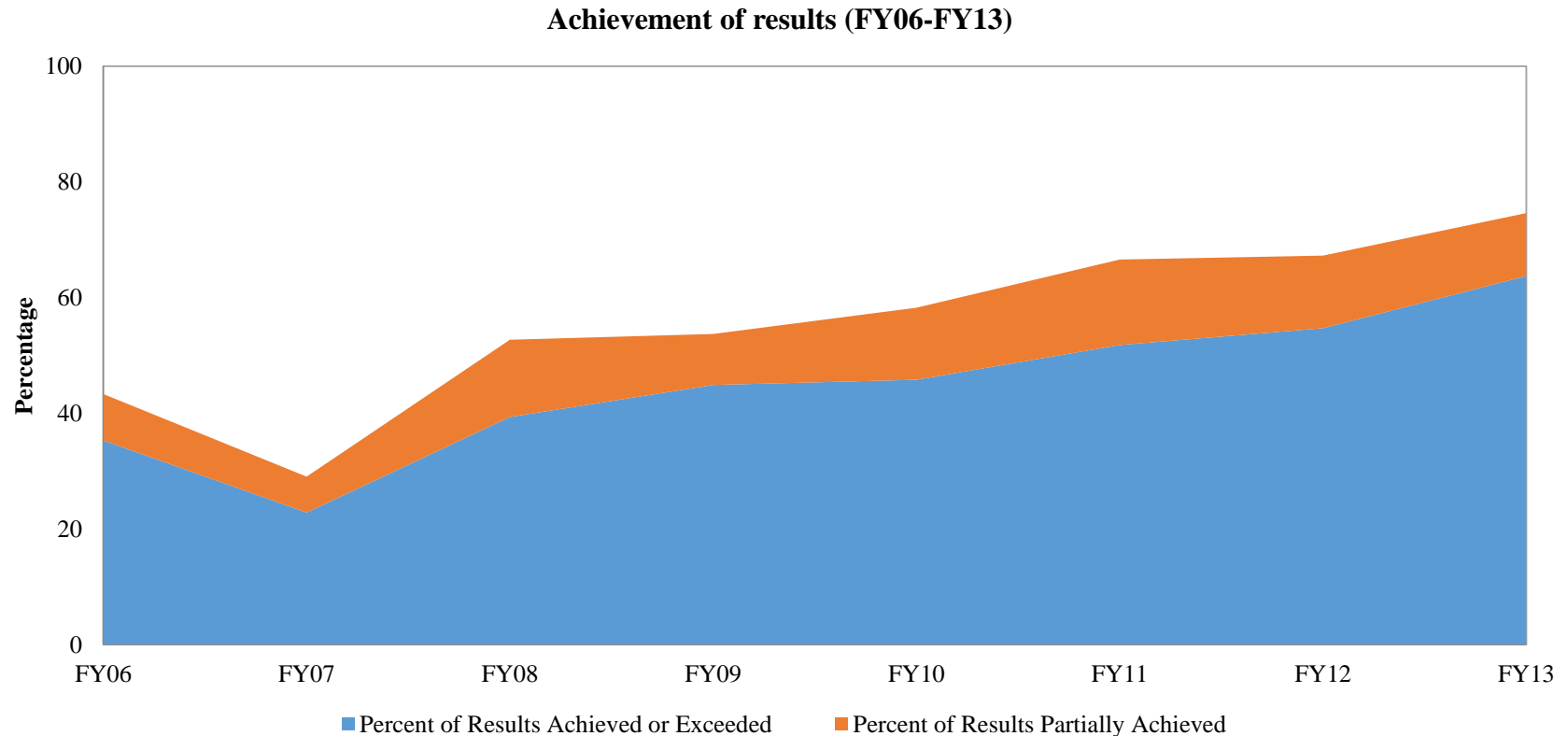


Percent of indicators with baseline and target values (FY06-FY13)



Note: Includes 228 operations approved between FY06 and FY13 with an Implementation and Completion Report

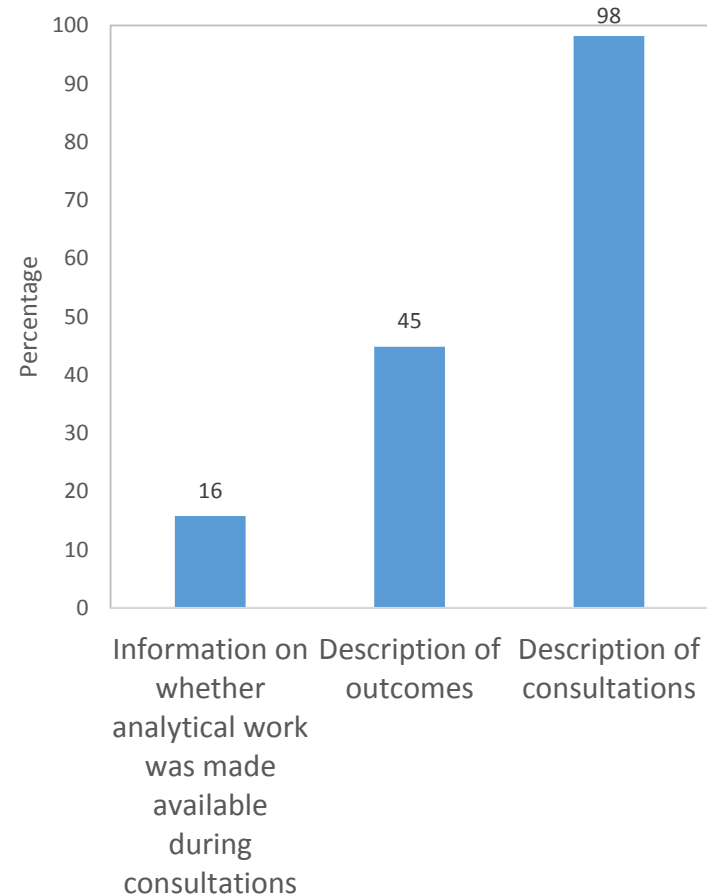
Achievement of program targets has risen, but still room for improvement



While virtually all DPOs describe consultation and participatory processes, less than half discuss outcomes of these

OP 8.60 Policy Requirements

- In carrying out dialogue with a Member Country, the Bank advises it **to consult with and engage the participation of key stakeholders in the country** in the process of formulating its development strategies.
- The Bank's program document **describes the Member Country's arrangements for consultations and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the Member Country's development strategy.**
- Relevant analytic work conducted by the Bank, particularly on poverty and social impacts and on environmental aspects, is **made available** to the public.



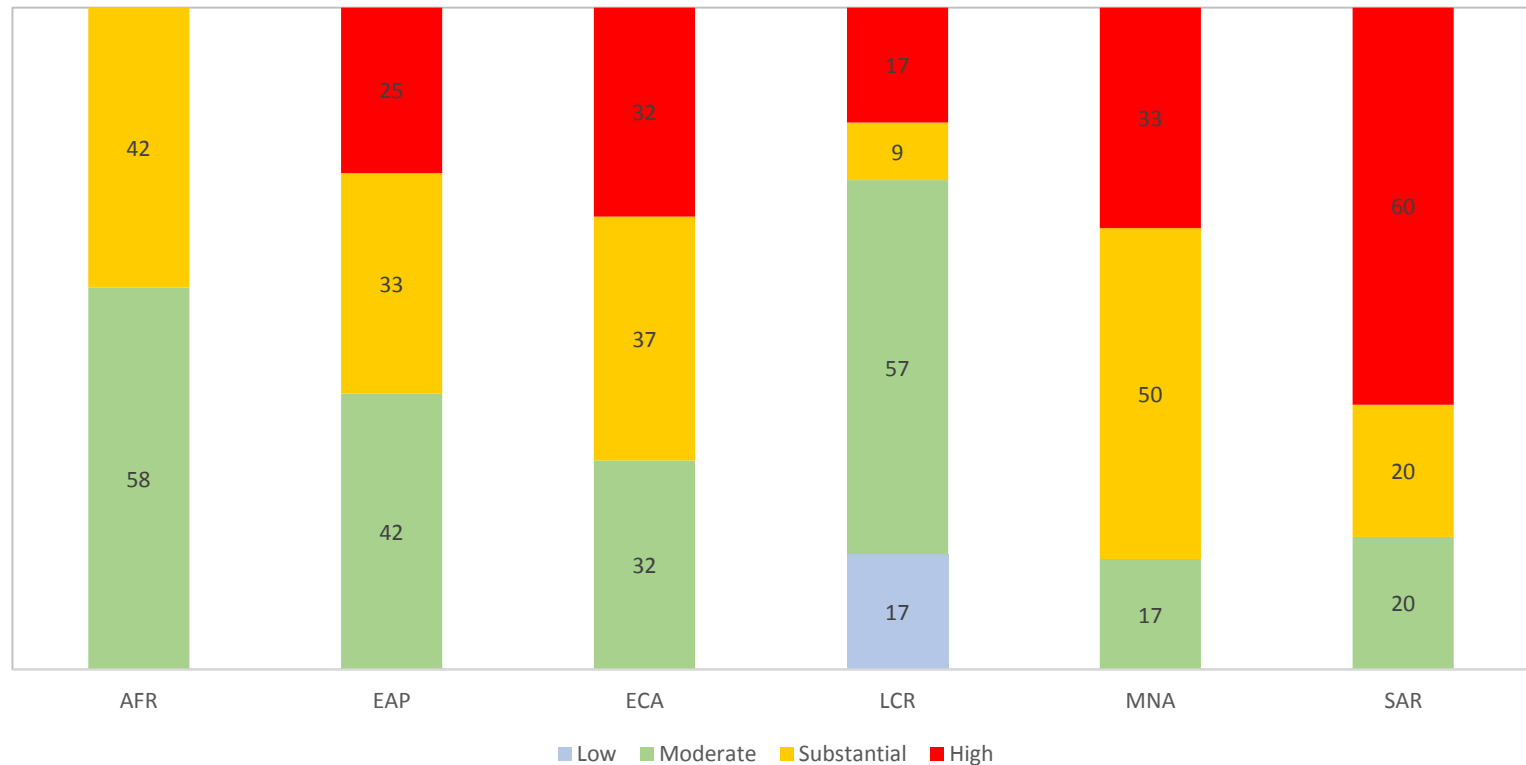
Risk assessment in DPF becoming more systematic

- 2012 Retrospective recommended that DPOs should more thoroughly and consistently assess risks. Starting in FY2014, the DPO template was revised to ensure that DPOs provide an overall risk rating
- Systematic Operations Risk-rating Tool (SORT) was launched on October 1, 2014 – new tool still being rolled out
- SORT applies to all World Bank instruments and assesses risks associated with the operation, including risk to achieving the development objective and risk of unintended negative impacts. It assesses the current residual risk during all phases of the program cycle

Risk Categories	Risk Rating (H, S, M or L)
1. Political and governance	
2. Macroeconomic	
3. Sector strategies and policies	
4. Technical design of project or program	
5. Institutional capacity for implementation and sustainability	
6. Fiduciary	
7. Environment and social	
8. Stakeholders	
9. Other	
OVERALL	

Rating of overall risk in DPOs

Percentage



No high risk DPOs in AFR – are we avoiding high risk reforms, or do ratings need to be better calibrated?

Note: Includes 91 DPOs for which overall risk ratings are available (most of which pre-date introduction of SORT).

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Analysis of poverty and social effects

OP 8.60 Policy Requirements

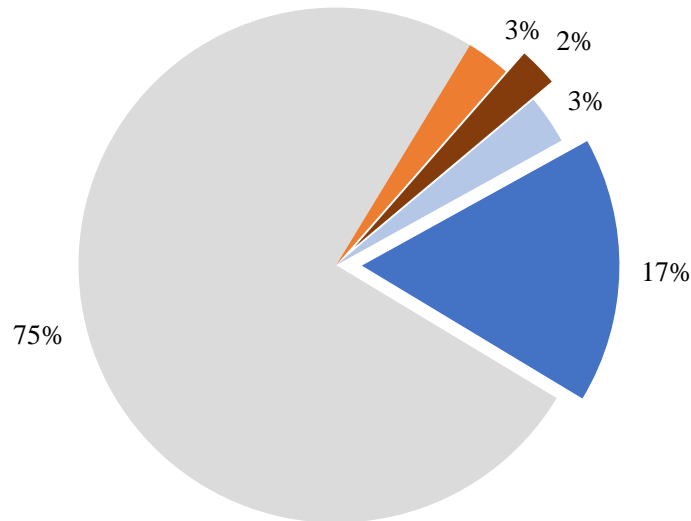
- The Bank assesses possible distributional and social consequences of policies supported by operation
- In case of significant poverty and/or social effects, the Bank summarizes in the program document analysis of these effects and overview of country systems to reduce negative and enhance positive effects
- In case of gaps in analysis or country systems, the Bank describes in the program document how gaps and shortcoming would be addressed during or before program implementation

Supporting Arrangements

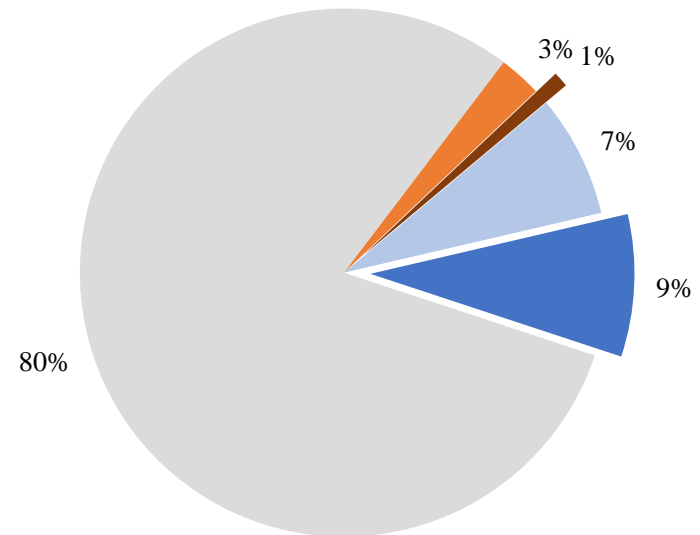
- Mandatory BP 8.60 and mandatory processing instructions – including corporate review at concept and decision stages
- DPF Guidance Note on Using Poverty and Social Impact Analysis to Support Development Policy Operations (updated June 2013)
- PSIA Multi-Donor Trust Fund, which supports PSIA work throughout the Bank
- Dedicated PSIA website which provides wide range of resources to staff

4% of prior actions have likely negative social effects in the short run

2012 DPF Retrospective - Short Term Impacts



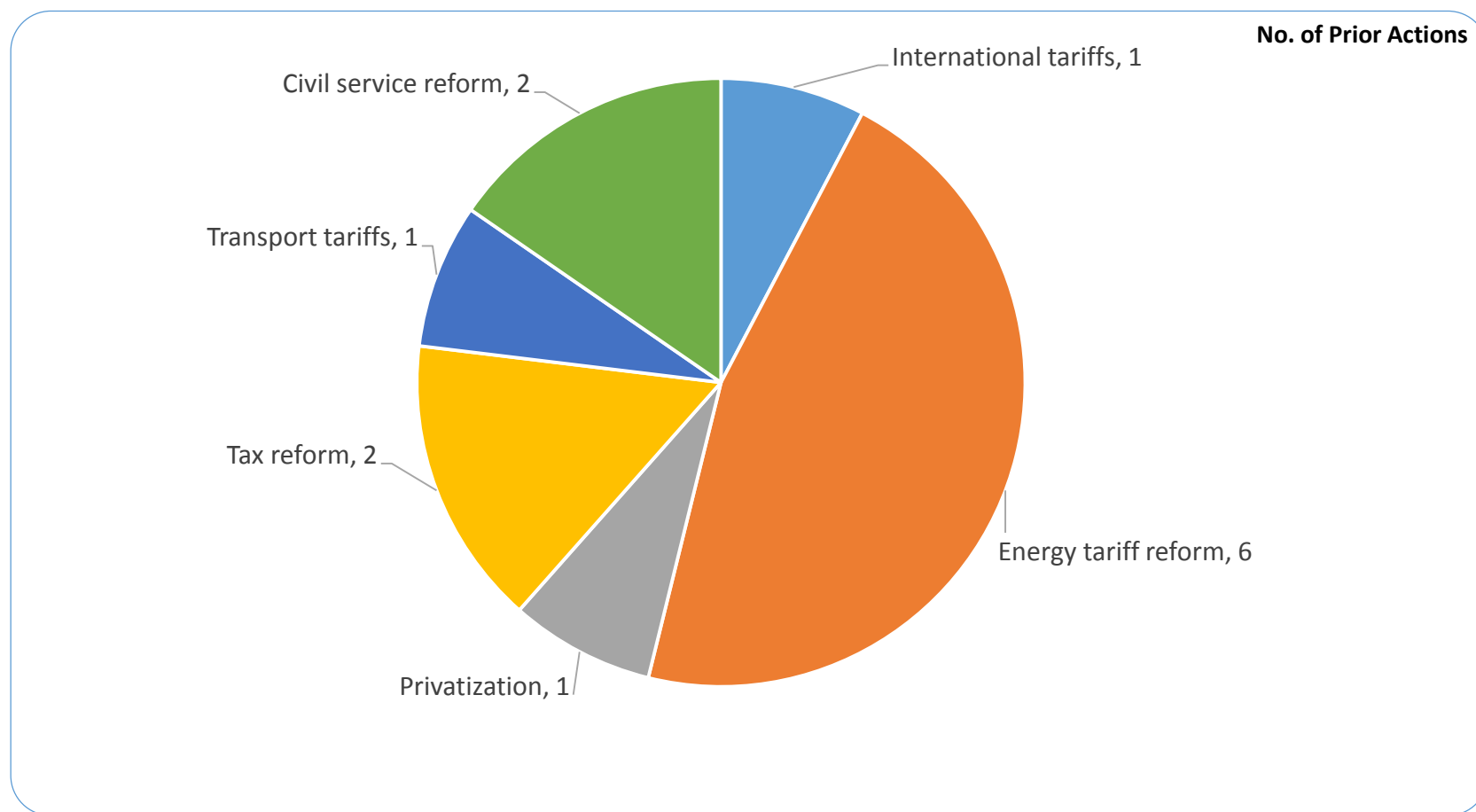
2015 DPF Retrospective - Short Term Impacts



■ Likely positive with PSIA ■ Likely positive without PSIA ■ Neutral ■ Likely negative with PSIA ■ Likely negative without PSIA

Still gaps in use of PSIA in some operations

Prior actions with likely negative social effects but no PSIA are concentrated in the area of energy tariff reform



Examples of DPOs with positive poverty and social effects

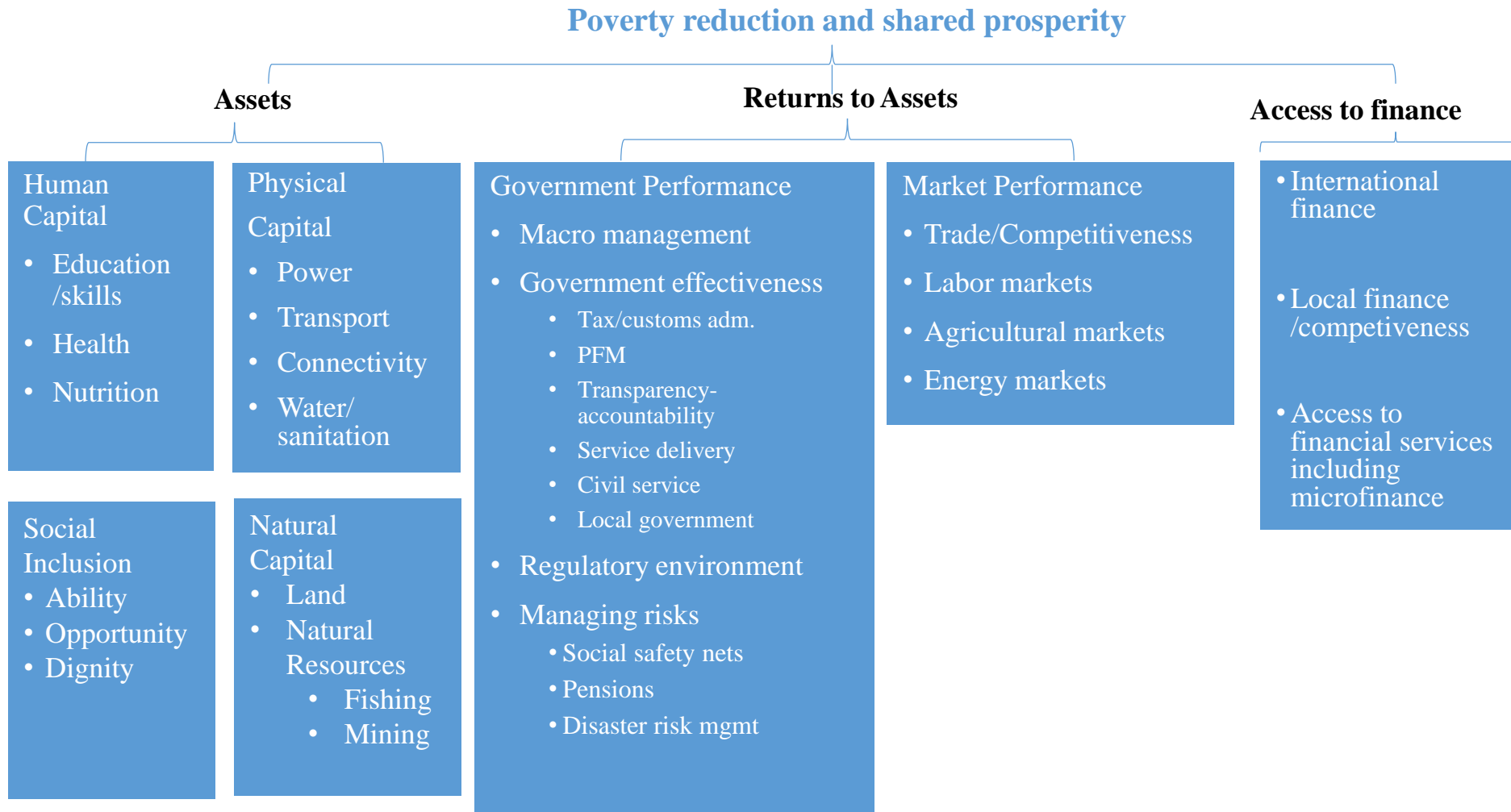
- Since 2005, 263 operations had at least one prior action on social protection, labor and social development
- Of a total of 610 prior actions on these issues, 43% were related to social safety nets, 10% to improvement of labor markets and 7% to civic engagement

Examples of prior actions	Examples of associated results
The Borrower, through its Council of Ministers, has adopted and submitted to Parliament draft amendments to the Law on Family Benefits to improve targeting of the child-birth allowance	The last-resort minimum income benefit for a typical poor family (depending on the age of children) is improved in 2013 compared to 2010
The Government strengthened the cash transfer program to be used in the event of a crisis, through: (i) improved targeting of poor and vulnerable households; and (ii) better dissemination of the program among key stakeholders	Improved performance in social assistance programs in terms of: a) better targeting; b) less time to disburse once a crisis occurs; and c) improved public awareness, as demonstrated through public dissemination of the new cash transfer program.
The Government has created the Public Employment Service (PES) within its Ministry of Labor, including an upgraded unified national registry for unemployment and a system to match workers and vacancies	Number of job placements achieved through the new system, which is expected to reach 342,000 in 2016 (from a baseline of 166,000 in 2013)

In the medium to long run, all prior actions supported by DPF are intended to contribute to poverty reduction and shared prosperity

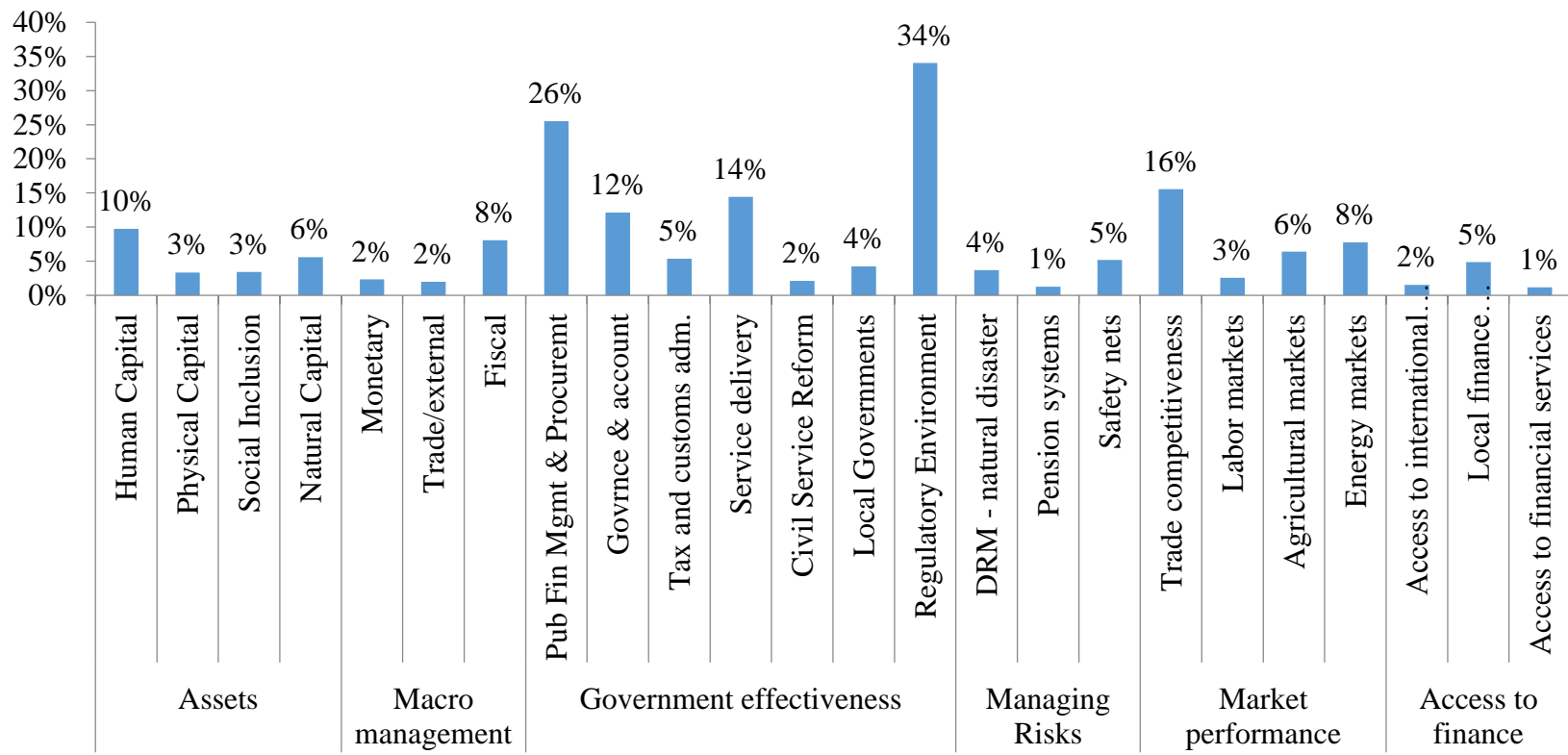
- Prior actions are classified by their intended impact on increased investment for growth with high levels of participation by the bottom 40 percent
- Three main transmission channels:
 - Assets: human, social, natural and physical capital
 - Return to assets: government and market performance
 - Access to finance: international and domestic finance, access to financial services
- Even prior actions with potential negative effects in the short run are intended to have positive long run effects
- Prior actions can have this effect through more than one transmission channel

Conceptual framework: transmission channels



Regulatory environment and PFM are the most common transmission channels

Distribution of Prior Actions according to expected transmission channels
(share of total prior actions)



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Analysis of environment, forests and natural resource aspects

OP 8.60 Policy Requirements

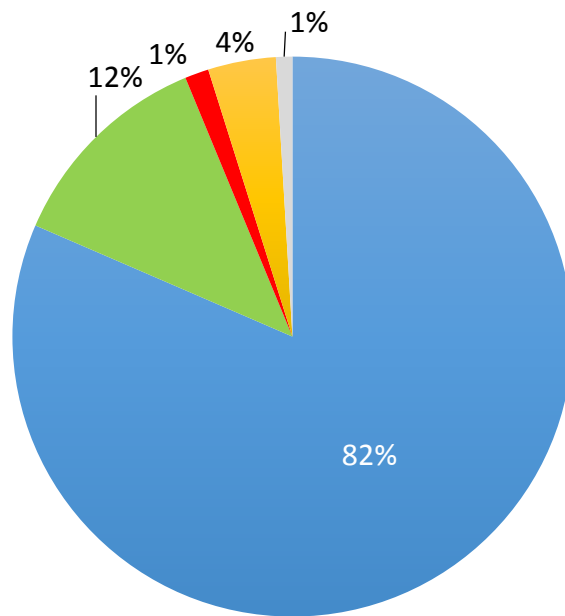
- The Bank determines whether the **specific policies supported by a DPO are likely to have a significant effect** on the environment, forests, or natural resources
- In case of significant effect, the **program document assesses the country's system for reducing adverse effects** and enhancing positive effects drawing on environmental analysis
- If there are significant gaps in the analysis or shortcomings in these systems, **the Bank describes how such gaps or shortcomings would be addressed** before or during program implementation

Supporting Arrangements

- **Mandatory BP 8.60 and mandatory processing instructions** – including corporate review at concept and decision stages
- **DPF Guidance Note** on Environmental and Natural Resource Aspects of DPF (2004)
- **Toolkit** on Assessing the Environmental, Forest and Other Natural Resource Aspects of Development Policy Lending (2008)

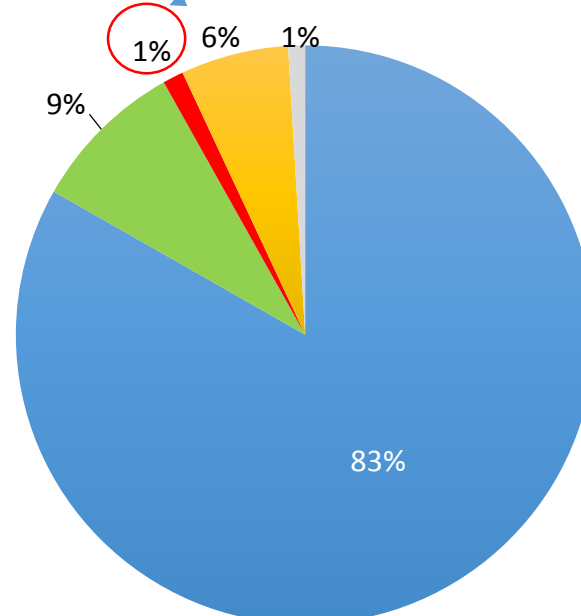
Few prior actions are likely to have significant negative environmental effects

Assessment by task teams



- No significant effect likely
- Significant negative effect likely
- Significant positive and negative effect likely

Assessment by expert team



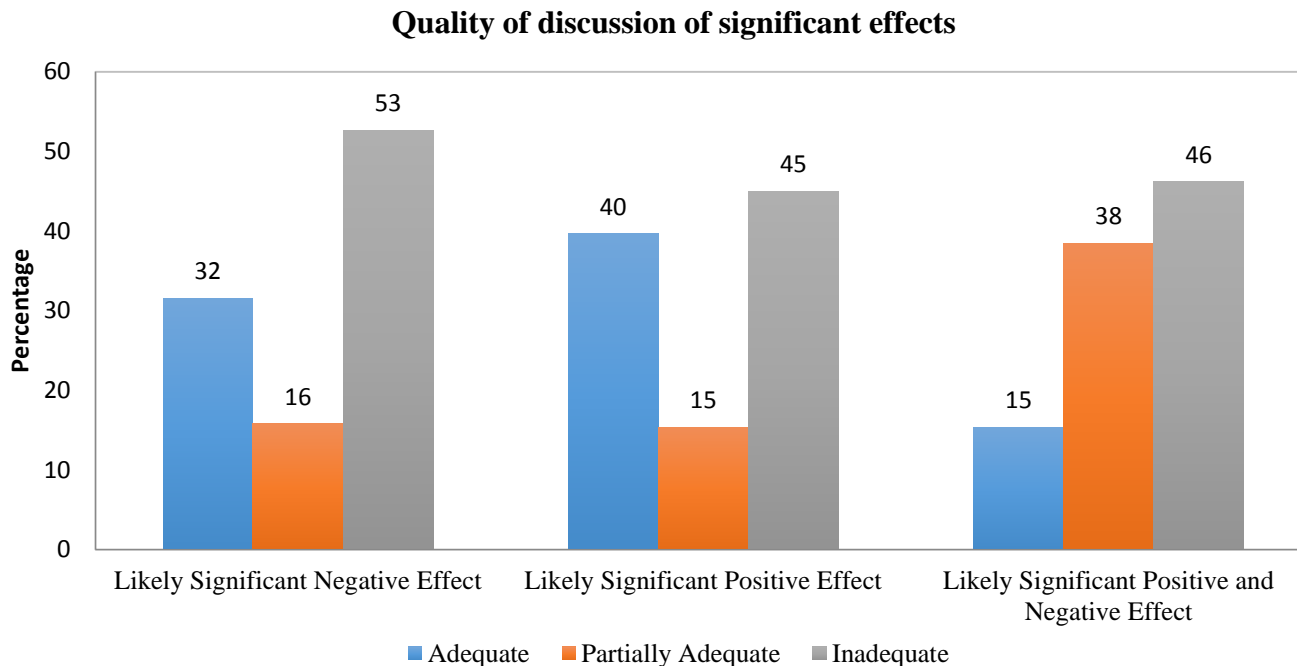
16 prior actions related to agriculture (7), oil and gas (3), trade and competitiveness (3) and infrastructure (3)

Can't say includes prior actions for which the PD has insufficient information to confirm task team's assessment (i) that a significant effect is likely; or (ii) that no significant effect is likely.

What are examples of prior actions with likely significant negative effects?

- **Agriculture:** policies supporting input support programs (including fertilizer), export development, aquaculture development and irrigation
- **Oil and gas:** clearing arrears with natural gas developers, improving policy framework governing petroleum concessions, approval of natural gas policy
- **Trade and competitiveness:** regulations on special economic zones, PPP laws
- **Infrastructure:** design of labor-intensive public work programs

However, even when significant effects are identified, they are not always adequately assessed



Guidance Note on environmental effects has not been updated since 2004. Both GN and toolkit need to be thoroughly revised.

DPOs with positive environmental effects

- Since 2005, 142 DPOs had at least one prior action on environment and natural resources
- Prior actions were in a variety of areas, primarily related to policies and institutional capacity (34%), followed by energy (22%), agriculture (19%) and water (17%)

Examples of prior actions	Examples of associated results
The Council of Government has approved the draft Law on the Integrated Coastal Zone Management	# of regional coastal zone management plans approved
Cabinet Council has approved the Borrower's draft budget law for 2013, which, <i>inter alia</i> , (i) introduces an eco-tax on plastic packaging, and (ii) amends the arrangements applicable to the National Fund for Environment (FNE) to have such Fund receiving the revenues of the eco-tax	Annual amount of eco-taxes collected and allocated to FNE Number of recycling projects supported through Eco-tax revenues
Cabinet has approved the amendment to Industrial Policy that promotes sound environmental management including (i) promotion of cleaner production and environmental management systems; (ii) disincentives to industries on negative list; and (iii) promote public disclosure of pollution status at the unit and cluster level	More than 10 percent reduction in growth rate of establishment of polluting industries on negative list

DPOs in the area of climate change

- Since 2005, 21 operations with at least one prior action related to climate change
- Prior actions relate to setting up regulations and adopting strategies (58%), sustainable practices in energy (especially energy efficiency and renewable energy), transport and water management (33%) and agriculture, including conservation (8%)

Examples of prior actions	Examples of associated results
The Recipient, through its Ministry of Industry and Trade, has issued Circular guiding the implementation of energy efficiency measures in its industrial manufacturing including the chemical sector.	Practices to improve energy efficiency are implemented in large energy users of the industrial sector with related operating capacity increased
A national climate change adaptation strategy has been approved by the Recipient's Council of Ministers	Number of sectors included in the National Climate Change Adaptation and Mitigation Strategy reporting through the national climate change M&E framework

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Some early and tentative findings: overall

- **DPOs are continuing to perform well:** independent evaluations show performance meets corporate scorecard targets; targeted results are being achieved, although room for further improvement
- **DPO results frameworks and M&E continues to improve:** quantifiable results indicators with baselines and targets are now the standard
- **DPF as a share of total Bank financing is not increasing:** back at pre-crisis levels (with IDA share continuing to decline)
- **Conditionality remains selective:** average number of prior actions is 8 per operation
- **DPOs support reforms in a diverse set of themes and sectors:** however, governance still dominates and environmental prior actions remain relatively few
- **Need to complete roll out of SORT** and clarify that it is mandatory and publicly disclosed in accordance with the Bank's Access to Information Policy

Some early and tentative conclusions: poverty/social impacts

- **All DPF prior actions intended to contribute to poverty reduction and shared prosperity in the medium term:** program development objectives seek alignment with the “twin goals”
- **Operational policy includes clear requirements on poverty/social impact analysis:** necessary to ensure that potential short term negative effects are properly assessed including mitigation measures where possible
- **Poverty/social impact analysis is done in the majority of relevant cases** but continued focus is necessary to ensure that potential negative effects are identified and where possible mitigated
- **The internal review process needs to be further strengthened** to ensure better screening of prior actions ex ante

Some early and tentative conclusions: environmental impacts

- **Operational policy includes requirements on analysis of environmental effects:** to ensure that potential adverse environmental effects are properly assessed including mitigation measures where possible
- **Environmentally sensitive prior actions are relatively few.** However, further improvements are needed in the identification & assessment of such effects as well as of country systems to manage them
- **The internal review process needs to be further strengthened** to ensure better screening of prior actions ex ante
- **The Bank's tool kit and guidance on managing environmental issues in DPO needs a comprehensive revision**
- **Policy-based financing could play a central role in tackling climate change**

Issues for Discussion

- 1 To what extent have DPOs contributed to country results and what can be done to further enhance their results focus?
- 2 What, in your view, can be done to further strengthen the Bank's risk management in the context of DPOs?
- 3 Does the Bank pay adequate attention to the environmental and social aspects of the reforms supported by DPOs in countries?
- 4 How have recent Bank reforms contributed to the effectiveness of DPOs?
- 5 Any other suggestions to make use of DPOs more effective?

Consultations – next steps

- A dedicated website has been created to keep stakeholders informed about the process and to solicit and receive feedback as the preparation of the Retrospective advances.
- A notification period took place starting December 2014, where the Concept Note was publicly posted and stakeholders were invited to provide their comments.
- Between May-June 2015, there will be country consultations in both field offices and through video-conference sessions, where stakeholders will be invited to provide their input on the preliminary findings of the Retrospective.
- A summary of the feedback received on the preliminary findings will be made public. This feedback will inform the Retrospective.

Your inputs and views



Please visit the World Bank's consultations website

consultations.worldbank.org/consultation/dpfconsultations

or email

dpfconsultations@worldbank.org

to share your views, stay updated, and get more information.

Thank you for participating