

How Does Knowledge on Public Expenditures Integrate with the Design of Development Policy Operations?

IEG Learning product

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Evaluation Managers

❖ Caroline Heider	Director-General, Evaluation
❖ Nick York	Acting Director, Independent Evaluation Group, Public Sector
❖ Mark Sundberg	Manager, Independent Evaluation Group, Public Sector
❖ Zeljko Bogetic	Task Manager

Abbreviations

AFR	Africa
CEMs	Country Economic Memoranda
CPIA	Country Policy and Institutional Assessment
DPL	Development Policy Loan
DPOs	Development Policy Operations
ECA	Europe and Central Asia
ESW	Economic and Sector Work
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
IDA	International Development Agency
IDPL	Infrastructure Development Policy Loan
IEG	Independent Evaluation Group
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
OPCS	Operations Policy and Country Services
PEFA	Public Expenditure and Financial Assessment
PEMSP	Public Expenditure Management Strengthening Programme
PER	Public Expenditure Review
PFM	Public Financial Management
PPAR	Project Performance Assessment Report
PPP	Public Private Partnerships
PRSC	Poverty Reduction Support Credit
RETFs	Recipient Executed Trust Funds
SAR	South Asia Region
SPF	State and Peace Building Fund

Acknowledgments

This IEG Learning Product was prepared by under the general direction and guidance of Mark Sundberg, Manager, Independent Evaluation Group (IEG).

This paper is part of a series of Learning Products (LP) that primarily synthesize existing evaluative material with the aim of gaining new insight into the effectiveness and design of development policies and interventions supported by the Bank from an operational perspective. In this series the focus of the LP is on factors that influence design, policy implementation, and performance of Development Policy Operations (DPOs). This particular report aims to assess the extent of integration of knowledge on public expenditures with the design of DPOs using a combination of portfolio review, case studies, and descriptive statistical analysis to derive insights, lessons, and good practices that could inform the future design of DPOs.

The database, analysis, and draft report were prepared by an IEG team consisting of Zeljko Bogetic (team leader), Javier Bronfman, Malathi Jayawickrama, Marko Klasnja, Aghassi Mkrtchyan, Moritz Piatti, Marcelo Selowsky, and Jesse Torrence. The team leader would like to express appreciation to Mark Sundberg for substantive guidance and advice in all stages of this study. Peer reviewer comments from Ismail Arslan, Pedro L. Rodriguez, Shahrokh Fardoust, as well as comments and discussions with Linda van Gelder, Ed Mount field, Manuela Francisco, Peter Moll, and Jasmin Choker are gratefully acknowledged.

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Overview

Integration of knowledge with lending is an enduring theme in World Bank strategies at the corporate and country levels. The Bank lending instruments could be more relevant and produce better results if they incorporate key analytical, country-level knowledge. The goal of this learning product is to contribute modestly to the understanding of how this knowledge-lending integration works in practice and raise questions for further research.¹

It examines the extent to which an important type of Bank knowledge – on public expenditures – informs the design of Development Policy Operations (DPOs). It is hoped that this preliminary analysis can provide the IEG and the Bank with useful lessons as it evolves toward an integrated “solutions Bank” and the twin goals. The analysis is not just retrospective. It also seeks to inform the ongoing and future efforts toward integrating knowledge and lending, Systemic Country Diagnostics (SCD), and the design of DPOs. It also aims to inform the OPCS 2015 DPO Retrospective.

Public expenditure knowledge for the purpose of this learning product, is identified as the body of Bank knowledge products specifically referred to in their titles as Public Expenditure Review, whether they are multi-sector or sector public expenditure reviews, but they also include other economic and sector work (ESW) which directly or mostly deal with public expenditure issues. This broad definition should capture much of the public expenditure-related analytical work at the Bank. Arguably, efficiency and allocation issues important in the design of DPOs and reforms they support can only be addressed by such integrative, not partial or silo-type knowledge of specific subsector expenditures.

¹ This paper is part of a series of Learning Products (LP) that primarily synthesize existing evaluative material with the aim of gaining new insight into the effectiveness and design of development policies and interventions supported by the Bank from an operational perspective. In this series the focus of the LP is on factors that influence design, policy implementation, and performance of Development Policy Operations (DPOs). This particular report aims to assess the extent of integration of knowledge on public expenditures with the design of DPOs using a combination of portfolio review, case studies, and descriptive statistical analysis) to derive insights, lessons, and good practices that could inform the future design of DPOs

OVERVIEW

Six broad messages emerge from this review.

First, the Bank has been producing a considerable volume of knowledge on public expenditure, which increased in recent years, and that knowledge was available to inform the majority of DPOs in the majority of countries with DPO operations. The analysis of the 390 DPOs and 404 public expenditure knowledge products (PERs, broadly defined), which were the subject of this review, suggests that there appears to be a solid degree of timeliness, availability, and thematic overlap as well as integration between PER knowledge and DPOs. There is also evidence of continuity of policy dialogue from PERs to DPOs in many cases. This is a reassuring conclusion. It implies that the country-based Bank model which integrates knowledge and lending is working well, in the case of PER knowledge and DPOs. There are good practices worth highlighting as well as weaknesses that offer opportunity for reflection and lessons for the future.

Second, public expenditure knowledge informs DPOs largely in the areas of public sector governance, followed by social development, and human development. Macroeconomic and tax policies, in particular, tend to show comparatively smaller overlaps, but this may be because some of the macroeconomic policy agenda is taken up more directly in the macro-fiscal framework as elaborated in the accompanying report. There is a tentative question whether tax policy is an area in which the World Bank has “left the field,” perhaps to the national authorities and the International Monetary Fund (IMF), and whether that should be revisited.

Third, deeper dives into case studies of recent DPOs show some good practices. These good practice examples of integration of PER knowledge and DPOs tend to show a continuity of policy dialogue, from PER to DPO, with DPO design directly and explicitly using PER policy recommendations in its prior actions. Such DPOs also tend to have stronger elements of DPO design such as macro-fiscal framework, as shown in the accompanying paper on macro-fiscal frameworks. And they often have better IEG ratings.

Fourth, more broadly, good practice DPOs in terms of the integration of PER and DPO knowledge tend to be situated in an environment of long-term Bank engagement and continuous, high-quality policy dialogue (knowledge and lending) based on a relationship of trust. Sound PERs with candid recommendations hitting clearly on important issues stand a better chance of informing DPO and policy reform. Medium-Term Expenditure Frameworks (MTEF), budgeting, Public Financial Management (PFM) issues tend to be some of the common areas in which PERs substantially informed the DPOs, but the policy areas cover the entire spectrum of governance and other thematic areas.

Fifth, examples of missed opportunities in integrating PER knowledge with DPOs tend to reflect breaks in institutional memory on the Bank and the government, as well as breaks in the policy dialogue which can come about for many reasons (passage of time between the PER and the DPO, changes in staff on the Bank and the client side, changes in government and political priorities, etc.). One lesson here is that the Bank should pay greater attention to DPO-led reengagements with countries and new DPOs after a longer period of no core diagnostics on public expenditures or prior dialogue and DPOs, and ensure that all relevant Bank knowledge fully informs those DPOs.

Sixth, there may be a potential knowledge gap and an opportunity for the Bank to intensify knowledge engagement on public expenditures at subnational levels, both as part of the knowledge and policy dialogue and as a contribution to future DPO development.

Finally, in follow up to this learning product, which is focused on the limited questions around the integration of knowledge and DPOs, there is a need for a systematic analysis of the quality of the Bank's AAA knowledge products. An evaluation of the public expenditure reviews, in particular, would potentially shed further light on how the Bank can continue improving the quality, relevance, and integration of its knowledge products.

1. Introduction

1.1 Integration of knowledge with lending is an enduring theme in World Bank strategies at the corporate and country levels. It rests on the widely shared proposition that Bank lending instruments could be more relevant and produce better results if they incorporate key analytical, country level knowledge. To be successful, development interventions must be informed by evidence, and evidence comes from knowledge. This is the idea behind Bank as a “solutions bank,” integrating financial instruments and knowledge products into “development solutions” that deliver results. A recent Independent Evaluation Group (IEG) evaluation suggests that the Bank’s broad economic and sector work and technical assistance strongly informs Bank lending strategies (IEG 2008).

1.2 The goal of this learning product is to help inform the understanding of how this integration works in practice and to raise questions for further research. Specifically, it seeks to examine the extent to which one, albeit important type of Bank knowledge--on public expenditures--informs the design of DPOs, a key lending instrument. This question is relevant primarily for the quality of design of DPOs and their performance. But it also has broader implications for how well the Bank combines knowledge and lending to influence policy, poverty, and distributional outcomes. Finally, it should be noted that this learning product does not evaluate the quality of the Bank’s knowledge on public expenditure per se; it is concerned, instead, with the integration of that knowledge into the design of DPOs.²

1.3 This is not the first IEG learning product focused specifically on the role of the Bank knowledge in development lending.³ It is also limited in scope in that it takes a fresh look at the interactions between one class of the Bank’s core diagnostic reports –

² Only in the limited number of in-depth case studies, the team has looked at aspects of relevant PER quality.

³ Martin Ravallion has pointed out in recent paper (“Knowledgeable Bankers? The Demand for Research in World Bank Operations,” Policy Research Working Paper 5892, World Bank, December 2011 <https://openknowledge.worldbank.org/bitstream/handle/10986/3674/WPS5892.pdf?sequence=1>) that the knowledge of operational staff within donor agencies is likely to be important for the quality of development aid. He provides evidence that the stock of prior analytic work by the Bank on a recipient country is a strong predictor of the subsequent quality of its lending operations to that country (Deininger, Squire and Basu, 1998; Wane, 2004) and that the quality of prior analytic work matters to the quality of its projects (Fardoust and Flanagan, 2011). Other related studies analyze aspects of Bank core diagnostic knowledge. For example, Deolalikar (2008) reviews 60 PERs in 2000-07 and identifies common problems and solutions for greater impact and improved effectiveness and equity of public expenditure. An IEG Project Performance Assessment Report (2010) analyzes growth diagnostics in four African countries. A 2008 IEG evaluation of economic and sector work and technical assistance (“knowledge”) in the 2000-06 period finds that the Bank’s knowledge informs the Bank’s lending strategies and the clients even more than through the direct impact of knowledge on the clients. This suggests important synergies in Bank services between knowledge and lending.

1.INTRODUCTION

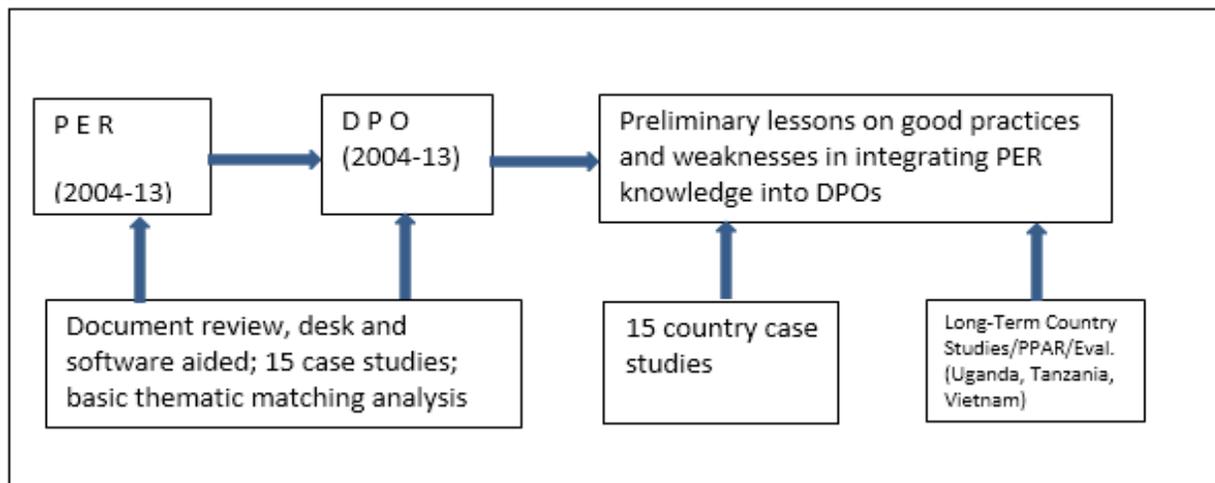
the public expenditure review (PER), broadly defined – and a key lending instrument, and it is mainly focused on understanding the scope and sectoral and thematic nature of their integration. It is hoped that even preliminary answers to these questions can provide IEG and the Bank with useful lessons as the Bank evolves toward an integrated “solutions bank.”

1.4 PERs, for the purpose of this learning product, are identified as Bank knowledge products with a specific reference in their titles as Public Expenditure Review, whether they are multi-sector or single sector public expenditure reviews. They also include other analytical documents which deal with public expenditure issues, be they public finance reviews, studies of specific expenditure and debt issues, and even Country Economic Memoranda (CEMs) with a special focus on public expenditures. This broad definition should capture much (though not all) of the public expenditure-related analytical work at the Bank. Arguably, efficiency and allocation issues important in the design of DPOs and the reforms they support can only be addressed by such integrative, not partial or silo-type knowledge of specific subsector expenditures (e.g., tertiary education expenditure review).

2. The approach

2.1 The preliminary analysis in this paper combines several approaches (Box2.1).

Box 2.1. A Systematic Representation of the Focus (top row) and Analytical Approaches



Source: IEG.

2.2 The IEG team analyzed all DPO that were closed in the FY2004-13; a total of 390 DPO's were analyzed. Also, it analyzed all Public Expenditure Reviews and closely related country diagnostics as per the Governance global practice database of public expenditure reviews (the total of 404 public expenditure knowledge products) during the period 2000-13. For the purpose of this analysis, it is assumed that PER knowledge products may inform a DPO if it precedes the DPO effectiveness by no more than four years.

2.3 The structure of the paper is the following: first, it provides elements of a portfolio review of Development Policy Operations (DPOs) insofar as they relate to the knowledge on public expenditure reviews.

2.4 Second, it documents basic but important metrics of the integration of Public Expenditure Reviews (PERs) and DPOs. For example, how many PERs (*defined broadly*) precede DPOs in the same and the previous three years in various countries? This indicates the timeliness and synchronization of PER knowledge and DPOs, and identifies those PERs that are most relevant for the design of corresponding DPOs. Essentially, this metric answers some basic questions: in how many and in which DPOs

2. THE APPROACH AND MAIN MESSAGES

is there an analytical knowledge on public expenditures prepared by the Bank?⁴ What types of DPOs tend to be more informed by PERs? And do these DPOs show better integration of knowledge with their policy frameworks and greater success in implementation as measured by rating outcomes.

2.5 Third, the paper answers the question in which thematic and policy areas do PERs inform DPOs. Are there areas of particularly strong interest to DPOs? Are there policy areas that appear to be underrepresented given the policy agenda in many DPOs? Statistical tools measuring the degree of correspondence or similarity are also used to assess the thematic “proximity” of PERs and DPOs.

2.6 Fourth, for deeper insights into how this integration works in practice, the report synthesizes insights and lessons from 15 DPO desk case studies; this represents a third of the DPOs closed in FY11-13 and for which there are completed Implementation Completion Report (ICR) reviews. The case studies aim to distill some lessons from good and not so good practice that could inform better integration of PER knowledge and DPOs in the future. They include insights from the recent Project Performance Assessment Reports (PPARs) on long DPO series (Tanzania, Vietnam, and Uganda).

⁴ The paper considers only the World Bank-prepared public expenditure country focused diagnostics. It does not consider non-Bank knowledge products.

3. Knowledge on Public Expenditure and DPOs: A basic portfolio view

3.1 This section provides an overview of Development Policy Operations (DPOs), the World Bank's public expenditure knowledge work, and an assessment of how public expenditure knowledge products may have informed and contributed to DPOs.

3.2 This section is structured as follows: first it provides a review of the DPOs in the time period of 2004-2013. Second, it reviews the World Bank's portfolio of knowledge work on public expenditure in the same period.⁵ And third, the DPOs and public expenditure knowledge products are analyzed jointly to assess the extent to which DPOs may have been informed by Public Expenditure Review (PER)-type knowledge.

Trends in the volumes, numbers, IBRD/IDA, and geography of DPOs

3.3 **Data and method.** For identification purposes, the detailed Bank project theme report (2c.2.1 lines) was downloaded and customized from Business Warehouse in August 2014. Only DPOs were retained from the database. Independent Evaluation Group (IEG) Implementation Completion Report Review (ICRR) outcome ratings were merged and matched with the DPO database. Observations for DPOs without an IEG ICRR were dropped. Based on this selection process, 390 DPOs were identified for the period of 2004-2013. Next, a database of prior actions was received from Operations Policy and Country Services (OPCS) matching 387 of the 390 DPOs identified through Business Warehouse. Thematic codes were further reviewed manually by the IEG team and broken down into a few subtopics to improve the granularity of the analysis of macroeconomic management issues in DPOs. Two main limitations apply to the underlying data. First, administrative data for a given project are typically recorded at an early stage of preparation, and the record is unlikely to be changed even if there may be significant changes later on. While the thematic focus of projects is typically expected to remain robust between preparation, concept, and board approval, this may lead to some inaccuracies when the project focus was significantly changed during preparation. Second, the number of observations for recent years is significantly lower, as there is a delay in the review of the closed projects. The reader should keep this in mind,

⁵ The period of PERs data spans four years prior to that of DPOs to allow for an analysis of how many DPOs have been preceded by a PER. DPOs cover the period 2004-2013.

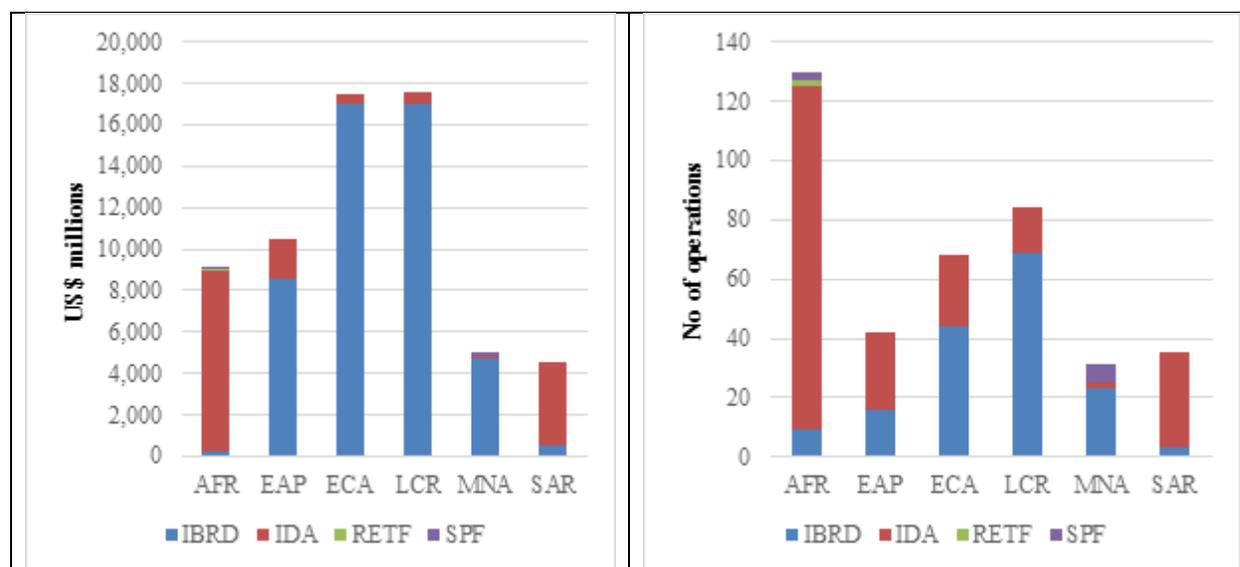
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especially for the analysis of trend data which, on average, includes fewer observations in the last three years.

3.4 Volume, numbers, and regional distribution. Two Regions, Europe and Central Asia and Latin America and the Caribbean, have received most DPO lending commitments in terms of volume (almost \$18 billion each). Most were International Bank for Reconstruction and Development (IBRD) countries. This is followed by East Asia and the Pacific which has proportionately more International Development Association (IDA) countries. Next is the Africa Region, with mostly IDA countries.⁶

3.5 In terms of number of DPOs, the Africa Region has more DPOs than any other Region, partly reflecting the large number of countries. The average size of a DPO (in terms of US\$) in the Africa Region, however, is significantly lower than that of other Regions, reflecting the comparatively smaller size of African economies and their absorptive capacity (figure 3.1).

Figure 3-1 Commitments and numbers of DPOs by lending instrument and region (closed DPOs, 2004-2013)



Source: IEG DPO database.

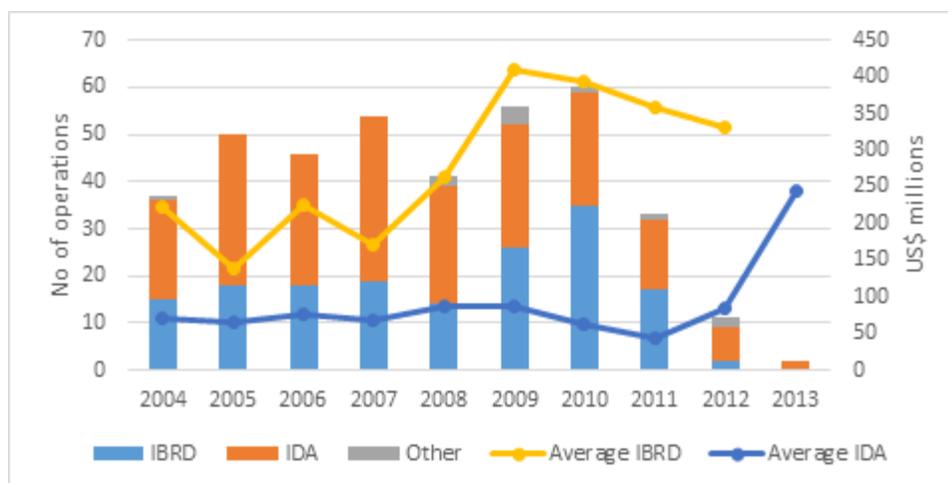
3.6 The average lending amount for IDA countries has remained largely constant over time, but increased dramatically for IBRD countries in the late 2000s. This increase was a result of the global financial crisis when DPOs were used as a countercyclical instrument in IBRD countries. The reversal of these trends in 2012 and 2013 in the

⁶ There were two recipient-executed trust funds (RETFs). One in Rwanda (2010) and one Burkina Faso (2012), and eight DPOs (e.g. West Bank and Gaza and Burundi) using the state and peace building fund (SPF). These constitute a minor part of the portfolio, both in terms of numbers and volume.

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figures may simply reflect the low number of observations (low number of operations closed and reviewed) and should be taken with caution (figure 3.2).

Figure 3-2 Trends in IBRD and IDA DPOs and average commitments (closed DPOs 2004-2013)



Source: IEG DPO database.

3.7 The top recipients of DPO financing by volume are IBRD countries. Most notably Mexico and Indonesia each received more than US\$ 6 billion, followed by Poland and Turkey, which received close to US\$ 5 billion each. The countries that received the largest number of DPOs were Pakistan (16 operations) and Colombia (14 operations) (Table 3.1).

Table 3-1 Top ten countries by commitments and number of operations (closed operations 2004-2013)

#	Top ten countries by commitment	Total commitment (US\$ millions)	Top ten countries by no of operations	No of operations
1	Mexico	6,916	Pakistan	16
2	Indonesia	6,250	Colombia	14
3	Poland	4,996	Mexico	13
4	Turkey	4,900	Morocco	13
5	Colombia	3,650	Vietnam	11
6	Pakistan	2,760	Indonesia	11
7	Vietnam	2,175	Bangladesh	10
8	Ukraine	1,701	Ghana	9
9	Morocco	1,638	Peru	9
10	Romania	1,514	Mozambique / Tanzania	8

Source IEG DPO database.

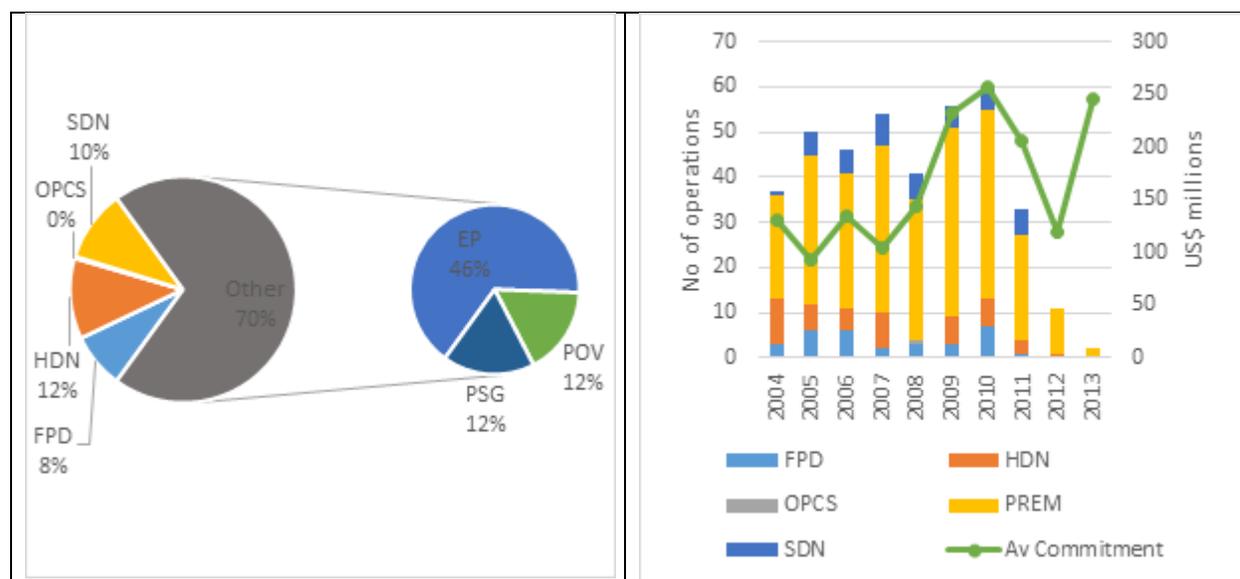
3.8 The majority of DPOs (70 percent) were managed by the Poverty Reduction and Economic Management (PREM) Network, followed by Human Development (HD) (12

3. KNOWLEDGE ON PUBLIC EXPENDITURE AND DPOs: A BASIC PORTFOLIO VIEW

percent) and the Sustainable Development Network (SDN) (10 percent). Within PREM, most DPOs were managed by economic policy. The Poverty (POV) and Public Sector (PS) practices each managed 12 percent of all DPOs.

3.9 There does not appear to be substantial variation over time regarding the networks managing DPOs. This may reflect, on the demand side, the thematic focus of reforms supported by DPOs, typically concentrated in economic policy and governance issues and, on the supply side, the Bank’s institutional tendency towards a relatively constant division of labor among networks. The notable reduction of PREM-led DPOs from 2011 onward, however, reflects the low number of closed and reviewed operations rather than a trend in the reduction of approvals (Figure 3.3).

Figure 3-3 Distribution and trend of DPOs managed by Networks and Sector Boards (closed operations 2004-2013)



Source IEG DPO database.

Trends in public expenditure knowledge products

3.10 **Methods of identifying PERs.** This review draws on a data collection effort by the Public Sector Governance Global Practice (GP) on public expenditure knowledge products. All reports between 2000 and 2014 were drawn from a PER Business Intelligence and Image Bank query, supplemented by economic and sector work (ESW) that were not specifically classified as PERs but may also be focused on other aspects of fiscal and expenditure management, such as debt sustainability and macro-fiscal issues. Examples include (but are not limited to) public finance reviews, country economic memoranda, health expenditure and finance studies, and various policy notes with substantial public expenditure content. The Public Sector Governance GP cast the net

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relatively wide so the total number of reports may appear large. Reports included are all those that have a unique identification number in Image Bank. Excluded are reports written in languages other than English, and supplementary volumes. All thematic codes of reports were reviewed, double-checked, and cleaned manually as necessary by the IEG team to allow for the interpretation of the data.

3.11 Volume, numbers, and regional distribution. Over the period of 2000-2014 there have been 404 knowledge products on public expenditures. The longer period is used compared to DPOs to account for linkages with PERs that preceded DPOs in 2004 by four years; those earlier PERs could, presumably, inform the design of DPOs three to four years later. There has been a steady upward trend in the number of PERs delivered over the years. The average number delivered between 2000 and 2009 was 22.3, which then increased to 36.2 per year delivered between 2010 and 2014.

3.12 The largest share of these knowledge products (35 percent) was produced in the Africa Region followed by Europe and Central Asia (27 percent) and East Asia and the Pacific (16 percent). South Asia and the Middle East and North Africa trail notably with five and four percent, respectively. There has been a concentration of PERs in a small number of countries with extensive Bank engagement (Table 3.2).

Table 3-2. Top ten countries with PERs, 2000-14

Country	Number of reports
Indonesia	29
Tanzania	15
Tajikistan	13
Uganda	11
Ethiopia	10
Kyrgyz Republic	9
Philippines	8
Africa, region wide	8
Russian Federation	8
Ghana	7

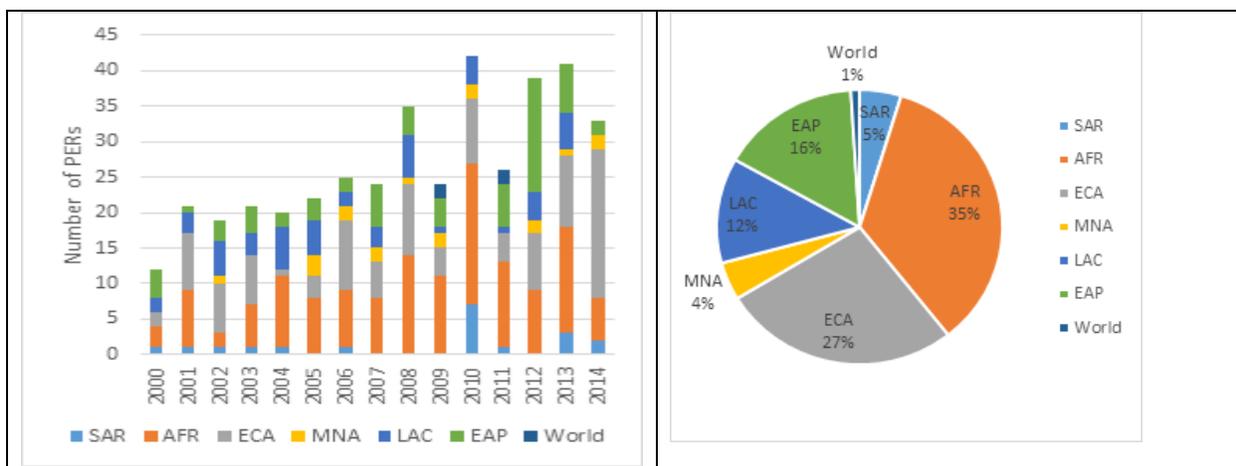
Source: IEG DPO and PER Database.

3.13 The 404 reports were conducted across 127 countries. The top ten countries with the most reports are listed in table 3.2: Indonesia scores highest with 29 reports, followed by Tanzania (15), and Tajikistan (13). The number of reports has increased significantly from the late 1990s until 2010. The majority of PERs in the Africa Region may reflect the emphasis on basic public expenditure policy trade-offs, poverty, distributional and allocation issues, as well as the need to underpin DPOs by a public expenditure analysis in an environment of limited availability and quality of data

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(figure 3.4). By contrast, in many IBRD countries, such data and analyses may be available on a more regular basis, including analyses by country authorities, perhaps obviating the need for full-fledged or frequent PERs.

Figure 3-4 Trend and regional distribution of public expenditure knowledge products (2000-2014)



Source: IEG review of Public Sector Governance PER monitor.

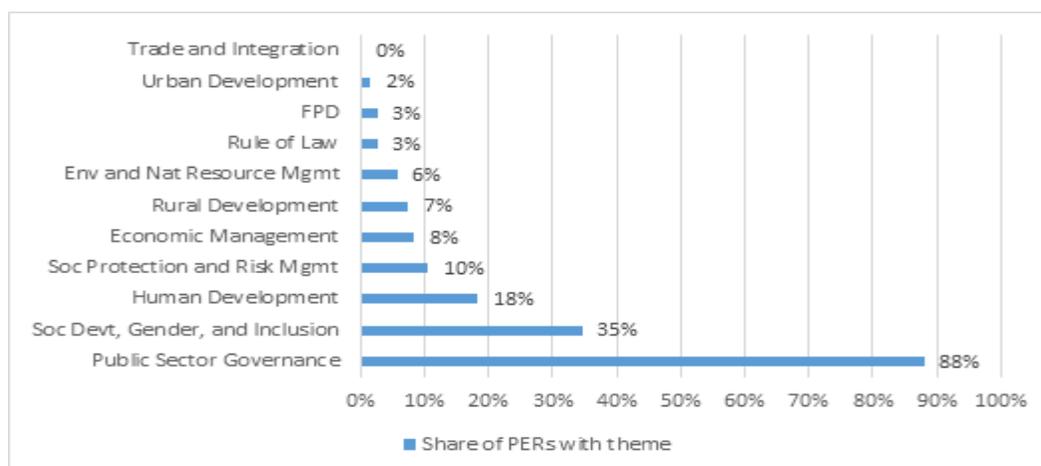
3.14 Most PER-type knowledge products reviewed were thematically coded for public sector governance (figure 3.5). Of the 404 reports, 191 were coded for 81 themes by the task team leader. Summarizing these into clusters, close to 90 percent contain public sector governance as thematic cluster. The social development, gender, and inclusion cluster was coded 35 percent of the time, followed by the human development cluster, which was coded in 18 percent of all reviews. In terms of the actual themes of interest in the present analysis, macroeconomic management was coded in 15 percent of documents, tax policy and administration in seven percent, and social safety nets⁷ in six percent of all reports.⁸

⁷ “Macroeconomic management” is included in the “economic management” cluster. “Tax policy and administration” is in the “public sector governance” cluster. And “social safety nets” is in the “social protection and risk management” cluster.

⁸ Note that reports may receive up to five themes, thus totals exceed 100 percent.

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Figure 3-5 Percentage of PERs with specific themes (2000-2014); (n=191)



Source: IEG review of Public Sector Governance PER monitor.

3.15 Importantly, these PER codes are the same theme codes used in the thematic coding of DPOs and prior actions. This allows a relatively accurate “matching” of themes between PERs and DPOs. The notable difference is that operations and ESW are coded by the task team leaders, while prior actions were retro-fitted with codes by OPCS manually.

How does knowledge of public expenditure inform DPOs?

3.16 This section uses portfolio data on both DPOs and PERs to identify the overlaps and linkages between the two and ascertain whether PERs could potentially have played an informative role regarding resource allocation issues and policy frameworks in DPOs. Specifically, the analysis of the portfolio tells us how many DPOs were preceded by a PER within an adequate time period, and whether there was thematic overlap between the PER and the prior actions used by the DPO. An in-depth review of whether and how PERs have informed recent DPOs was taken up in the case studies (see chapter 4).

3.17 A total of 390 DPOs and 404 PER knowledge products were analyzed for potential thematic overlaps as follows: if a DPO had a public expenditure knowledge product within *four years* before DPO project effectiveness, it was considered relevant⁹. Using this rule, of the 390 DPOs, exactly 265 were preceded by a PER knowledge product, about 68 percent. DPOs were conducted in a total of 103 countries. In 75 (73 percent) of those countries, a knowledge product was potentially informative to the

⁹ Reports released five years or longer before DPO project inception were deemed too dated to credibly inform the operation, especially since reports use data from two or more years prior to dissemination.

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operation. These numbers suggest that the Bank’s knowledge on public expenditures is highly relevant and could inform the design of operations in the majority of DPOs and countries under analysis. Table 3.3 provides a breakdown of these figures.

Table 3-3. Number and share of DPOs preceded by PER

	Number	Share
Total No of DPOs	390	100%
DPOs with PER	265	68%
Total countries with DPOs	103	100%
Countries w/ DPO and PER	75	73%
Countries w/ DPO but w/o PER	28	27%

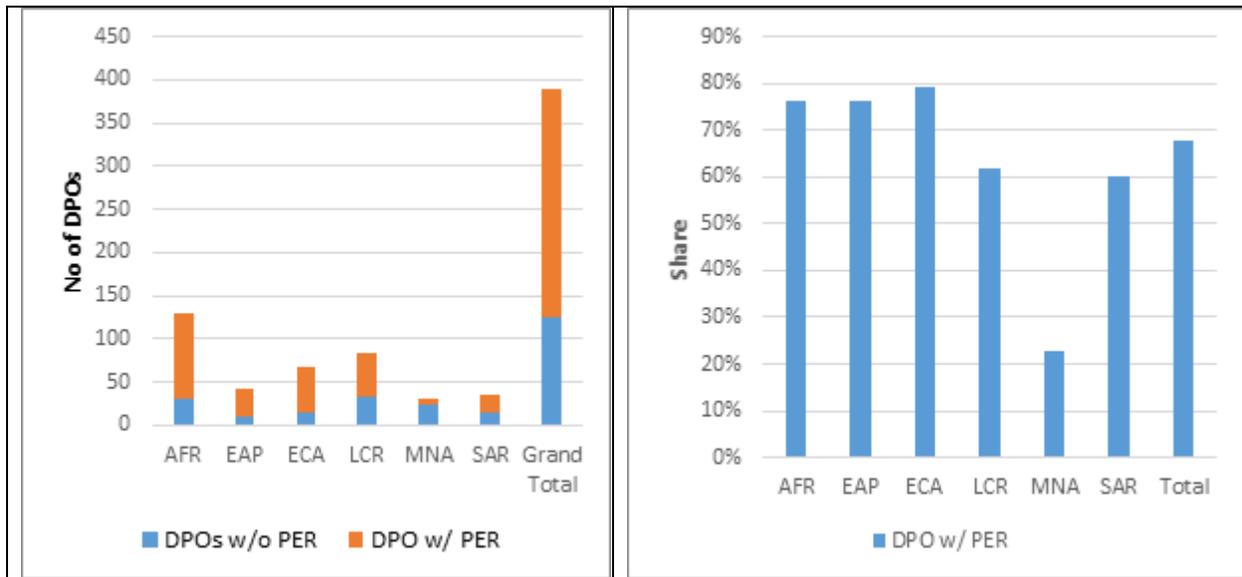
Source: IEG assessment of DPO and PER data.

3.18 Another way of looking at these data is to view the countries with DPOs matched by recent PERs as those with relatively substantial *policy dialogue*. PERs are not just policy oriented research products. They are also a process of consultation, discussion, and dialogue that can inform policy reforms underpinning DPOs on a variety of public expenditure issues (e.g., subsidies, wage bill, public investments, budgeting and execution, pro-poor expenditures, equity). Neither PER-type knowledge products nor DPOs can be done without an explicit request from and collaboration with the country authorities – collaboration which evolves through a dialogue on policy reforms, their objectives, policies, trade-offs, and outcomes. And it is through this policy dialogue that knowledge products translate, directly or indirectly, into policy reforms and outcomes.

3.19 Further, while on average, 68 percent of DPOs were potentially informed by a PER, there is considerable regional variation. Europe and Central Asia has the most DPOs with PERs at close to 80 percent, followed by the Africa Region and East Asia and the Pacific, which have 76 percent each. On the other end of the spectrum is the Middle East and North Africa, where only 23 percent of all DPOs have a PER as an analytical underpinning (see figure 6). The Middle East and North Africa Region covers about eight percent of all DPOs, but only constitutes four percent of PERs (see figure 4). As indicated, these figures may also reflect not only the demand for the Bank’s knowledge and DPOs but also the relative breadth and strength of the policy dialogue on policy reform and public expenditure issues in the respective Regions.

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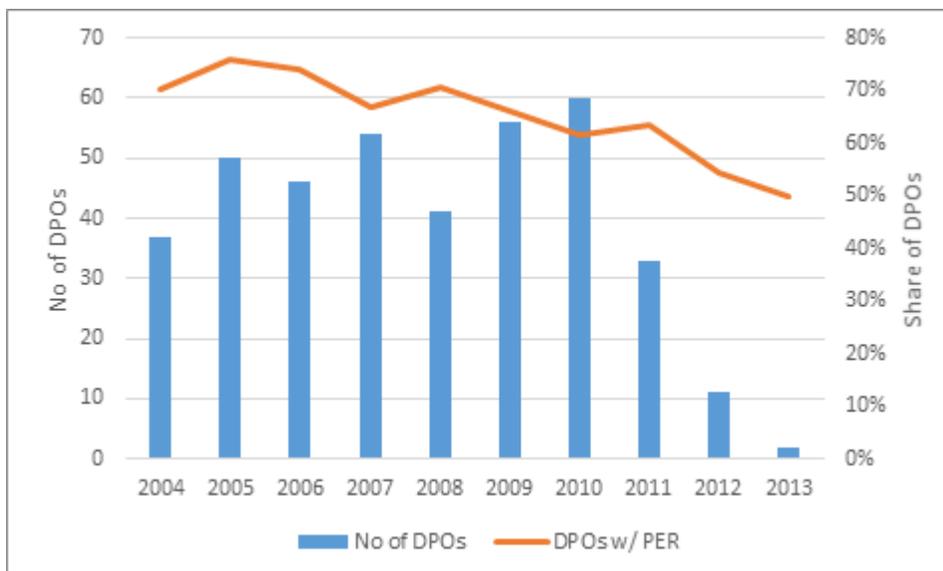
Figure 3-6 Numbers and shares of DPOs with PERs within four years, by world region



Source: IEG assessment of DPO and PER data.

3.20 There has been a downward trend over time in the number of DPOs preceded by a PER (Figure 3.7). Between 2004 and 2007, more than 70 percent of DPOs had a relevant PER as an analytical underpinning. This share declined since then to less than 60 percent since 2012. While observations of DPOs were few in 2012 and 2013, this trend was already pronounced in the years prior. Interestingly, there is a spike of DPOs with PERs in 2009-2010 when a number of DPOs were extended in the context of the global financial crisis. Apparently, many of the DPOs in those years had PERs available.

Figure 3-7 Trends in the numbers and shares of DPOs with PERs



Source: IEG assessment of DPO and PER data.

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3.21 The trend in the performance of DPOs with PERs (IEG outcome rated moderately satisfactory or higher) has been mixed. There has been a decline in IEG ratings of DPOs with PERs between 2004 and 2008, and in most of these years the performance has been slightly under that of DPOs without a PER. Since 2008, however, the performance of DPOs with a PER improved markedly so that in recent years DPOs with a PER outperformed those without by a small margin (figure 3.8).

Figure 3-8 Comparison of the trend in performance of DPOs with/without a PER



Source: IEG calculations using Business Warehouse data and the PER monitor.

3.22 Matching DPOs and knowledge products varies by “similarity” of themes. Another way to obtain a metric of thematic integration of PER themes with DPO policy content represented in DPO prior actions uses the statistical-descriptive concept of “similarity.” In other words, we ask the question: to what extent do policy themes/topics in the PER match those in the policy framework in the prior actions of DPOs? To this end, the IEG team developed a “similarity index,” constructed to show the extent to which the portfolio of DPOs match with the respective portfolio of PERs using the themes of DPO prior actions and the first theme (where available) of the PER. This similarity measure ranges between -1 (no similarity) and 1 (high similarity), with higher values indicating greater similarity.¹⁰

3.23 Using this approach, the match between DPOs’ policy frameworks in prior actions and PERs is generally quite high with an overall similarity measure of 0.69 (table 3.4) compared with 1.0 indicated “perfect” thematic similarity. Interestingly,

¹⁰ The similarity index is based on the concept of Euclidian distance. The similarity measure employed is the cosine similarity, which measures the similarity between two vectors showing frequencies of thematic codes in DPOs and PERs. In this case, the prior action theme vector is the vector that counts the number of instances of each theme among all prior actions of a DPO. The PER theme vector does the same for all the themes of the matching PERs. In other words, these vectors capture theme frequencies. The measure then compares the distance between these vectors with smaller distances indicating greater similarity.

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stand-alone operations are somewhat more closely related to the PER than programmatic DPOs, but the difference is small and both types of DPOs have quite high similarity indices.¹¹

Table 3-4 Similarity index of DPOs and PER, using theme codes

	Similarity measure
All	0.69
Stand-alone DPO	0.74
Programmatic DPO	0.52
Below-average size DPO	0.72
Above-average size DPO	0.45
Econ. Policy sector board	0.67
Other sector board	0.60

Source: IEG calculations.

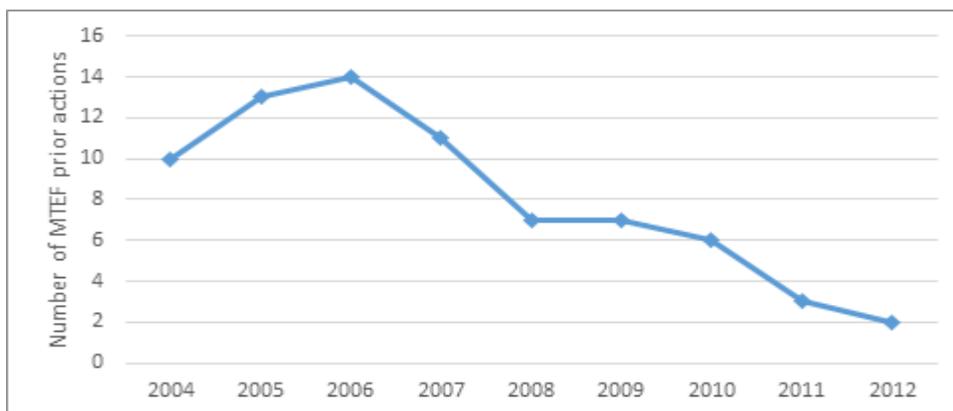
3.24 A number of DPOs feature explicit medium-term expenditure framework (MTEF) content in prior actions. To ascertain such DPO-PER linkages at a more granular level, we also looked at some broad public expenditure policy areas relevant in many countries, such as medium-term expenditure frameworks. A relatively small fraction of DPOs analyzed explicitly mention the medium-term expenditure framework (MTEF) in their prior actions. Out of the 387 operations, 59 cited an MTEF at least once in a prior action, which is about 15 percent of total. In terms of the total numbers of prior actions, MTEF-related ones are much fewer, making up less than two percent of the total. In addition, there appears to be a downward trend of MTEF-related actions over the years, as shown in figure 3.9. This, however, could be interpreted in light of a general reduction in the number of prior actions and, possibly, progress with completion of past MTEF reform actions. Or, it could reflect a reduction in multi-sector operations with multiple MTEF related prior actions.¹²

¹¹ Further, DPOs with higher ICR review ratings appear less closely matched to PER analytical work than DPOs with lower ratings. This may, in part, be explained by a larger number of reports being produced in large countries, not all of which need to be aligned with a DPO and some of which were more aligned with non-DPO instruments (e.g., the count of PERs in Indonesia is 29 and not all can be expected to be related to the 11 DPOs – especially given that many sectoral reports were produced).

¹² Interestingly, in only one prior action was a public expenditure review explicitly mentioned, directly linking the policy recommendation of the PER with DPO policy action. The 2007 LAO PRSC III operation required that the “[Ministry of Finance] approved an updated Public Expenditure Management Strengthening Programme (PEMSP) and implementation plan based on 2005/6 PER analysis and demonstrated ongoing progress with its implementation and capacity building.” Interestingly, that particular operation, as with some other DPOs in that country, scored highly on the macro-fiscal consistency index in assessing the quality of the macro-fiscal framework (See the accompanying report on the quality of macro frameworks in DPOs, IEG 2015). So this is the case of a DPO and country where there is clearly a high-quality macro-fiscal framework coupled with a relevant PER knowledge product that was directly and explicitly used in the design of the DPO policy framework.

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Figure 3-9 Number of MTEF related prior actions (operations closed 2004-2013)



Source: IEG review of OPCS prior action database.

Note: MTEF related prior actions are those that explicitly feature MTEF in their formulation, either as a process, document, or Government decision regarding the preparation or implementation of MTEF.

3.25 Finally, a very preliminary review of the portfolio of subnational DPOs and PERs (Appendix 3) for the period 2000-13 (PER) and DPOs (2004-13) suggests that those DPOs have taken place in a small number of large, federated countries.¹³ By far, the largest number of subnational DPOs in this period took place in only one country: Brazil. PERs and DPOs generally tend to overlap in a very small number of countries. Given the importance of the subnational fiscal and development agenda, this may suggest a potential knowledge gap and an opportunity for the Bank to intensify knowledge engagement at subnational levels, both as part of the knowledge and policy dialogue and as a contribution to future DPO development.

¹³ There were other subnational DPOs in other countries in the period preceding 2004 (e.g., India, Pakistan).

4. Select findings from case studies

4.1 This section draws on 15 in-depth case studies (including programmatic series; 25 if counted as individual operations) that were written against a common protocol to provide an understanding of where and how knowledge on public expenditures has contributed to the design of Development Policy Operations (DPOs). Case studies were drawn from all Regions and a variety of DPO types that were closed in FY11-13 and had a completed Implementation Completion Report (ICR) review. Although the case studies cover a third of all DPOs meeting the periodicity and ICR review criteria, the intention is to maximize learning and gain in-depth insights rather than fully represent the portfolio regionally and globally. A summary of select findings of these case studies is provided in table 4.1.

4.2 Overall, in most of these cases, there is a Public Expenditure Review (PER) or a related product addressing public expenditure issues related to the content of the DPO. In one case where there is no recent PER – St. Lucia – there is a related poverty assessment closely thematically related to the social sector focus of the DPO. In the case of Brazil, there is no evidence of a PER or a related work, and in Albania, the PER was dated although related to the content of the DPO. Interestingly, in each of these cases where there is no recent DPO, the macro-fiscal frameworks had identifiable weaknesses (see the accompanying report on the macro-fiscal frameworks in DPOs).

Table 4-1 Integration of PERs with DPOs: Select findings from the case studies (Also see detailed table in Annex 3).

Country, DPL, Fiscal Year	Coverage (single tranche; series; sector; general)	Was there a PER? What was the focus? (specific/general)	Other Analytical Work on Public Expenditure Allocation
Albania Social Sector Reform DPL, one-tranche, US\$25m, FY11	One-Tranche Social Sector	<u>No recent PER.</u> <u>Extensive PER in 2006</u> covered public debt, social insurance system, the health finance environment including the health insurance institute (HII). Although PER was dated, issues of targeting in the social protection system and need for HII reforms were relevant.	Some intra-sectoral analysis on shifting expenditure allocations to the poor through targeting, but no discussion of composition or adequacy of expenditure allocations to social transfer programs and health.
Benin PRSC 4-6, series, FY07-10	Series General	<u>PER in 2004</u> focusing on social expenditure trends in the same	

4. SELECT FINDINGS FROM CASE STUDIES

		sectors of focus in the PRSC series.	
Brazil (State of Rio Grande Do Sul), Fiscal Sustainability DPL, US\$1.1 billion, FY09	One-tranche State only	<u>No PER or state specific social sector reports</u> to guide DPO.	
Cote d'Ivoire Post Reconstruction and Recovery Grant, US\$150 million, FY12	One-tranche General	<u>PER in 2008</u> . Emphasis on macro and fiscal issues, exp. and revenue policies, PEFA, and a review of Public Procurement System.	
Indonesia Infrastructure DPL 4 (series of 4), amounts of US\$200m, 200m, 250m and 200m, FY08-11	Series of 4 Infrastructure Sector	<u>PER in 2007</u>	Infrastructure Framework for Policy and Action, 2004
Latvia Safety Net and Social Sector Reform Program (series of 2). US\$134.62m, FY10; US\$130.73m, FY11	Series of 2 General (Global Crisis) 2008-10 response)	<u>PER in 2007</u> (prepared for crisis) <u>PER 2010</u> (on social sector reforms)	IMF Program addresses long-term structural reforms in social safety net (SSN), pensions, state-owned enterprises
Mexico Green Growth DPL, US\$1.503 billion, FY09	One-tranche Environment sector	<u>PER in 2009</u> (on agriculture and rural development) <u>PER in 2004</u> country-wide	
Peru Programmatic Fiscal Management and Competitiveness DPL, US\$200m, 370m (plus supplemental DDO of US\$330m), 150m and 100m, FY07-11	Series of 4 General	<u>PER in 2002</u> <u>PER in 2007</u>	CEM, CFAA, CPAR, Investment Climate Assessment (ICA), Poverty Assessment, Sector Studies, Financial Sector Assess. Update, PEFA in 2009
Poland Energy Efficiency and Renewable Energy Development, DPL, US\$1.4 billion, FY11	One-tranche Energy sector	<u>PER in 2010</u>	
Romania Financial Management and Social Protection DPL 2 (in a series of 1-3, 2009-11), amounts of US\$422m, 380m, 560m, FY11	Series General	<u>PER in 2006</u> <u>PER in 2010</u> , in middle of series as urgency due to global crisis.	
St Lucia Economic and Social DPL, US\$12 million, FY10	One-tranche General	<u>No PER</u>	Poverty Assessment, SSN Assessment,
Tunisia Governance and Opportunity DPL, US\$500 million, FY11	One-tranche General	<u>No PER</u>	Health Sector Study in 2006
Vietnam, Programmatic PRSC 10 (in a series of PRSCs 6-10), US\$152 million, FY10	Series General	<u>PER in 2005</u> covered resource allocation, PFM challenges.	PEFA exercise in 2013 to diagnose PFM issues.

Source: IEG team review of case studies.

Examples of successful contribution of public expenditure work in the design of DPOs

4.3 Some DPOs clearly show a high degree and relevant integration of PER knowledge into DPO policy frameworks and prior actions. We highlight those cases with emphasis on the specific policy areas and how they contributed to the formulation of DPO design. Among the case studies reviewed, three operations stand out as examples of good practice. Even there, however, there are areas where such integration could have been more pronounced, which is also highlighted. These were the DPOs on Romania, Peru, and Indonesia.

4.4 **Romania.** Financial Management and Social Protection Series (DPOs 1-3, closed FY11). This DPO series is a good example of incorporating PER recommendations and appropriately sequencing prior actions in the DPO series, and prior actions that are substantive and binding.

4.5 Romania's PERs in 2006 and 2010 were relevant. The 2010 PER was in the middle of the DPO series and emphasized the urgency of the Bank's response to the global crisis. The findings of the PER were directly used in the DPO policy areas and prior actions. Policy dialogue on the PER continued and intensified as policy dialogue on DPO reforms.

4.6 The main areas where the Romania PER recommendations were used in the DPO include the following:

- *Medium-term expenditure framework (MTEF):* Financial management was improved under the DPO by explicitly introducing an MTEF. This moved from administrative action in the first DPO, to preparation and discussion of legislation in Parliament in DPL2. The prior actions became increasingly more binding, eventually calling for parliamentary approval of the MTEF in DPL3.
- *Public Sector Wages:* The PER made recommendations for reforms in the structure of wages and the wage-setting process. Reforms in public sector pay, introducing more transparent mechanisms for adjustments in the structure of public sector wages, and merit increases were specific prior actions in the three operations.
- *Education:* The PER suggested more flexibility in allocating teachers according to demand. The second PER, going further, recommended per capita formulas. The prior action included a submission to Parliament followed by legislation in place in capita formulas in eight counties. This reform, however, was slow in implementation. It could have been approved a year earlier, particularly as

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the population involved was small. The policy should have ideally been extended to the overall country by DPL2.

- *Health*: Both PERs raised the need to address bias in the allocation of resources toward hospitals versus preventive and primary care (outpatient care). Here, the DPO does not feature strong follow up. But DPL 2 included a prior action requiring a decision to update a Hospital Rationalization Strategy.
- *Pensions*: The PERs address the need to reform the system. The second PER is more forceful in flagging that the system is financially unsustainable. It also stresses the need to act on several fronts, from retirement age, privileges to certain groups, indexation, etc. The DPL includes a prior action on indexation reform.

4.7 **Peru.** This DPO series (Programmatic, Fiscal Management, and Competitiveness, closed FY11) represents a case of well-timed, several PERs, well integrated into the DPOs, a host of good economic and sector work (ESW) including a Public Expenditure Financial Assessment (PEFA), and good data and analysis which informed the sound design of a series of four DPLs. The operation also resulted in strong implementation.

4.8 Substantial PER-type work preceded the DPO. Peru had PERs in 2002 and 2007, and a PEFA in 2009, in preparation for the Programmatic Fiscal Management and Competitiveness DPL series of four loans in FY07-11. The first operation used the PER directly as a basis for its design. This ensured the continuity of the policy dialogue from the PER to the DPO. The third operation used the PEFA to inform its design (to inform the reform process and indicative triggers). All three studies appear to have informed country authorities and the Bank on the most important aspects of reform, and also provided them with data and timely analysis, which made it possible to formulate DPO prior actions and several indicators.

4.9 The DPOs selected policies on the basis of the analytical work that aimed to determine key policies with a large development impact. Substantial diagnostic work informed the design of the series. Some studies had been completed, while others were underway at DPO preparation. For example, a completed Public Expenditure and Financial Management Assessment and an (at the time) ongoing PER contributed to inform the policy dialogue in the areas of Public Financial Management (PFM) and fiscal transparency. Similarly, the Governance and Governability Nonlending Technical Assistance (NLTA) supported policy analysis related to results-based transfers to subnational governments, which underpinned the reforms supported by the series. On the competitiveness agenda, the Informality ESW addressed the question of how informality affects productivity and competitiveness of small and medium-sized businesses. Overall, the lesson here is that a substantial amount of timely and good

analytical work formed the basis for this successfully-designed DPL series, with robust links in the results framework, and strong implementation.

4.10 As documented in the accompanying report, this operation also featured a high quality macro-fiscal framework, which contributed to the quality of the overall design and DPO rating.

4.11 **Indonesia.** Infrastructure DPO series, four operations, closed FY11. This sector DPO series was based on PER findings. It set high reform expectations and it pushed hard for sector reforms amidst challenges.

4.12 Indonesia's comprehensive, multi-sectoral 2007 PER was timely. At the time, Indonesia was expected to have significant additional fiscal resources to address development needs following the post-crisis period. Although the macro-stability was established, public infrastructure spending had remained at only 2 to 3 percent of gross domestic product (GDP) for many years, well below the needs of a rapidly growing economy and population. There was concern that poor infrastructure – electricity shortages, road congestion, and low access to piped water and treated sewage – had reduced the quality of life and the environment, and would ultimately hamper growth. A major Bank study (2004) had analyzed the problem of infrastructure needs.¹⁴ The PER focused on how to build on prior achievements and spend additional public resources effectively and efficiently to improve the quality of social services and close the infrastructure gaps.

4.13 The Indonesia DPL (I-DPL) Policy Matrix was clearly linked to the PER and the 2004 study. The four policy areas of the DPL series (national, subnational spending on infrastructure; private sector financing through public-private partnerships (PPP); and cross-cutting areas of land, environment, and fiduciary), and prior actions covered several key policy proposals. This included expanding the supply of electricity to unserved areas in a cost effective and equitable manner; reducing inefficient and pro-rich fuel subsidies (one of the largest spending items on the budget); and reallocating inefficient and pro-rich electricity subsidies from consumption towards connection to encourage expansion of the electricity network (also recommended in the related Social Impact Assessment).

4.14 Despite the long-standing tensions and turmoil over the policy direction in the power sector, the inclusion of high profile outcomes (greater access and better subsidy

¹⁴ Indonesia: Averting an Infrastructure Crisis, A Framework for Policy and Action, 2004.

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targeting) in the policy matrix raised expectations for policy changes.¹⁵ Sector policy dialogue was substantive, but ultimately implementation proved difficult. The policy of providing electricity at rates below cost recovery was in direct conflict with the need to increase the supply of and access to electricity at a time of fiscal restraint. Existing consumption subsidies favored the wealthier over the poor. The lack of legislative action to change tariff policy during the first three operations prevented the reform of tariff pricing and limited progress on improving reliability and access to the power supply.

4.15 In hindsight, the Bank overlooked some key factors – that parliamentary approval was required to change below-cost tariffs and electricity prices and that powerful vested interests could block the approval of the law.¹⁶ Although the government began to revisit the electricity law to remove the monopoly power of the state-owned electricity company in electricity supply and to allow regional governments to set electricity tariffs, lobbying by some industry groups prevented tariff increases. However, the IDPL continued to push for power sector reforms. Although reforms did not occur during the first three IDPLs and performance targets were not achieved, there was a final breakthrough in the end.

4.16 In mid-2010, during the last IDPL, revisions in electricity tariffs broke the long-standing taboo and made a major reform step in the right direction. Simulations of the social impact of the draft tariff scheme suggest that the top decile's household consumption share of the electricity subsidies will fall, while the bottom decile increases their share – indicating a more pro-poor tariff structure. Proposed tariff increases would not affect the poorest as they are concentrated in the lower capacity bandwidths. Analysis also shows that the lowest capacity users represent the largest share of residential users and the prospective subsidy changes in 2010 would shift the subsidy emphasis from industry and business to low capacity households. This would suggest a progressive tariff and subsidy scheme. Reforms supported by the series, despite delays and difficulties, should play a role in extending access and reducing regressivity of tariffs in Indonesia.

¹⁵ Official household access to electricity was 55 percent in 2005 (PER, 2007). Residential consumers who were connected at less than 900 watts received only 41 percent of the State Electricity Company (PLN) subsidy.

¹⁶ The government provides a subsidy to cover the difference between its costs and regulated tariffs. A key part of the subsidy is received by residential consumers who are unlikely to be poor (with connections greater than 900 watts) and by large industrial and commercial consumers.

4.17 This is an example of difficult, well-designed DPO reforms informed by PER analysis that took time to deliver results. It would have been expedient to drop or soften tariff reform from the reform agenda. But the Bank and the authorities' persistence in the face of difficulties paid off.

4.18 Finally, another lesson is criticality of complementary AAA on public expenditure to drive implementation effectiveness, including political economy analysis, poverty assessment, CEM, which is possible for a large, active Bank client country.

Examples of missed opportunities

4.19 In contrast to the above good practice examples, in some DPOs, we identified missed opportunities in the integration of PERs with DPOs. For example, public expenditure knowledge that existed but was not used in the DPO dialogue and design. Or difficult issues in the DPO that could have been resolved and for which there existed a knowledge base, but they remained unaddressed. We highlight, in particular, the operations in Latvia, Albania, Vietnam, and Benin.

4.20 **Latvia.** Social Safety Net and Social Sector Reform Program, series of two DPOs, closed FY11. A missed opportunity here can be summarized with a question: Could “indicative triggers” have been revised and new actions introduced following Board approval of the first operation in a series if there is compelling new information or a change of circumstances?

4.21 Latvia had two PERs in 2007 and 2010. The 2007 PER had limited overall relevance to the DPL as it had focused on the long-term agenda of improving public efficiencies in general. The subsequent global crisis resulted in major budget cuts in 2009. The Safety Net and Social Sector Reform DPL (FY10) commissioned a PER in the same year to provide analytical underpinning, and to specifically focus on social sector reforms in an environment of a substantially reduced budget envelope. The study scrutinized the ongoing reforms on social protection, health, and education; provided a thorough analysis of challenges in social protection, health, and education; and provided a menu of options for policy action for the medium term. However, as policy actions for the (second) DPL were already designed during first DPL (as indicative triggers) – there was little flexibility to incorporate new actions and recommendations arising from the PER.

4.22 As a result, some of the potentially important reform areas that came out of the 2010 PER that were not included in the first operation did not become reform actions under the second program. For example, the 2010 PER suggested reforms in family state

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benefits that were not well targeted but constituted 37 percent of the social protection budget as of 2010. The PER also suggested a number of reforms in social programs to redirect resources from the nonpoor to the poor. However, this did not become part of the reform program either. There was a de facto break in the continuity of the policy dialogue from the PER to DPOs. And a missed opportunity to improve the composition of public expenditures towards the poor at a time of general budget austerity.

4.23 **Albania.** Social sector reform DPL (standalone, closed in FY11) is a DPO that does not use or mention a relevant PER. An in-depth PER in December 2006 covered the same areas as the Social Sector Reform DPL in April 2011, and the PER provided a thorough analysis on key social sector reforms. However, there is no mention of the PER in the DPL program document. There is also no indication that PER recommendations informed the DPO design. It is true that the PER was completed over four years before the DPO and perhaps this and the associated break in the policy dialogue may partly explain how the PER fell from the DPO radar screen. Personnel changes in both the government and the Bank during this time also may have contributed to the apparent loss of institutional memory. But the PER content was highly relevant to the DPO and as such it should have been consulted.

4.24 The December 2006 PER may be dated; however, it covered key aspects and issues in the social sector, which were relevant at the time of the DPL. For example, it included the *Ndihma Ekonomike* Social Assistance Program, equity and efficiency of health sector expenditures (including the Health Insurance Institute), education funding levels and relative efficiency, and the pension program's challenges. These overlap with some of the main areas and objectives supported by the subsequent DPL, including, policy changes to: improve the effectiveness of social safety nets and enhance the efficiency and equity of health spending in a fiscally sustainable environment. Specific policies under the DPO aimed at strengthening mechanisms to allocate funds and select beneficiaries in the main social assistance program and enhancing the efficiency and equity of health spending. Against this backdrop, the 2011 DPO program document fails to mention the PER and its findings. The only reference to the "PER - Public Expenditure Review" is in the list of acronyms.

4.25 **Vietnam:** The programmatic PRSC series, PRSC6-10 incorporates the critical recommendations of a PER in its DPO policy matrix at entry. However, integration proved of PER with the initial design of the PRSC was solid, it proved ineffective as the political economy constraints to implementing the program were overlooked (IEG PPAR, 2015, Vietnam PRSC6-10).

4.26 There was an "award-winning" PER in 2005, a major exercise that covered the allocation of public funds and critical areas of public financial management (PFM). The PRSC series included 10 of the key recommendations from the PER and the 2007 Vietnam Development Report in its design. Public expenditure and PFM were key

policy areas in the series. Of the four prior actions in the first PRSC, three were public expenditure/PFM and focused on the critical areas of improving independence of the State Audit of Vietnam (SAV) and strengthening debt management. There were 10 indicative triggers in subsequent PRSCs 7-10. These were also critical to improving PFM and derived directly from the PER. So what was the problem?

4.27 The policy matrix changed significantly as the dialogue and the series progressed, introducing problems. The relevance and strength of policy actions declined substantially. Key policy actions envisaged at entry in PRSC 6 were never incorporated into the final policy matrix of the PRSC operations. In particular, proposed key policy actions on integration of the MTEF into the budgeting process, reducing off-budget expenditures, and introducing international standards in financial statements were dropped from subsequent PRSC operations, ostensibly because of the lack of reform momentum. The PRSCs continued even as weakening reform performance was reflected in the Country Policy and Institutional Assessment (CPIA) subcomponents on fiscal management and PFM, which declined during the relevant period 2006-2013. Why did the Bank progressively drop the policy actions in the DPOs? It is a question for reflection within a broader context and discussion of the dialogue and Bank strategy in that country. What is clear is that PRSC disbursements were made irrespective of the clear weakening of the otherwise sound policy framework that was well integrated with relevant analytical work. Resource transfer considerations dominated reform objectives.

4.28 The Vietnam Public Investment Reform (PIR) series was implemented in FY 09-12 in parallel to the PRSCs and it took on some of the issues identified in the PER. The PIR was to support reforms in public investments (identified as a major issue in the PER). This had become a larger issue by 2009, due to problems in the expenditure composition that neglected operations and maintenance expenditures. Although the initial design of the PIR series included the law on public investments (to address this issue) as an indicative trigger, it was dropped from the policy matrix and never became a prior action.

4.29 The PIR series did not achieve any major results in the area of public investments that were highlighted in the PER. The 2005 PER suggested frequent subsequent PERs; however, the authorities indicated no interest in follow up PERs in the period 2008-2013. There was apparently no interest or political will to delve into the diagnostics and causes of expenditure inefficiencies and resulting recommendations. The 2013 Public Expenditure Financial Assessment (PEFA) revealed that many of the challenges identified in the 2005 PER remained. Despite the PIR, improvements in the public expenditure policy since 2005 have not been substantial, except in the areas of PFM information systems, public debt management, and state audit.

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4.30 In sum, Vietnam is a case of strong public expenditure AAA, which was well integrated into the initial design of the PRSC, but which produced limited results because of weak implementation and ownership.

4.31 **Benin.** PRSCs 4-6, closed FY10. The DPO series aimed to improve Millennium Development Goal (MDG) outcomes through increasing the efficiency of public expenditures in water and sanitation, health, and education. A PER 2.5 years before included an in-depth analysis of trends and policy issues in these three sectors critical for the MDGs. Yet the PRSC program documents make no reference to the PER. The DPO policy framework also does not take into account its analysis and recommendations.

4.32 The 2004 PER focused on social expenditure trends in water and sanitation, health, and education, the same areas of focus in the PRSC series. However, the PRSC 1 does not contain any quantitative analysis of the composition and direction of public expenditures, how they evolved over time, and how well they targeted areas of relevance to the MDGs, especially those MDGs where Benin was lagging. One would have expected the first PRSC operation to at least have updated, main budgetary information that was presented in the PER. But the PRSC makes no references to the PER. This is a serious omission considering the PER's sound analysis and candid assessment that "the share of expenditures in five major health programs is driven by the availability of foreign funds rather than by national priorities; some important causes of child mortality and morbidity are not addressed," and the fact that a PRSC series explicitly focuses on improving MDG outcomes.

4.33 Other issues raised in the PER that were missed but could have strengthened the policy framework and results of the PRSCs are:

- First, despite improvements, infant and child mortality remain high. Very little progress was achieved with maternal mortality and access to sanitation in rural areas. There are substantial differences across income groups in both access to education and child mortality.
- Second, special budget lines have increased significantly relative to the spending by health administrators at the regional and central levels. Major health programs are assessed as driven by the availability of foreign funds, rather than by national health priorities. This is a broader indication of the misalignment of the donors' objectives from those of the government, as well as a missed opportunity to address priority areas such as child mortality and morbidity.
- Third, a similar issue is raised in the water sector where the PER notes that "[i]nvestment in water point is focused in a few regions, due to donor preferences."
- Did the Bank raise the issue of apparently different priorities between the government and donors, at least informally, during the preparation of the series? It is not clear based on the document review. However, it is hoped that these issues were discussed with donors, which is a key point of the Paris Declaration.

5. Conclusions

5.1 Six conclusions emerge from this review.

- First, the Bank has been producing a considerable volume of knowledge on public expenditure, which increased in recent years, and that knowledge was available to inform the majority of DPOs in the majority of countries with DPO operations. The analysis of 390 DPOs and 404 public expenditure knowledge products (PERs, broadly defined), which were subject of this review, suggests that there is a solid degree of timeliness, availability, relevance, and thematic overlap as well as integration between PER knowledge and DPOs. Most DPOs (some 68 percent) had PERs prior to DPO effectiveness. In most countries with DPOs (73 percent), there are timely PERs preceding DPOs. There is also evidence of continuity of policy dialogue from PERs to DPOs in many cases. This is a reassuring conclusion. It implies that the Bank's country-based model, which integrates knowledge and lending, is working well in the case of PER knowledge and DPOs. There are good practices worth highlighting as well as weaknesses that offer opportunity for reflection and lessons for the future.
- Second, public expenditure knowledge informs DPOs largely in the areas of public sector governance, followed by social development and human development. Macroeconomic and tax policies, in particular, tend to show comparatively smaller overlaps, but this may be because some of the macroeconomic policy agenda is taken up more directly in the macro-fiscal framework as elaborated in the accompanying report. There is a tentative question whether tax policy is an area in which the Bank has "left the field," perhaps to the national authorities and the International Monetary Fund (IMF), and whether that should be revisited. Also, the decline in the frequency of MTEFs in the policy content of DPOs raises questions of the current state and the future of these medium-term reforms.
- Third, deeper dives into case studies of recent DPOs show some good practices. The DPO series in Peru and Romania are such examples. These good practice examples of the integration of PER knowledge and DPOs tend to show a continuity of policy dialogue, from PER to DPO, with the DPO design directly and explicitly using knowledge on public expenditures and policy recommendations in its prior actions. Such DPOs also tend to have stronger, other elements of DPO design such as macro-fiscal frameworks, as shown in the accompanying report on macro-fiscal frameworks. They often show better Independent Evaluation Group (IEG) ratings. There is a "virtuous circle," from

5. CONCLUSIONS

knowledge informing the design of lending, and lending based on knowledge producing results.

- Fourth, more broadly, good practice DPOs in terms of the integration of PER and DPO knowledge, tend to be situated in an environment of long-term Bank engagement and continuous, high-quality policy dialogue (knowledge and lending) based on a relationship of trust where there are no taboo topics for policy dialogue. Sound PERs with candid recommendations hitting clearly on important issues stand a better chance of informing DPO and policy reform. MTEF, budgeting, and PFM issues tend to be some of the common areas in which PERs substantially informed DPOs, but the policy areas cover the entire spectrum of governance and other thematic areas. However, even in cases of long-term engagement and solid initial integration between knowledge and DPO design, problems with political economy, ownership of reform and shifting policy priorities can undermine impact (as in the case of Vietnam).
- Fifth, examples of missed opportunities in integrating PER knowledge with DPOs sometimes reflect breaks in institutional memory in the Bank and the government, as well as breaks in the policy dialogue which can come about for many reasons (passage of time between the PER and the DPO, changes in staff on the Bank and the client side, changes in government and political priorities, etc.). One lesson here is that the Bank should pay greater attention to DPO-led reengagements with countries, and new DPOs after a longer period of no core diagnostics on public expenditures or prior dialogue and DPOs, and ensure that all relevant Bank knowledge fully informs those DPOs.
- Sixth, there appears to be a potential knowledge gap and an opportunity for the Bank to intensify knowledge engagement on public expenditures at subnational levels, both as part of the knowledge and policy dialogue and as a contribution to future DPO development. This will vary by country depending on the policy space to engage national authorities on subnational reform.
- Finally, in follow up to this learning product, which is focused on the limited questions around the integration of knowledge and DPOs, there is a need for a systematic analysis of the quality of the Bank's AAA knowledge products. An evaluation of the public expenditure reviews, in particular, would potentially shed further light on how the Bank can continue improving the quality, relevance, and integration of its knowledge products.

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Appendix A. Countries in which DPOs were preceded by a PER

Region	Country	Year	Project Name	Proj ID	Commitment (US\$ million)	
AFR	Benin	2007	BJ-PRSC 3	P083313	30	
			BJ-PRSC 4 (New Series) (FY07)	P096928	40	
		2005	BJ-PRSC II	P074313	30	
	Burkina Faso	2012	BF - EFA/FTI Grant (3rd tranche)	P127166	35	
		2006	BF-PRSC 6	P078996	60	
		2005	BF-PRSC 5 DPL (FY05)	P078995	60	
	Burundi	2010	BI - ERSIII-Dev. Policy Loan DPL3	P113235	25	
		2009	BI - Food Crisis Response DP Grant	P113438	10	
			BI- ERSII DPL (FY09)	P102508	30	
	Cabo Verde	2009	CV-PRSC 4 -DPL	P106502	10	
		2007	CV-PRSC 3 (last of 1st series)	P100807	10	
		2006	CV-PRSC 2 (FY06)	P090875	10	
	Central African Republic	2011	CAR: EMGRG III DPO IV (FY11)	P120534	8.8	
		2009	CAR: EMGRG II - DPO III (FY09)	P113176	5	
		2008	CAR: EMGRG 1 - DPO II (FY08)	P106458	7.9	
	Congo, Dem. Rep.	2006	DRC - Transitional Support Credit (DPL)	P091990	90	
	Cote d'Ivoire	2012	CI-Post-conflict Reconst. & Recov. Grant	P122800	150	
		2010	CI-EGRG-Econ. Gov. & Recovery 3	P117281	90	
		2009	Governance & Recovery Grant II	P112368	150	
		2008	Econ. Governance & Recovery Grant	P083583	308	
	Ethiopia	2005	ET-PRSC 2 DPL (FY05)	P077749	130	
		2004	ET-PRSC 1 (FY04)	P074014	120	
	Gambia, The	2009	GM-Budget Support -DPL	P107398	7	
	Ghana	2010	GH:Natural Resources Env Governance DPO3	P118188	10	
			2009	GH-EGPRC (fast-track)	P113301	300
				GH-NREG DPO	P113172	10
			2008	GH-Environmental Governance (FY07)	P102971	20
				GH-PRSC 6 DPL (FY08)	P103631	100
			2007	GH-PRSC 5 DPL (FY07)	P099287	110
			2006	GH-PRSC 3 DPL (FY06)	P078619	125
				GH-PRSC 4- DPL	P095730	140
	Guinea-Bissau	2005	GH-PRSC 2 DPL (FY05)	P083246	125	
		2011	Third Economic Governance Reform EGRG 3	P123685	6.4	
		2010	GW-Econ. Gov. Ref. Grant - EGRG II	P114937	6	
		2009	GW-Economic Governance DPL1	P107493	8	
	Liberia	2009	LR - RRSP2-Budget Support	P113450	4	
	Madagascar	2008	MG-PRSC 4 - 1st of New Series (FY08)	P099420	40	
			MG-PRSC 5 (FY08) DPL	P105135	50	

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		2007	MG-PRSC III DPL (FY07)	P096102	40
		2006	MG-PRSC 2 DPL (FY06)	P083326	80
		2005	MG-PRSC 1 DPL (FY05)/	P070999	125
	Malawi	2013	Malawi - Rapid Response DPG	P126155	50
		2010	MW-PRSC 3	P117238	54
		2009	MW - PRSC 2	P107303	30
		2008	MW-PRSC-1	P099313	20
		2004	MW-FIMAG SAL (FY04)	P072395	50
	Mali	2011	ML-PRSC 5 - DPL	P122483	70
		2010	ML-PRSC 4 - DPL	P117270	70.5
		2009	Mali - PRSC-3	P113451	65
		2008	ML-PRSC 2 (FY08)	P103466	42
	Mauritius	2008	MU-Dev.Pol.Loan (intermediate)	P106650	30
		2007	MU-Development Policy DPL (FY07)	P101570	30
	Mozambique	2012	Moz PRSC VIII	P126226	110
		2011	MZ-PRSC 7 (second in series)	P122470	85
		2010	MZ-PRSC 6 (first in new series)	P117234	110
		2007	MZ-PRSC 3 DPL (07) - 1st in new series	P083459	70
		2006	MZ-PRSC 2 (FY06)	P056201	120
		2005	MZ-PRSC (FY05)	P075805	60
	Namibia	2009	NA-Support of ETSIP1 DPL2 (FY09)	P109333	7.5
		2007	NA-Education & Training DPL (FY07)	P086875	7.5
	Niger	2007	NE-Rural & Social Policy DPL 2 (FY07)	P098963	50
		2006	NE-Rural & Social Policy Reform I (FY06)	P096411	50
		2005	NE-Pub Expend Reform Crdt (FY05)	P083275	40
		2004	NE - PEAC II - (Pub.Exp.Adj.Cr.)	P069570	65
	Nigeria	2010	Fin Sec + Pub Fin Mgmt DPC	P117088	500
	Rwanda	2010	RW:EFA-FTI Catalytic Fund Bridge Grant	P115816	35
		2007	RW-PRSG III DPL (FY07)	P098129	50
		2006	RW-PRSC 2 DPL (FY06)	P092944	55
		2005	RW-PRSC 1 DPL (FY05)	P085192	65
	Senegal	2009	SN-DPO fast-track-Public Fin. Support Cr	P107288	60
		2008	SN-En. Sec. Recov. Dev Policy Financing	P105279	80
		2007	SN-PRSC III DPL (FY07)	P098964	20
		2006	SN-PRSC 2 (FY06)	P091051	30
		2005	SN-PRSC 1 DPL (FY05)	P074065	30
		2004	SN-Priv Sec Adj Crdt (FY04)	P080013	45
	Seychelles	2011	SC-DPL 2	P120947	9
		2010	SC DPL	P114822	9
	Sierra Leone	2010	SL:GRGC-3 Suppl.Credit (Crisis Window)	P121056	7
			SL-GRG 3 DPL	P107335	10
		2007	SL-GRGG (DPG 1)-Programmatic Series	P095575	10
		2005	SL-ERRG 4 (FY05)	P083477	15
	Tanzania	2011	TZ-PRSC 8 (5th and last in 2nd series)	P116666	115
		2009	TZ-PRSC 6 (3rd of 2nd series)	P101229	160
			TZ-PRSC 7 (4th in 2nd series)	P101230	190
		2007	TZ-PRSC 5 (2nd of 2nd series)	P095657	190
		2006	TZ-PRSC 3 (last)	P087256	150

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			TZ-PRSC 4 DPL (1st of 2nd series)	P095509	200
		2005	TZ-PRSC2 (intermediate)	P074073	150
		2004	TZ-Education Dev. Program II (FY04)	P083080	150
	Uganda	2008	UG-PRSC 7 (FY08)	P101231	200
		2007	UG-PRSC 6 DPL (FY07)	P090219	125
		2006	UG- PRSC 5	P090881	135
		2005	UG-PRSC 4 (FY05)	P074082	150
		2004	UG-PRSC 3 (FY04)	P074081	150
	Zambia	2012	Zambia PRSC-3	P126349	30
		2011	ZM-PRSC 2	P117370	30
		2010	ZM-First Poverty Reduction Support Cr.	P107218	20
		2008	ZM-Econ Mgmt & Growth Crdt 2	P074445	10
		2005	ZM-Econ Mgmt & Growth Credit (FY05)	P040631	40
EAP	Cambodia	2010	KHSmallholder Ag & Social Protection Sup	P117203	5
		2008	KH-Poverty Reduction and Growth-1 (DPL)	P071103	15
	Indonesia	2011	ID - Fourth Infrastructure DPL (IDPL4)	P118531	200
		2010	ID - Third Infrastructure DPL (IDPL3)	P115102	250
			Indonesia Sixth Development Policy Loan	P113638	750
		2009	Fifth Development Policy Loan	P110191	750
			ID-Second Infrastructure DPL (IDPL 2)	P111905	200
			Public Expend. Supp. Facility (DPL-DDO)	P115199	2000
		2008	Fourth Development Policy Loan	P105637	600
			ID-Infrastructure DPL (IDPL)	P107163	200
		2007	Indonesia-Third Development Policy Loan	P100327	600
		2006	ID Second Development Policy Loan	P096594	400
		2005	First Development Policy Loan	P092663	300
	Lao PDR	2011	Lao PDR PRSO 7	P122847	10
		2010	Lao PDR PRSO 5	P110109	20
			Lao PDR PRSO 6	P118814	20
		2008	Lao PDR PRSO4	P107242	10
		2007	LA - PRSO III	P096710	10
	Mongolia	2011	Mongolia - Development Policy Credit 2	P117421	29.7
		2009	MN-Development Policy Credit	P115737	40
	Philippines	2009	Philippines GFRP DPO ICR	P113492	200
		2007	PH- Development Policy Loan - DPL I	P100706	250
	Timor-Leste	2006	TP Consolidation Support Program (CSP) 1	P088181	0.5
		2005	Third Transition Support Program	P083894	4.96
		2004	Transition Support Program II	P082190	4
	Vietnam	2009	VN - PRSC 8	P111164	350
		2008	VN - PRSC 7	P105287	150
		2007	Vietnam PRSC 6	P101724	175
			VN - Program 135 Phase 2 Support Credit	P104097	50
		2006	VN-PRSC V	P086361	100
		2005	Vietnam - PRSC IV	P086360	100
		2004	Vietnam PRSC III	P082759	100
ECA	Albania	2011	Social Sector Reform DPL	P116937	25
		2007	DPL	P096205	10
		2005	PRSC 3	P083337	10

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COUNTRIES IN WHICH DPOs WERE PRECEDED BY A PER

		2004	PRSC 2	P077739	18
	Armenia	2007	PRSC 3	P093460	28
		2006	PRSC 2	P093459	20
		2005	PRSC	P078673	20
	Azerbaijan	2005	PRSC	P074938	20
	Bosnia and Herzegovina	2010	Public Expenditure Crisis DPL	P116951	111
		2004	EMSAC	P071039	34
	Bulgaria	2009	SIR DPL2 (DDO)	P102160	150
			SIR DPL3	P115400	200
		2007	SIR DPL1	P094967	150
		2005	PAL 3	P078675	150
		2004	PAL 2	P081637	150
	Croatia	2010	Fiscal, Social and Financial Sector DPL	P117665	296.75
	Georgia	2006	PRSO	P088820	20
		2004	REFORM SUPPORT	P057814	24
	Kazakhstan	2010	DPL	P119856	1000
	Latvia	2011	2nd Safey Net and Social Sector Reform	P121796	142.08
		2010	Financial Sector DPL (LATVIA)	P115709	282.65
			Safety Net & Soc. Sector Reform Program	P115732	143.9
	Macedonia, FYR	2010	Macedonia DPL 1	P116984	30
		2008	PDPL 3	P101296	25
	Moldova	2010	ECONOMIC RECOVERY DPO	P112625	25
		2008	PRSC 2	P103941	10
		2007	PRSC	P099166	10
	Poland	2011	ENERGY EFFICIENCY DPL	P115426	1114.5
		2010	DPL 3	P117666	1331.3
		2009	DEVELOPMENT POLICY LOAN	P112765	1250
			Empl. Entrepreneurship & HCDP DPL	P116125	1300.24
	Romania	2012	DPL 3	P122222	560.6
		2011	DPL 2	P117667	380.5
		2010	DPL 1	P102018	422.99
		2005	PAL	P008791	150
	Russian Federation	2005	KAZAN MUNICIPAL DEVT	P082018	125
	Serbia	2010	YF PFDPL 2	P115958	100
		2009	PFDPL	P096711	50
		2006	PPFDPC1(SERBIA)	P089116	55
		2005	SAC 2 (SERBIA)	P078457	45
	Tajikistan	2009	PDPG 3	P106963	20
		2008	PDPG 2	P096930	10
		2007	TJ Prg. Development Policy Grant	P074889	10
	Turkey	2010	REGE DPL	P112495	1300
		2009	CEDPL 2	P096840	500
		2008	PPDPL 2	P088837	400
		2007	CEDPL	P074181	500
		2006	TR- PPDPL	P071052	500
		2004	PFPSAL 3	P082996	1000
	Ukraine	2010	FIN REHAB DPL 1	P115143	400

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		2009	Ukraine DPL 3	P107365	500
		2008	DPL 2	P096389	300
		2006	DPL	P079316	251.26
		2004	PAL 2	P074972	250
LCR	Argentina	2004	AR-Prov. Maternal-Child Hlth Adj PMCHSAL	P072637	750
	Bolivia	2005	BO-Social Sector Programmatic Credit II	P091365	15
		2004	BO First Programmatic Bank and Corporate	P082781	30
			BO-Social Sector Programmatic Credit	P087841	25
	Colombia	2009	CO 3rd Sust. Dev DPL	P101301	450
		2008	CO 3rd Business Prod & Efficiency DDO	P105029	550
		2007	CO 2nd Business Product and Efficiency	P095213	300
			CO 2nd Sustainable Dev DPL	P095877	200
			CO- 3rd Prog.Labor and Social Sector	P094097	200
		2006	CO Business Product and Efficiency DPL I	P094301	250
		2005	CO- 2nd Prog. Labor & Social Sector Ref	P082865	200
			CO 2nd Programmatic FSAL	P082597	100
			CO Prog Dev Policy Ln for Sust. Dev	P081397	150
			CO Prog Fiscal and Institutional SAL III	P084762	100
	Costa Rica	2009	CR Pub Fin & Compet. DPL/ DDO	P115173	500
	Dominican Republic	2005	DO Power Sector Program Loan	P082712	150
		2004	DO Social Crisis Response Adjustment Loa	P085433	100
	El Salvador	2011	SV Public Finance and Social Progress	P122699	100
		2010	SV Sustaining Social Gains	P118036	100
		2005	SV (CRL2) Program. Broad-Based Growth DP	P093133	100
	Guyana	2006	GY Poverty Reduction and Public Mgmt.	P078703	9.6
	Haiti	2011	HT- Emergency DPO	P118239	30
		2010	HT 3rd Econ. Governance Reform Operation	P117944	12.5
	Honduras	2012	HN 1st Progr. Reduc. Vulner. Growth DPC	P127331	86
		2011	HN Emergency Recovery Dev Policy Credit	P121220	74.7
		2005	HN First Prog Fin Sec Dev Pol Credit	P083311	25
		2004	HN PRSC	P074758	58.8
	Jamaica	2009	JM Fiscal & Debt Sust. DPL	P101321	100
	Mexico	2011	MX MEDEC Low-Carbon DPL	P121800	401.002507
			MX Strength. Business Env for EcoGrowth	P112264	751.8797
		2010	MX DPL Adapt. Climate Change in WtrSct	P120134	450
			MX Economic Policies DPL	P118070	1503.75
			MX Framework for Green Growth DPL	P115608	1503.75
		2009	MX Environmental Sustainability DPL	P095510	300.75188
		2008	MX Affordable Housing DPL III	P101342	200.51
			MX Climate Change DPL/DDO	P110849	501.25
		2006	MX Aff. Housing & Urban Pov. Red. DPL II	P089852	200.51
			MX Competitiveness DPL	P098299	300.76
			MX ENVDPPL II	P079748	200.51
			MX Finance and Growth DPL I	P097159	501.26
		2004	MX Afford.Housing & Urb.Pov.Prog. SECAL	P070371	100

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COUNTRIES IN WHICH DPOs WERE PRECEDED BY A PER

	Nicaragua	2009	NI Development Policy Credit	P106747	20
		2004	NICARAGUA PRSC I	P082885	70
	Paraguay	2009	PY Public Sector DPL	P113457	100
	Peru	2011	PE 4th Prog. Fiscal Mgmt DPL	P116214	100
		2010	PE 3rd Prog Fiscal Mgmt DPL	P106720	150
		2006	PE Third Progr. Decentral. & Compet. DPL	P089826	150
		2005	PE PROGRAMATIC REFORM FOR GROWTH II	P083949	100
			PE-Programmatic Social Reform Loan IV	P083968	100
		2004	PE Program. Decent. & Competitiveness	P082871	150
			PE-Programmatic Social Reform III	P078951	150
	Uruguay	2005	Uruguay Social Program Support Loan DPL	P095028	75.38
MNA	Djibouti	2008	Djibouti - Food Crisis Response Dev.	P112017	5
	Egypt, Arab Rep.	2010	Financial Sector DPL III	P120470	500
	Lebanon	2008	LB - Reform Implementation DPL	P094288	100
	West Bank and Gaza	2011	WBG:PRDP Support III	P118593	40
		2009	WBG PRDP Support II	P113621	40
		2008	WBG PRDP Support	P111078	40
	Yemen, Rep.	2008	RY-INSTITUTIONAL REFORM DPG	P101453	50.93
SAR	Bangladesh	2007	BD DSC IV/DPL	P074801	200
			BD Railway Reform Programmatic DevPolicy	P100330	40
			Education Sector Dev.Support Credit III	P102541	100
		2006	Bangladesh Development Support Cr. III	P090832	200
			Education Sector Dev. Support Credit II	P084567	100
		2005	Development Support Credit II	P083887	200
			Education Sector Dev. Support Credit	P077789	100
	Nepal	2004	Poverty Reduction Support Credit I	P074685	70
	Pakistan	2007	NWFP Second Development Policy Credit	P097471	130
			PEDPC-IV	P101243	100
			PK PRSC II	P090690	350
			Punjab Irrig DPL II	P102333	100
			Sindh DPC	P100846	100
		2006	NWFP DPC I	P090689	90
			PK Punjab Education DPC-III	P097636	100
			PK -Punjab Second Education Sector DPC	P090346	100
			PK Punjab-Irrigation Sector DPL	P096962	100
		2005	Pakistan PRSC I	P078806	300
			PK Banking Sector Dev. Policy Credit	P083079	300
		2004	NWFP SAC II	P079635	90
			Punjab Education Sector Adjustment Credi	P083228	100

Appendix B. List of public expenditure knowledge products

Note, if reports consists of various volumes, only volume one is presented.

Region	Country	Year	Document Name	Report Number	
SAR	Afghanistan	2010	Afghanistan - Country overview and role of public expenditure	72359	
			Afghanistan - Education sector	72364	
			Afghanistan - Expenditure framework and public financial management	72361	
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Central African Republic	2012	Central African Republic - Public expenditure review (PER) : creating fiscal space to transition out of fragility through growth and poverty reduction	63517
Central African Republic;Zambia	2008	Zambia - Making basic education services more effective in Zambia : improving delivery, tracking school level expenditures	54500
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Guinea	2004	Guinea - Strengthening public expenditure management for poverty reduction and growth : public expenditure review	27347
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	2009	Aceh growth diagnostic : identifying the binding constraints to growth in a post-conflict and post-disaster environment	49568
	2009	Indonesia - Investing in Indonesia's education at the district level : an analysis of regional public expenditure and financial management	47514
	2008	Investing in Indonesia's health : challenges and opportunities for future public spending - health public expenditure review 2008	46314
	2008	Service delivery and financial management in a new province : Gorontalo public expenditure analysis 2008	46313
	2007	Managing resources to build back and create a better future for Nias : Nias public expenditure analysis	40822
	2007	Indonesia public expenditure review 2007 - Spending for development : making the most of Indonesia's new opportunities	38772
	2007	Public financial management in Aceh : measuring financial management performance in Aceh's local governments	40711
	2007	Main Report	38778
	2006	Aceh public expenditure analysis : spending for reconstruction and poverty reduction	38417
	2005	Papua public expenditure analysis - overview report : regional finance and service delivery in Indonesia's most remote region	34046
	2003	Decentralizing Indonesia : A regional public expenditure review overview report	26191

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	2003	Indonesia - Selected fiscal issues in a new era	25437	
	2000	Indonesia - Public spending in a time of change	19845	
Kiribati	2013	Summary of findings : Kiribati public expenditure analysis	78308	
Lao PDR	2012	Government spending on health in Lao PDR : evidence and issues	76229	
	2011	Lao PDR - Public Expenditure Review (PER)	63200	
	2008	Lao PDR - Public expenditure tracking survey in primary education and primary health : making services reach poor people	39043	
	2007	Lao PDR - Public expenditure review integrated fiduciary assessment	39791	
Malaysia	2000	Malaysia - Malaysia public expenditures : managing the crisis ; challenging the future	20371	
Mongolia	2009	Core report	43353	
	2006	Mongolia - Public financing of education : equity and efficiency implications	36979	
	2002	Mongolia - Public expenditure and financial management review : bridging the public expenditure management gap	24439	
Papua New Guinea	2004	Papua New Guinea - Public expenditure review and rationalization : overview of discussion paper	31209	
Philippines	2013	Philippines - Second phase of the basic education public expenditure review : school based management - an empirical investigation	ACS2212	
	2013	Getting a grip on climate change in the Philippines : executive report	78809	
		Getting a grip on climate change in the Philippines : extended technical report	78798	
	2012	Philippines - Basic education : public expenditure review	71272	
	2011	Philippines - Public expenditure review : strengthening public finance for more inclusive growth	55695	
	2009	Philippines - Transport for growth : an institutional assessment of transport infrastructure	47281	
	2007	Philippines : Agriculture public expenditure review	40493	
	2003	Philippines - Improving government performance : discipline, efficiency and equity in managing public resources (a public expenditure, procurement and financial management review)	24256	
Samoa	2014	Samoa - Public expenditure review notes : taking stock of expenditure trends from FY2006-FY12	ACS7927	
Solomon Islands	2011	Solomon Islands - Public expenditure review for the Solomon Islands Government	68826	
Thailand	2012	Overview	67486	
Timor-Leste	2013	Timor-Leste - Social assistance public expenditure and program performance report	73484	
	2004	Timor-Leste - Public expenditure review	27886	
	2002	East Timor public administration : public expenditure management and accountability note	27509	
Vietnam	2014	Vietnam fiscal transparency review : analysis and stakeholder feedback on state budget information in the public domain	88273	
	2013	Vietnam - Agriculture public expenditure review	ACS4599	
	2005	Cross sectoral issues	30035	
	2001	Viet Nam - Growing healthy : a review of Viet Nam's health sector	22210	
	2000	Main Report	21021	
World	Lithuania;World	2009	Lithuania - Social sectors public expenditure review	48604

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World	2011	Forest sector public expenditure reviews : review and guidance note	64491
	2011	How do we improve public expenditure in agriculture?	66817
	2009	Tanzania - Public expenditure review of the water sector	68621

Appendix C. The role and influence of Public Expenditure Reviews on DPO design (Table 2 of 2)

Country, DPL, FY	Was there a PER? If yes, PER findings used in DPO? (Yes/No)? If no PER, were findings on resource allocation from other analytical work used in DPO?	If PER present and findings used in DPO design, in which Policy Areas of DPO were PER findings used	Were there associated Prior Actions (PAs)	Implementation effective or not (strong, moderate, weak, none)
Albania Social Sector Reform, FY11	<p>No recent PER. Extensive PER in 2006.</p> <p>PER 2006 covered public debt, the social insurance system, health financing and health insurance institute (HII). Although 2006 PER dated, its findings remain relevant.</p> <p>However, the findings did not factor into DPO design</p>	<p>No links between 2006 PER and DPO (although the DPL's two Policy Areas were: Social safety Net (SSN) Effectiveness; and Health Spending Efficiency and Equity.</p> <p>The Program Document (PD) does not discuss the adequacy of total expenditure allocations toward social transfer programs and health.</p> <p>The Project's review documents do not discuss the composition of public expenditure.</p>	No	Not applicable
Benin PRSC 4-6, series, FY07-10	<p>PER in 2004 focused on social expenditure trends in the same sectors of focus in the PRSC series.</p> <p>However, the PRSC does not contain any reference to PER.</p>	<p>PER in 2004 recognized that "the share of expenditures in five major health programs is driven by the availability of foreign funds rather than by national priorities; some important causes of child mortality and morbidity are not addressed".</p> <p>A PRSC series focus: "to support government efforts toward achieving the MDGs by improving access to basic services, particularly better efficiency of expenditures in human capital formation". The operation was explicitly aimed at improving MDG outcomes.</p>	<p>The PAs are vague, given the seriousness of the issues discussed. The Program Document has no discussion of necessary budgetary allocations. No analysis of public expenditures in critical MDG related areas where Benin is particularly lagging (maternal mortality, child mortality and morbidity). The 2010 IMF Ex-Post Assessment concludes that the</p>	weak to none

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		However, the PRSCs do not follow up on the PER findings.	program could not monitor poverty reducing expenditures given the weakness of expenditure classification.	
Brazil State - Fiscal Sustainability, FY09	There was no PER or state specific social sector reports that could have guided the DPO.	Not Applicable	Not Applicable	weak
Cote d'Ivoire Post Reconstruction and Recovery, FY12	PER in 2008 Complex PER relevant to the program. PER findings used in DPO design (see next two columns).	Policy Areas covered in the PER and included in the DPO: Health and Education expenditures Tax policy on cocoa/coffee Budget execution Accountability of public procurement Audit (of the cocoa sector)	5 of 7 PAs based on PER recommendations. These were: Adopt MTEF for health and education sectors Convert export taxes to ad valorem rate for cocoa; Submit budget execution laws; open code of ethics for public procurement; conduct audits of four cocoa entities PER called for increasing pro-poor expenditures. In particular, health expenditures were very low by Sub-Saharan African standards (below 1 percent of GDP). Increasing the share of health and education expenditures was an expected result of the program.	Weak Implementation varied. I.e. although PA (a) suggested increased pro-poor expenditures, the DPO supported an action to adopt a MTEF in the sector that was not effective as it was not binding. The result of increasing expenditure on health and education was not achieved due to lack of institutional depth in the prior action underpinning this result.
Indonesia Infrastructure DPL 4 (series of 4), FY08-11	Per in 2007. Also Infrastructure Framework for Policy and Action (2004).	Policy Areas were based on both studies: a) Infrastructure spending and investment at national and sub-national; b) Allocation of fuel subsidies (reducing inefficient and pro-rich;	Key associated Prior Actions (too numerous to mention all): a) Increase allocation to national infrastructure by	Implementation moderate Electricity pricing delayed due to parliament approval, but moved forward

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	DPL design based on both 2007 PER and the 2004 study.	allocate from consumption to connection) to expand network; c) PFM in roads d) Fiduciary (e-procurement and audit) e) Impediments to sub-national borrowing and arrears f) Incentives for PPPs	30% over 2007 level; b) Publicize breakdown of subsidy by region and customer category; c) Allocation to infrastructure fund (for PPP); d) Implement e-procurement; e) Assist water utilities (PDAMs) to clear arrears so they can resume borrowing.	in 2010 during last DPL, rural electrification target dropped
Latvia Safety Net and Social Sector Reform Program, FY10	PER in 2007 before crisis, PER in 2010, (esp. for DPL) with a focus on social sector reforms on a reduced budget due to crisis. Some findings from 2007 used in DPL. 2010 PER provided thorough analysis of challenges in social protection, health and education. Provided menu of policy options for medium term	DPL used the 2007 PER proposal to shift from hospital financing to primary healthcare. Overall relevance of PER limited as crisis downsized budget envelope in 2009. 2010 PER: Specifically commissioned to provide analytical underpinning for second DPL. The PER supported social sector reforms undertaken since 2009, but, as policy actions for second DPL were already designed during first DPL (as indicative triggers) – there was little flexibility to incorporate new actions. This could be the reason why some potentially important reform areas not included in the first operation did not become reforms actions under the second program. For example, the 2010 PER suggested reforms in Family State Benefits that were less targeted but constituted 37 percent of social protection budget as of 2010. The PER suggested a number of reforms in the program to direct resources from non-poor to the poor. However, this did not become part of the reform program.		The Bank commissioned a PSIA (Employment and Welfare Impact of the Financial Crisis in Latvia). A second study by same authors in 2012 that did ex-post poverty simulations found that ESSNS worked reasonably well.
Mexico Green Growth, FY09	Sectoral PER in 2009, on agriculture and rural development; General PER in 2004. PER contents do not pertain to DPL. Although no PE findings used in this DPL, the Economic Policies (EP) DPL approved 1 month after this DPL includes a detailed discussion on PE Management, and was	This DPL does not have Policy Areas related to PE. However, the EP DPL included 2004 PER findings/Policy areas on: Government Accounting; Tax Reform; Conditional cash transfers	This DPL does not have Prior Actions related to PE As in previous column, the EP DPL had several prior actions related to 2004 PER findings. These were: Implement accounting law to establish accrual accounting;	Not relevant to this DPL.

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	informed by several studies including the 2004 PER.		Tax reform for basic foods and reducing subsidy for residential electricity; Taxes to enhance non-oil revenues	
Peru Programmatic Fiscal Management and Competitiveness, FY07-11	<p>PER (2002) PER (2007) Public Expenditure and Fiscal Assessment (PEFA, 2009).</p> <p>The first operation used the PER as a basis for its design. The third operation uses the PEFA to inform its design (to inform the reform process, and indicative triggers)</p> <p>Overall, PERs and PEFA used to inform design of the series.</p>	<p>Policy Areas were:</p> <p>a) Fiscal Management (strengthening budget reporting and planning)—where most PAs were focused; b) Results-based budgeting (to enhance efficiency and promote higher impact of public spending—(higher efficiency evident in health and nutrition programs); c) Tax reforms (but little advance).</p>	<p>Prior Actions include:</p> <p>a) Enforcement of fiscal rules; b) Eliminating sectoral and regional tax exemptions; c) Linking budget presentation cycle with performance indicators and submission of sector performance indicators; d) Other PAs related to fiscal reforms</p>	<p>Strong</p> <p>The PERs and PEFA appear to have informed the country and the Bank on the most important aspects of reform, and also provided with data and analysis to have proper baselines for some of the indicators</p>
Poland Energy Efficiency and Renewable Energy Development, FY11	<p>PER in 2010 focusing on social sectors and public wages. PER mostly discusses forms of targeted social assistance.</p> <p>Not relevant for an energy sector DPL and did not factor into DPO design</p>			<p>Not Applicable to this DPL.</p>
Romania Financial Management and Social Protection DPL 2 (series of 1-3, 2009-11), FY11	<p>PER (2006) PER (2010)</p> <p>Both relevant. 2010 was in middle of series and emphasizes urgency due to global crisis. 2010 findings used in DPL.</p>	<p>Consistency between 2010 PER and DPL Policy areas and Prior Actions. Policy areas include:</p> <p>a) Improving FM by explicitly introducing a MTEF; b) Public sector wage policy; c) Education reform (allocation of teachers); d) Health – allocation of resources; e) Pension reform;</p>	<p>Several associated Prior Actions:</p> <p>a) MTEF approved by Parliament with binding expenditure limits; b) Pay adjustments made in public sector according to laws; c) Schools to receive budgets by per-capita formula; d) Revised health provider payment mechanisms adopted;</p>	<p>Moderate</p>

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			e) Link/de-link pensions.	
St Lucia Economic and Social DPL, FY10	No PER; No PSIA The Program Document states that, "the Bank has supported the program through analytic work in public expenditure, economic management, poverty and social protection". However, there is not enough evidence of analytical work being used to support the operation.	A Policy Area relates to improving the effectiveness and efficiency of social safety nets (SSNs) by supporting transparent targeting mechanisms and prioritizing social spending to vulnerable groups, however, no expenditure analysis.	Prior Actions do not related to PE allocation, except for a reference to a Value Added Tax Bill.	weak Due partly to long-term reforms in a one-tranche operation. Implementation is believed to have improved after DPL closure.
Tunisia Governance and Opportunity, FY11	No PER Comprehensive Health Sector Study in May 2006, with important institutional reforms suggested. The DPL was prepared very rapidly. No obvious inclusion of findings.	No relevant Policy Areas in DPO.	No Prior Actions related to expenditure allocation. The only related PA is "institute a national outreach service policy to expand free access to care. No discussion on allocation	Not relevant
Vietnam, Programmatic PRSC 10 (series of PRSCs 6-10), FY10	PER in 2005 2013 PEFA The PER was a major exercise and very relevant to the series. It suggested 10 key reforms in the medium term	Policy Areas with recommendations in the PER were: Implementing the MTEF as part of budget cycle; Balancing capital and recurrent expenditure Eliminating off-budget transactions Implementing Treasury and Budget Management Information System State Audit of Vietnam (SAV) Audits of SOEs Strengthen public investment management Strengthen public debt management Follow up PERs in 2008 and 2011.	There were 7 Prior Actions for PRSC 6 and 10 indicative triggers for PRSCs 7 to 10. 7 of the 10 indicative triggers were dropped.	Very Weak. With progression of series, the policy matrix underwent significant changes. Most critical indicative triggers were never incorporated into the final policy matrix.

Appendix D. DPOs and Public Expenditure Reviews at the subnational level

1. As documented in this descriptive annex, subnational DPOs and PERs have taken place in a small number of large, federated countries during the period under review (2000-13 for PERs and 2004-13 for DPOs). By far the largest number of subnational DPOs in this period took place in only one country: Brazil.¹⁷ PERs and DPOs generally tend to overlap in a very small number of countries. Given the importance of subnational fiscal and development agenda, this may suggest a potential knowledge gap and an opportunity for the Bank to intensify knowledge engagement at the subnational levels, both as part of the knowledge and policy dialogue per se and as a contribution to the future DPO development. This very brief annex provides some very preliminary portfolio trends and figures that may raise questions and stimulate further discussion.

2. In the period under review (2004-14) there were a relatively limited number of subnational DPOs. In this period, the first set of subnational DPOs¹⁸ were provided to Pakistan in 2006, including an education and an irrigation policy credit to the Punjab region. There was a total of 35 DPOs at the subnational level between 2006 and 2013, equivalent to about 6 percent of all approved DPO operations in this period. On an annual basis, DPOs at the subnational level, are relatively rare, showing a modest increase from one operation (2 percent of the total) in 2009 to six (10 percent) in 2014.

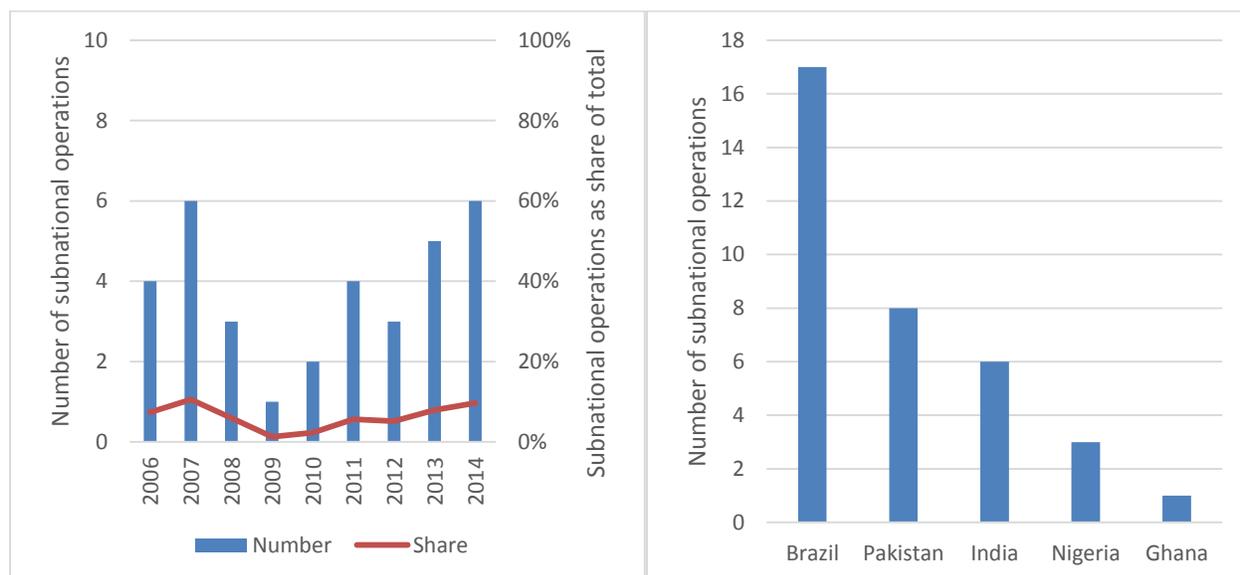
3. All 35 subnational operations were provided to the following five countries: Brazil, Pakistan, India, Nigeria, and Ghana. All are regionally large economies with significant Bank engagements. The large majority of these (17) were provided to Brazil. The trends and breakdown by country is provided in figure 1.

¹⁷ In the previous period especially, there were subnational PERs in other countries (e.g., India, Pakistan, Russian Federation, Nigeria).

¹⁸ DPOs at the subnational level were identified by all policy lending that include a “subnational flag” as per business intelligence database. This includes only operations that lent *directly* to subnational governments, but not operations that were targeting decentralization reform via lending to central governments. The data here rely on BI report 2c.2.1, which was accessed on March 26, 2015.

APPENDIX D
DPOs AND PUBLIC EXPENDITURE REVIEWS AT THE SUBNATIONAL LEVEL

Figure D-1 . Trend of DPOs at subnational level in numbers and as share of total



4. As too few of those DPOs were reviewed by the IEG, no clear conclusion can be drawn about the differences in outcome indicators at this time.

5. Similarly, relatively few PERs were produced at the subnational level. Between 2000 and 2014, IEG identified 38 subnational PERs out of a pool of 404, amounting to 9 percent of total.¹⁹ Though the number of reports produced varies, many more subnational PERs were produced in the latter half of the evaluation period, a trend reflecting the lending pattern of DPOs. The distribution of countries with subnational PERs is, however, much more balanced than with DPOs across the five regions.

6. Subnational PERs were found in 16 countries. Most prominent is Indonesia (12), followed by Ethiopia (4), and Pakistan (3). Of the five countries with subnational DPOs, only Brazil (2 PERs), Pakistan (3 PERs), and Nigeria (2 PERs) had a subnational public expenditure type knowledge product. This suggests that outside Brazil, where there has been a strong DPO and PER engagement, the integration of subnational PERs and DPOs is taking place in a very small number of countries. For example, while there were national PERs in Ghana, no national nor subnational PERs were conducted in India. Notable is also that no subnational DPOs were provided to Indonesia, China, or Mexico, despite their regional importance and the World Bank’s interest in their subnational expenditure composition. The trends and regional distribution of subnational PERs are shown in figure 2.

¹⁹ As subnational coding was not available for this database, IEG instead judged content of the PER by the document title.

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Figure D-2. Trend of PERs at subnational level in numbers and as share of total

