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INDEPENDENT  
EVALUATION GROUP

**WORLD BANK GROUP**  
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# Maximizing the Impact of Development Policy Financing in IDA Countries

## A Stocktaking of Success Factors and Risks

An Independent Evaluation Group Meso Evaluation  
May 23, 2018

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# Abbreviations

ADB	Asian Development Bank	M&E	monitoring and evaluation
AfDB	African Development Bank	MDRI	Multilateral Debt Relief Initiative
ASA	Advisory Services and Analytics	MFM	Macroeconomic and Fiscal Management
CAR	Central African Republic	MIGA	Multilateral Investment Guarantee Agency
CPIA	Country Policy and Institutional Assessments	MS	moderately satisfactory
CPS	country partnership strategy	MTI	Macroeconomics, Trade, and Investment
CIWQ	Core Welfare Indicators Questionnaire survey	OECD-DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
DANIDA	Danish International Development Agency	OPCS	Operations Policy and Country Services
DEVAL	German Institute of Development Evaluation	OPSPQ	Operations Policy and Quality
DFCII	Development Finance Corporate IDA & IBRD	PEFA	Public Expenditure and Financial Accountability
DFID	Department for International Development	PER	Public Expenditure Review
DPF	development policy financing	PG	Practice Group
DPO	development policy operations	PPAR	Project Performance Assessment Report
EFI	Equitable Growth, Finance, and Institutions	PRSC	Poverty Reduction Support Credit
EU	European Union	SD	Sustainable Development
FAD	Fiscal Affairs Department	SEDP	Socio-Economic Development Plan
FCS	fragile and conflict-affected situations	SOE	state-owned enterprises
GDP	gross domestic product		
GP	Global Practice		
HD	Human Development		
HEIs	higher education institutions		
HIPC	heavily indebted poor countries		
IBRD	International Bank for Reconstruction and Development		
ICRR	Implementation Completion and Results Report Review		
ICT	information and communication technologies		
IDA	International Development Association		
IDB	Inter-American Development Bank		
IEG	Independent Evaluation Group		
IFC	International Finance Corporation		
IMF	International Monetary Fund		
JPAFs	joint policy assessment frameworks		

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# Meso Evaluations: An IEG Pilot Product for FY18

Meso evaluations are a new Independent Evaluation Group (IEG) product line being piloted in FY18. They respond to a demand, by both management and the Board of Executive Directors, for medium-sized, focused, just-in-time evaluations from IEG aimed at contributing to the search for effective solutions to specific development challenges as they arise.

Meso evaluations focus on learning and are a nimble processing protocol to maximize responsiveness and timeliness as well as value-added for the World Bank Group and its clients. Meso evaluations do not include recommendations or action plans.

Meso evaluations are expected to be completed within 6–12 months and to have a clear World Bank Group technical counterpart identified at the Vice President or Senior Director level for the World Bank, or Director level for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Because preparation time is shorter, meso evaluations have to be selective in the choice of data sources and methods.

This meso evaluation relies on a combination of portfolio review and analysis (including econometric methods), desk-based case studies, and literature review. Its methodological limitations are described in relevant sections of the document and summarized in slide 87.

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# Summary of Key Findings (I)

- Improving “relevance of design” is key for achieving better development policy financing (DPF) outcomes: it requires congruence between policies supported and project development objectives pursued. We also found success to be associated with development objectives that are the priorities of government. In such cases, design is flexible enough to capture the changing country context.
- Systematic analytical work, as exemplified by Public Expenditure Reviews prior to DPF, and technical assistance during implementation, offer potential for improving DPF success. Operations with strong analytical underpinnings that help inform government priority reforms contribute to improved policy dialogue and facilitate the implementation of complex reforms.
- Technical assistance is associated with success when it fills capacity gaps that affect the implementation of DPF supported reforms. It has to be provided in a timely fashion and in a way that is consistent with reform sequencing.
- Government Ownership risks are an issue in many DPF Programs and tend to reduce success rates significantly. Strong government ownership facilitates implementation of difficult reforms, even in the face of political opposition. The positive effects associated with high government ownership are amplified when design relevance is strong.
- Sound macro policies at the outset of DPF operations are linked to higher policy reform success rates. Operations that include reforms needed to sustain the adequacy of the macroeconomic framework during implementation tend to be more successful

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## Summary of Key Findings (II)

- In countries with low capacity, successful operations have been associated with efforts to secure high government ownership and with the use of simpler designs. In high-capacity contexts, ensuring the borrower's readiness to pursue complex structural reforms is still important for success.
- When government priorities shift toward addressing the impact of large external shocks, operations tend to be more successful when they pursue policy reforms congruent with new government priorities or when they address key roadblocks for gaining access to expanded aid.
- DPFs with development partners using joint policy assessment frameworks (JPAFs) have not been associated with better outcomes than other DPF operations with otherwise similar characteristics. When design relevance is already strong, the net added benefits of JPAFs may be negative. Lower reform success in countries with strong donor coordination has been found in contexts of government reform fatigue or when changing political contexts require bilateral negotiations.
- Multisector operations that balance Equitable Growth, Finance, and Institutions (EFI)-related objectives on the one hand, with Human Development (HD)- and Sustainable Development (SD)-related objectives on the other hand, perform better, *ceteris paribus*, than operations focused mainly on economic reforms and those focused mainly on reforms led by line ministries. The increased success rates of multi-sector operations are enhanced when design relevance is stronger.



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## Summary of Key Findings (III)

- Project-level corruption risks as assessed by DPF teams were insignificant in our econometric model, but case studies confirm the potential adverse effect that corruption has by reducing the effectiveness of government institutions in implementing reform programs. Reforms aimed at permanently reducing bureaucratic powers tend to be met with strong resistance, which can only be withstood when there is government commitment at the highest level.
- Financing predictability can be balanced with performance as evidenced by the finding that on average and all things being equal, programmatic series perform better than standalone operations.
- The added benefits of programmatic DPF are higher when commitment amounts are lower as a share of government expenditures. This may suggest that when DPF commitment amounts are lower as a share of government expenditures, World Bank teams are less concerned about the magnitude of the potentially disruptive effects on client countries when faced with the option of responding to low reform performance by delaying or canceling operations in programmatic series. To the extent that the World Bank is better able to exercise those options when DPF commitment amounts are relatively low, and this may be potentially factored in by clients, incentives for maintaining reform momentum may be higher in those cases.

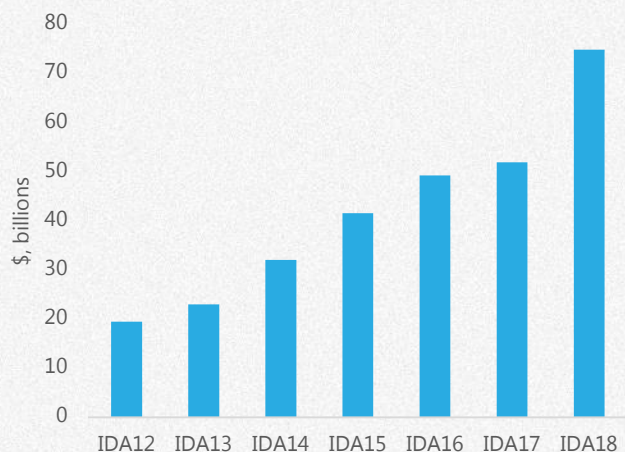
# Purpose and Context

# Purpose

The evaluation is expected to inform decisions on the use of DPF in International Development Association (IDA) countries by providing evaluative insights into drivers of success and risks.

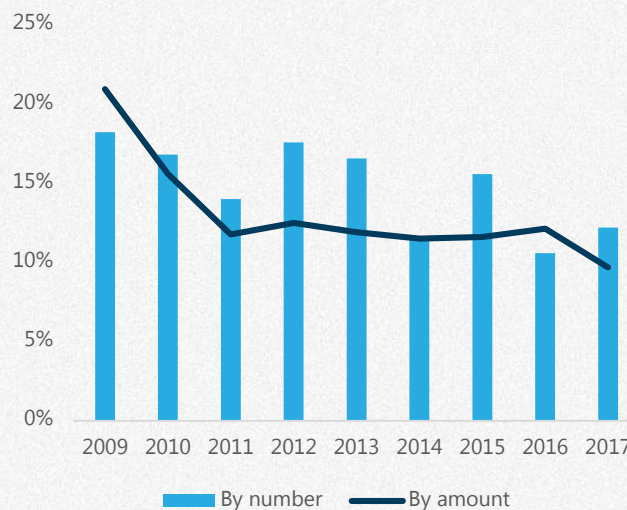
This is pertinent in the context of the record replenishment for IDA18 in the face of a declining share of DPF in IDA commitments during the last three IDA cycles. In this context, it is worth examining the factors that have driven DPF success in the past to inform decisions on the role of this development financing instrument in IDA countries.

Figure 1. IDA Replenishment Commitments



Note: IDA = International Development Association.

Figure 2. Share of DPF in Total IDA Commitments



Note: DPF = development policy financing; IDA = International Development Association.

# DPF Use Is Lower in IDA Than in IBRD Countries

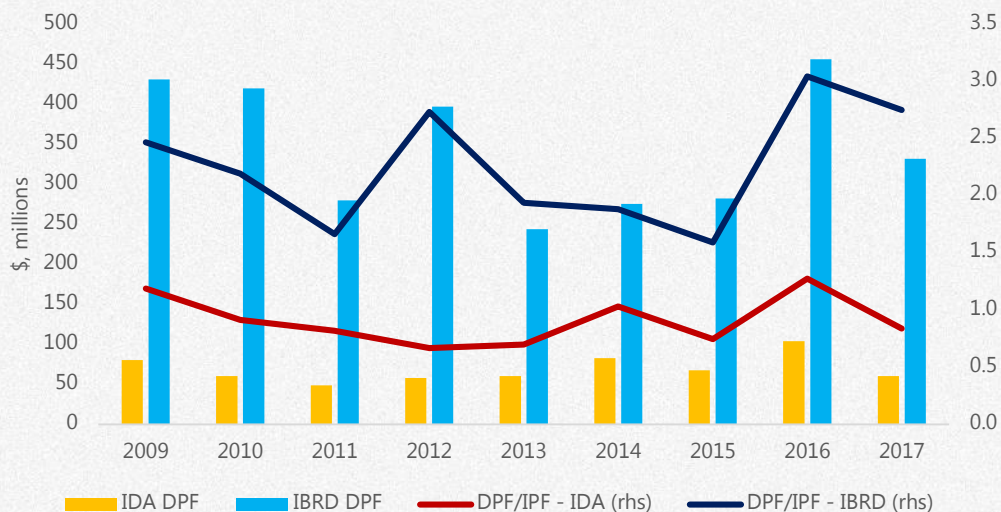
DPF operations represent a smaller share of the World Bank portfolio in IDA than in International Bank for Reconstruction and Development (IBRD) countries.

Between FY09–15, IDA and IBRD countries has a similar number of DPFs (275 versus 278), but twice as many investment project financing (IPF) in IDA as in IBRD countries (1,565 versus 776).

The average size of DPF operations in IDA countries was less than 20 percent of that in IBRD countries.

Although the average size of DPF more than doubles that of IPF in IBRD countries, DPF was on average of the same size as, or smaller than, IPF in IDA countries.

Figure 3. Average Size of DPF Commitments Compared with IPF Commitments



*Note:* DPF = development policy financing; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IPF = investment policy financing.

Source: <http://office.microsoft.com/en-us/excel-help/present-your-data-in-a-column-chart-HA010218663.aspx>

# Africa and MFM (MTI) Accounted for the Largest Shares of IDA DPF

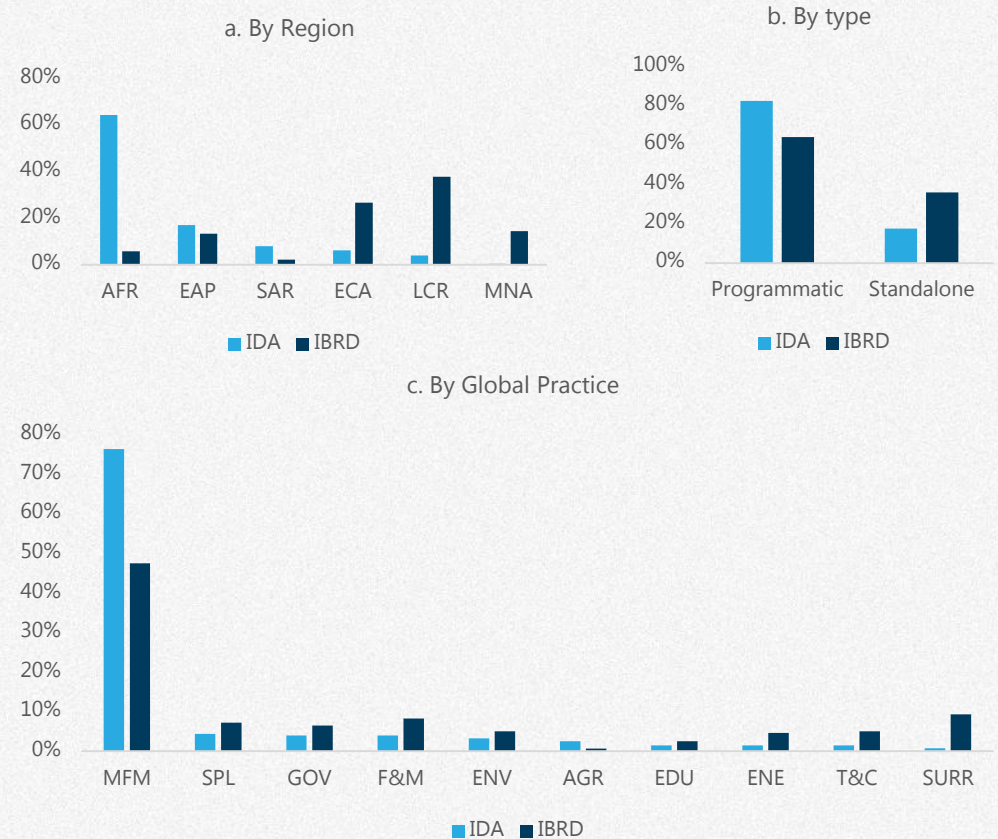
DPF in IDA countries are more concentrated geographically and thematically (compared with DPF in IBRD countries).

This reflects the high proportion of African countries eligible to receive IDA resources.

The larger share of DPF operations led by the Macroeconomic and Fiscal Management (MFM) Global Practice (GP; now Macroeconomics, Trade, and Investment [MTI]) probably reflects a continuing need to focus on macro-fiscal policy reforms in IDA countries, where “sector DPF” is less prevalent (compared to IBRD).

Programmatic DPF series are also more frequent in IDA countries.

Figure 4. Distribution of DPF in IDA and IBRD Countries (# of projects, FY09–17)



*Note:* AFR = Sub-Saharan Africa; AGR = Agriculture; DPF = development policy financing; East Asia and Pacific = East Asia and Pacific; Europe and Central Asia = Europe and Central Asia; EDU = Education; EFL = Equitable Growth, Finance, and Institutions; ENE = Energy and Extractives; ENV = Environment and Natural Resources; F&M = Finance and Markets; GOV = Governance; HD = Human Development; HNP = Health, Nutrition, and Population; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; Latin America and the Caribbean = Latin America and the Caribbean; MFM = Macroeconomics and Fiscal Management; MNA = Middle East and North Africa; ; South Asia = South Asia; SD = Sustainable Development; SURR = Social, Urban, Rural, and Resilience; T&C = Trade and Competitiveness.

# The Evaluation's Portfolio Mirrors the Universe of Projects Closed over FY09–17

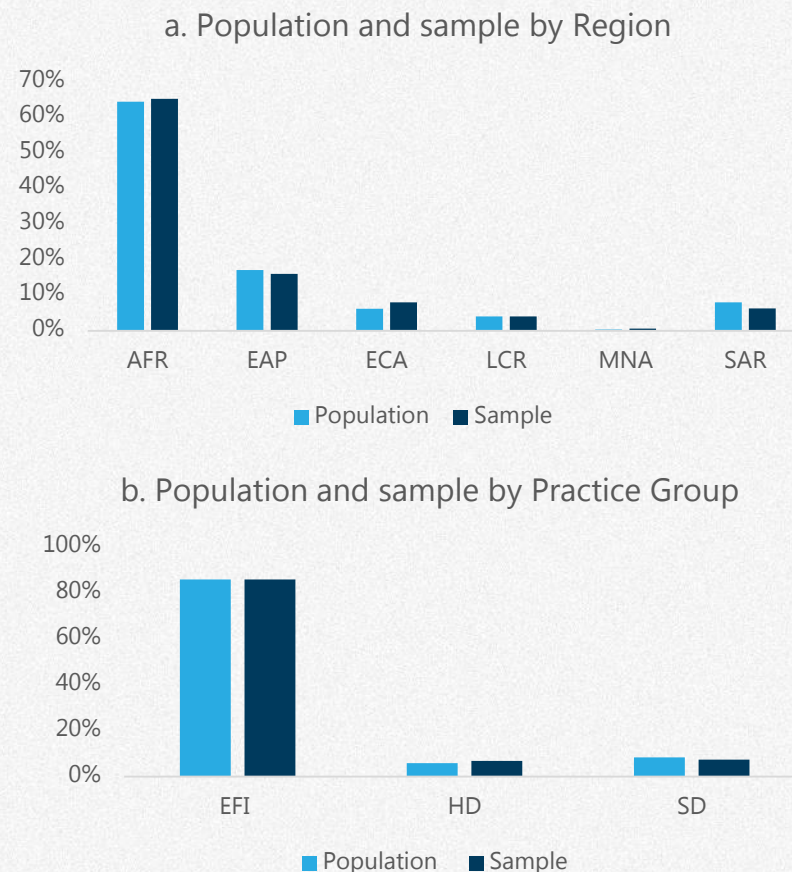
The composition of the portfolio used for the analysis, in terms of lead Practice Groups and Regions of the 175 operations covered is not statistically different from the total universe of 275 operations closed during the evaluation period.

Most of the 275 operations were in the Africa (64 percent), followed by the East Asia and Pacific (17.1 percent), South Asia (8 percent) and Latin America and the Caribbean (4 percent). MNA had the smallest share (0.4 percent). The differences in shares between the portfolio sample and the universe did not exceed 2 percentage points for any region.

Across Practice Groups, EFI had the highest share of operations (86 percent) in both the population and the sample. The share of HD operations in the sample was similar to that of SD (about 7 percent). There were no significant differences in sector shares between the population and the sample.

Note: one limitation of this study is that it does not cover all DPF operations rated by IEG since the inception of the instrument. Further work in this area could test the robustness of our findings using a larger sample.

Figure 5. Proportion of DPF Operations, FY09–17 (Percentages,)



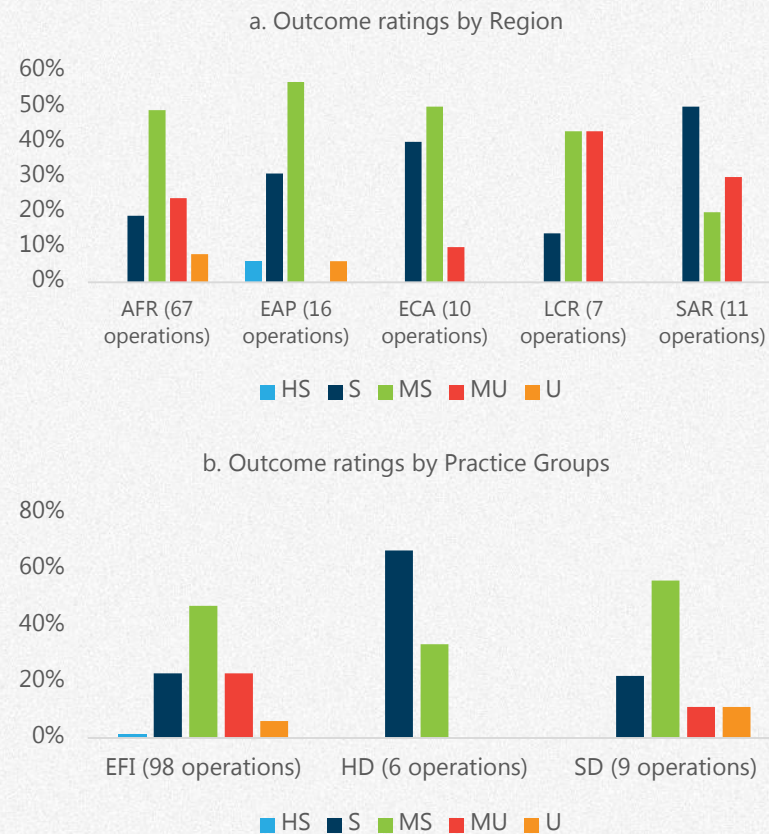
Note: Africa = Africa; DPF = development policy financing; East Asia and Pacific = East Asia and Pacific; Europe and Central Asia = Europe and Central Asia; EFI = Equitable Growth, Finance, and Institutions; HD = Human Development; Latin America and the Caribbean = Latin America and the Caribbean; MNA = Middle East and North Africa; South Asia = South Asia; SD = Sustainable Development.

# IDA DPF Performance Varies across Regions and GPs

Because sample sizes are quite small outside of Africa and EFI, caution should be used in interpreting these comparisons. With that caveat, IDA DPF performance has been very high in East Asia and Pacific and Europe and Central Asia: over 90 percent of DPFs in those Regions have achieved moderately satisfactory or higher (MS+) outcomes. Performance has been lower in South Asia (70 percent MS+), Africa (68 percent), and Latin America and the Caribbean (57 percent).

Although comparisons across Practice Groups are even more difficult—only six HD-led and nine SD-led operations are rated in the period — 100 percent of the six HD operations sampled show above the line outcomes, well above EFI (71 percent) and SD (78 percent). Further evidence on cross-GP comparisons is presented in the Portfolio Analysis section, based on efficacy of objectives (for which samples are larger).

Figure 6. Outcome Ratings of DPF in IDA Countries, FY09–17 (Percentages)



*Note:* Africa = Africa; DPF = development policy financing; East Asia and Pacific = East Asia and Pacific; Europe and Central Asia = Europe and Central Asia; EFI = Equitable Growth, Finance, and Institutions; HD = Human Development; HS = highly satisfactory; Latin America and the Caribbean = Latin America and the Caribbean; MNA = Middle East and North Africa; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; South Asia = South Asia; SD = Sustainable Development; U = unsatisfactory.

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# Challenges Faced by DPF in IDA

The 2015 DPF Retrospective produced by Operations Policy and Country Services noted several internal and external factors that contributed to the relatively small and declining share of DPF in IDA (for example, 24 percent in FY08 and 15 percent in FY15). These factors point to some of the special challenges in providing development assistance through the DPF instrument in IDA countries.

## Residual Resource Allocation

Within the financing constraint of a country's IDA allocation, country teams may decide first on the size of IPF operations, which depends on the nature and scale of the respective projects being financed. The size of DPF operations is then calculated as a residual and may have no direct link to the scope of the reforms being undertaken by governments. Client prioritization of IPFs is often driven by the considerable infrastructure needs of IDA countries.

## Termination of Programmatic Series

During FY05–15, 27 DPF programmatic series representing nearly 10 percent of commitments during the period terminated prematurely in IDA countries. Reasons included change in government, shift in policy direction, weakened macroeconomic and governance environment, and delay or failure to implement core reforms. In most cases, however, new DPF operations were presented to the Board within 12 months of termination of previous series.

## Constraints Imposed by Joint Budget Support

Concerns over weakening governance, macroeconomic, and public financial management (PFM) environment have led to suspension of budget support by development partners in several countries. Such pauses have lasted between six months to three years, and have affected IDA commitments, especially at the end of an IDA cycle.



# Background on DPF and Evaluation Theory of Change

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# Salient Features of DPF

DPF has evolved from supporting structural adjustment programs in the 1980s and 1990s to supporting the achievement of the Millennium Development Goals in the 2000s. It has been considered by multilateral and bilateral donors as one of the instruments that would best enable the realization of the Paris Declaration on Aid Effectiveness. However, the use of budget support as a preferred aid modality has been diminishing, especially among European member states (Koch et al. 2017).

Some salient features of the DPF policy at the World Bank Group include issues related to the World Bank's financing criteria and selectivity and the adequacy of the macroeconomic framework.

## Financing Criteria and Selectivity

"The Bank's decision to extend a DPF is based on an assessment of the member Country's policy and institutional framework—including its economic situation, governance, environmental/natural resource management, and poverty and social aspects. The Bank considers the strength of the program proposed for support and the Member Country's commitment to, and ownership of, the program against its track record. It also assesses the Member Country's institutional capacity and ability to effectively implement the program to be supported and describes the country's capacity building efforts.

## Macroeconomic Framework

"The Bank provides a DPF for a Member Country or its Political Subdivision only when it has determined that the Member Country's macroeconomic policy framework is adequate. If the DPF is made as a Bank Guarantee of debt of an IDA Member Country or its Political Subdivision, the Member Country must also have low or moderate risk of debt distress and comply with applicable Bank policies relating to non-concessional borrowing. In addition, if the DPF is a Bank Loan to a Political Subdivision or a Bank Guarantee guaranteeing the debt of a Political Subdivision, the Political Subdivision has an adequate expenditure program, sustainable debt, and adequate fiscal arrangements with the central government in accordance with the country's constitutional and legislative framework.

**Note: The text under Financing Criteria and Selectivity, and Macroeconomic Framework, as well as that under the following slide are taken from World Bank 2017.**

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# Prior Actions Are Integral to DPF

“The Bank determines which of the policy and institutional actions the Member Country has committed to take are critical for the implementation and expected results of the program supported by the development policy operation. Bank approval of the DPF is subject to maintenance of an adequate macroeconomic policy framework, implementation of the overall program in a manner satisfactory to the Bank, and compliance with the program’s prior actions. Disbursement under a Bank Loan, and signing of each agreement providing for a Bank Guarantee, is conditioned on: (i) satisfactory implementation of the program supported by the DPF, including compliance with the program’s prior actions and tranche release conditions (in the case of a multi-tranche Bank Loan); and (ii) maintenance of a satisfactory macroeconomic policy framework. The Bank seeks to harmonize these conditions with those of other development partners in consultation with the member country.

## **DPF Modalities: Programmatic versus Stand-Alone**

“All development policy operations are embedded in an explicit medium-term framework and are based on adequate prior policy and institutional actions. DPF in the form of a Bank Loan may be provided in one or more tranches, depending on the Member Country’s policy environment and capacity, its financing requirements and other available financing, and the content and phasing of the program being supported by the development policy operation. Development policy operations following a programmatic approach consist of a series of operations within a medium-term framework of policy and institutional actions. Such programmatic approach involves (i) clear, monitorable indicators with quantitative baselines and targets, whenever possible, (ii) indicative prior actions (or triggers) for the subsequent operations in the series, and (iii) notional timing and amounts of subsequent operations.”

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# Theory of Change Underlying This Meso Evaluation

The five-level evaluation framework below (next slide) provides a structure for understanding the logic of DPF operations. It tracks the cause and effect links between inputs, immediate effects, outputs, outcomes and impacts. It represents a stylized “theory of change” that serves as the basis for the present meso-evaluation. It starts from the recognition that DPF is to involve a package of complementary inputs, including but not restricted to the proceeds of the respective grants, loans or guarantees.

The impact of DPF is partly derived from the combination of financial resources with the policy reforms embedded as prior actions in the respective operations, and the analytical work and policy dialogue that underlies their preparation.

The alignment of the prior actions with the government’s own policy program and the decision to utilize government systems for the utilization of DPF proceeds are in and by themselves important additional inputs for the achievement of DPF ultimate objectives.

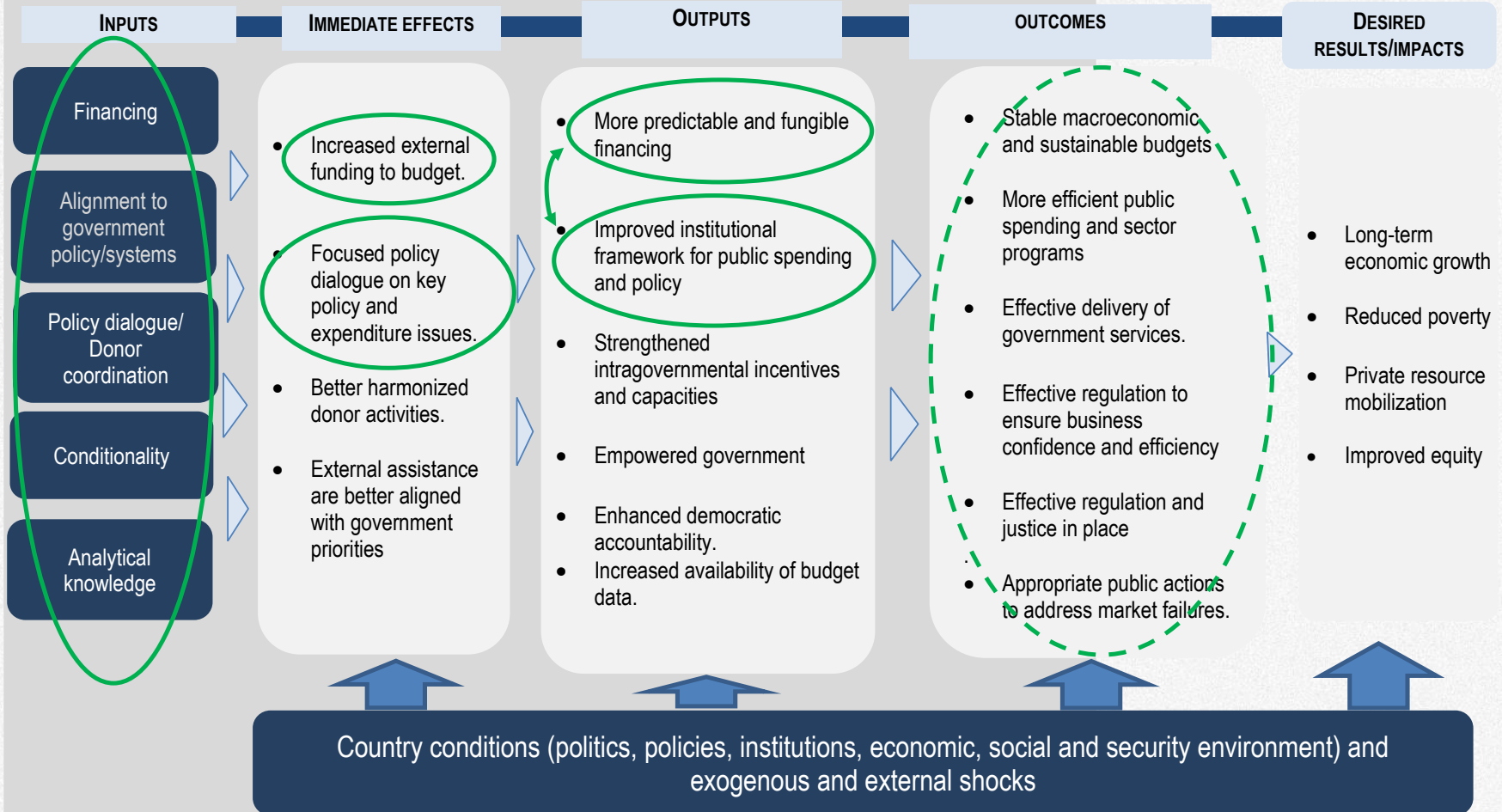
DPF increases the volume and predictability of discretionary funding that can be used for development purposes while at the same time aligning World Bank and donors’ activities– for example, technical assistance and policy dialogue – around the goal of supporting the effective implementation of the recipient’s broader development strategy.

The immediate effects of the provision of DPF are positive changes in the financing and institutional framework for public spending and public policy formulation. Within government, DPF has the potential for strengthening the incentives of line ministries to work with the finance ministry in setting priorities and allocating funds as opposed to competing for donor investment funding.

The expected potential outcomes of a more predictable and fungible financing of the budget are improved policy and regulatory frameworks, enhanced expenditure efficiency and service delivery, and a more stable and sustainable financing of the government budget and associated macro framework.

# Theory of Change

**Table 1: Development Policy Framework: A Very Stylized Theory of Change**



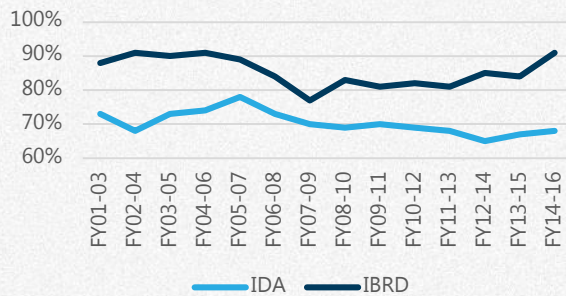
Source: Koeberle, Stavreski and Walliser 2006, and OP8.60, World Bank 2014.

# Evaluation Questions and Methodology

# Evaluation Questions

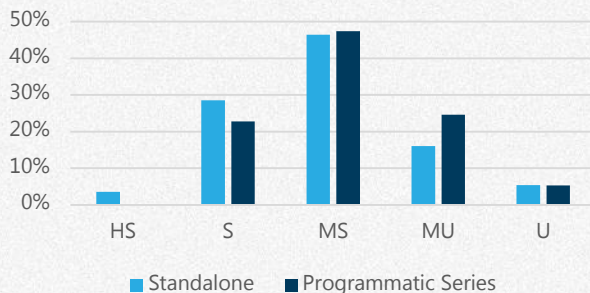
The performance of DPF in IDA countries in terms of the operations' outcome ratings has been below that of DPF in IBRD countries. Within IDA, programmatic series have performed below stand-alone operations. To shed more light on how to improve the effectiveness of DPF in IDA countries, this evaluation focuses on two key questions:

Figure 7. Outcome Rating of DPF in IDA and IBRD Countries (MS+, 3-year rolling, # of projects)



Note: DPF = development policy loan; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

Figure 8. IEG Outcome Ratings of DPF in IDA Countries



Note: HS = highly satisfactory; IEG = Independent Evaluation Group; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory.

## Question 1

Where the World Bank has provided DPF in IDA countries,

- To what extent and under what conditions has DPF been successful in supporting improvements in policy and institutions?
- What are the key factors for success?

## Question 2

Where the World Bank has provided multiyear DPF in IDA countries,

- Has there been a trade-off between predictability of financing and strength of policy reforms?
- Under what conditions has multiyear DPF eroded the strength of policy reforms?
- What approaches have been effective to minimize such trade-offs?

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# Evaluation Methodology

## Theoretical Pattern Identification

Structured, protocol-based literature review to identify linkages between budget support and policy reforms.

- The literature review covered 94 peer-reviewed academic papers and 36 studies by multilateral and bilateral development agencies.
- Patterns were identified in terms of interventions characteristics and contextual factors associated with the successful achievement of expected development results.
- The review included the World Bank's DPF but also budget support offered by other development agencies.

To answer these questions, this evaluation follows a multipronged methodology to investigate the causal relationship between DPF inputs and the achievement of their expected development outcomes.

## Empirical Pattern Identification

Structured, protocol-based portfolio analysis to identify trends of DPF in IDA countries.

- The review covered 175 IEG-rated IDA DPF operations during FY09-17.
- Using a standardized protocol, information was collected on key intervention characteristics and contextual factors for each DPF operation.
- IEG validated outcome ratings were used to assess DPF success. Since a single outcome rating is produced for each programmatic series, the review focused on a sample of 111 DPF supported programs, of which 61 through stand-alone operations and 50 through programmatic series.

- **Desk-based case studies** were performed on a stratified random sample of operations to identify the mechanisms by which some of the DPF success drivers may have been at work in DA countries.

- **Econometric analysis** was used to identify empirical patterns in terms of correlates of DPF success, focusing on the intervention and contextual factors whose importance was identified through the literature review.

- The issue of possible tradeoffs between financing predictability and performance was also addressed through *econometric analysis*.

*Note: The methodology was designed in the spirit of the Pattern Matching approach proposed by Trochim (1985; 1989).*



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# Practical Implementation Approach

Step 1: Conducted initial structured literature review (130 publications, including by academics and development agencies/IFIs), as well as interviews to inform overall causal theory of change between DPF and policy reform.

Step 2: Developed list of 10 key variables (including intervention and context characteristics) potentially relevant for understanding the links between DPF and policy reform (based on broad literature review).

Step 3: Defined and implemented protocols for coding the portfolio and the literature, respectively for the presence of those 10 variables in each operation and for previous findings in the literature (focus on 36 most important publications) on their role in affecting DPF effectiveness.

Step 4: Identified and compared patterns of key variables associated with successful policy reforms following DPF in both the literature and the portfolio.

Step 5: Performed econometric analysis and case studies to provide additional evidence on the role of the main variables found to be associated with DPF effectiveness in the pattern matching analysis.

Step 6: Performed desk-based case studies to better understand the mechanisms by which the factors identified in the literature have affected IDA DPF success in practice.

## Logic of Pattern Matching

In both the relevant literature and portfolio, the team identified patterns of variables (context and intervention characteristics) associated with increased or reduced achievement of DPF expected outcomes. If pattern in the literature confirms pattern in the portfolio then the causal claim underlying the portfolio pattern is strengthened.

# Literature Review

# Patterns Identified in the Literature

*The coding of 36 selected influential papers allowed us to rank the initial 10 relevant variables (derived from a broad literature review) in terms of the frequency with which the literature has covered them and the degree of convergence in the findings on their role in driving DPF effectiveness.*

*The 10 variables are expected to have a causal association that results in increased or reduced reform success in DPF operations.*

Table 2. Ten Key Variables from Literature

Key Variables	Number of Papers	Strength of Causal Evidence	Expected Reform Impact
Corruption	17	Inconclusive	Negative Impact
Institutional capacity	12	Strong	Positive Impact
Government Ownership	9	Strong	Positive Impact
Macroeconomic conditions	8	Strong	Positive Impact
External shocks	7	Strong	Negative Impact
Democracy	7	Inconclusive	Positive Impact
Technical assistance	7	Inconclusive	Positive Impact
Donor coordination	6	Inconclusive	Positive Impact
Program design	5	Strong	Positive Impact
Analytical work	5	Strong	Positive Impact

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# The Most- Researched Variables

## Corruption

Corruption, scandals, and electoral fraud have made policy-based lending difficult to sustain in some countries over the long-term (for example, European Parliament). While there is evidence of a positive association between corruption improvements and budget support success, it is not clear whether corruption improvements are enabling such success, whether budget support is improving recipient country performance on corruption, or whether these factors are mutually reinforcing (for example, the Dutch Ministry of Foreign Affairs)

## Institutional Capacity

Numerous studies find that the strength of institutional capacity existing in a country has a positive effect on aid-induced policy change (for example, Dollar and Svensson 1988; Dollar and Levin 2005). Where institutional capacity is inadequate, bottlenecks in policy reform implementation commonly develop and undermine policy reform success.

## Government Ownership

The strength of budget support depends strongly on the political will for reform of the recipient government (for example, the German Institute for Development Evaluation). Unsuccessful policy reforms in the context of extensive donor coordination has been attributed to diminished government ownership as a result of pressure to agree to donors' preferred policy reforms due to power disparity between coordinated donors and the recipient government (for example, Paul and Harrigan 1995; Barnhizer 2005)

## Macroeconomic Conditions and External Shocks

Initial macroeconomic conditions and economic performance during program implementation have been found to be key drivers of policy reform and budget support success (for example, Farhad and Paloni 2007, Thaddeus and Silarszky 2005). The occurrence of external shocks – economic or otherwise, for example, violent conflicts, food crises or natural disasters—during the preparation or implementation of operations, have an adverse impact on success.

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# Other Relevant Variables

## Democracy

Democracy has been seen as a factor advancing policy reform due to evidence that policy reform is more successful where public pressure in the recipient country exists to improve the provision of government services (for example, the Dutch Ministry of Foreign Affairs). Yet the extent to which democratic participation informs policy dialogue, policies selected for reform and the success of policy reform is unclear. Downward tendencies in voice and accountability have been found to be associated with Budget support suspension (for example, Molenaers 2012).

## Technical Assistance

There is insufficient evidence to conclude that technical assistance increases the success of budget support. However, there is evidence for Africa that in contexts of low institutional capacity, clearly targeted and defined capacity development that persists throughout a program and is responsive to the implementation needs of budget support has had a positive impact (for example, the German Institute for Development Evaluation).

## Donor Coordination

While donor coordination may have a positive effect on policy dialogue in terms of harmonization of *agreed* policies targeted for reform, it does not necessarily have a positive impact on the *success* of the policy reforms themselves (for example, the German Institute for Development Evaluation; Molenaers 2015). At the same time, uncoordinated decisions by donors following conditionality breaches by recipient governments have also driven diminished budget support success.

## Program Design and Analytical Work

The World Bank (2015 DPF Retrospective) has found that DPF success has been associated with the congruence or “line of sight” between the policy reforms supported and the development objectives being pursued, as well as with the extent to which DPF prior actions are actionable and capable of generating tangible policy changes. There is also evidence that success in achieving policy changes is more likely when sound evidence supports selection of policy reforms, particularly when rigorous analysis precedes program design and policy dialogue.

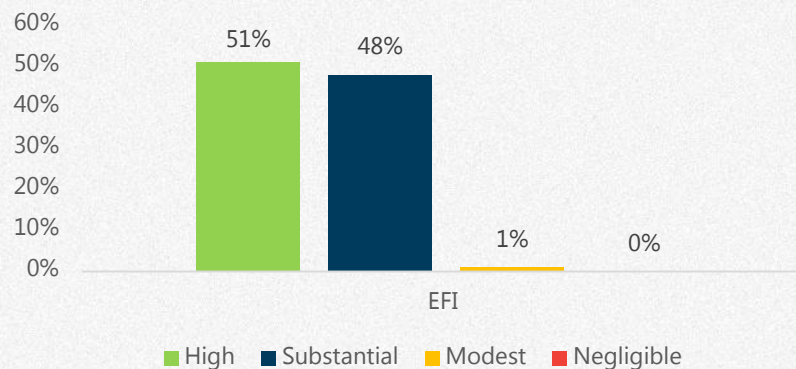
# Portfolio Review

# Deconstructing IDA DPF Performance: Higher Relevance for Objectives Than Design

The ratings for the relevance of objectives are substantial or high in 99 percent of the IDA DPF operations over this period. This denotes significant consistency of objectives with countries' development priorities and World Bank Group country strategies and corporate goals.

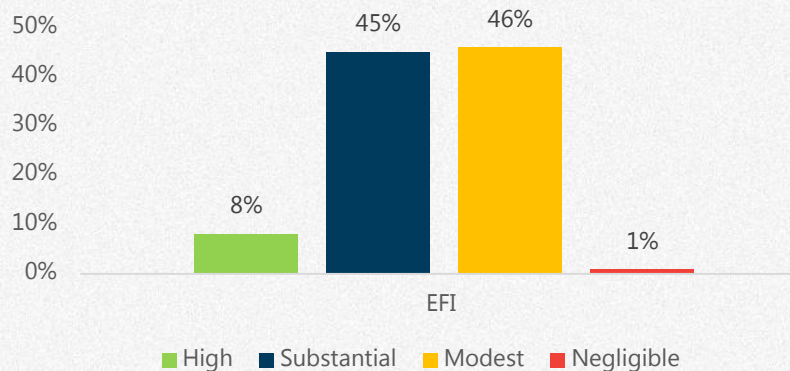
In contrast, only about half (53 percent) of operations have substantial or high relevance of design ratings. In other words, for almost one half of IDA DPF operations, project design is not considered to be adequately consistent with the operations' objectives—for example, the policy areas and prior actions may not be sufficient to achieve the stated objectives.

Figure 9. Relevance of Objectives Ratings



Note: EFI = Equitable Growth, Finance, and Institutions.

Figure 10. Relevance of Design Ratings



Note: EFI = Equitable Growth, Finance, and Institutions.

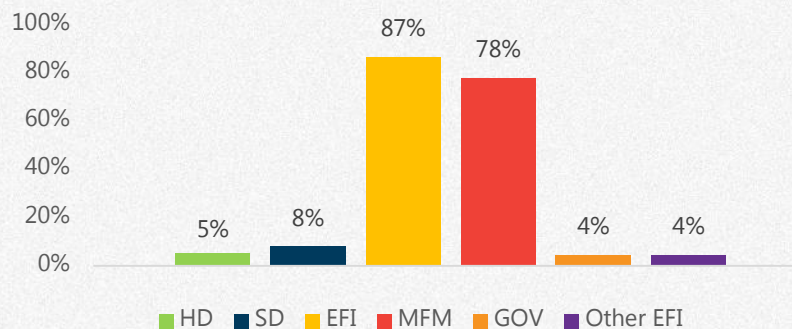
# MFM Sector Content of Objectives Is Diverse

The HD and SD Practice Groups have led only 13 percent of IDA DPF. However, together they account for 32 percent of the 308 objectives in 111 operations included in the evaluation database.

Similarly, while EFI has led 87 percent of IDA DPF, it accounts for 69 percent of operations' objectives.

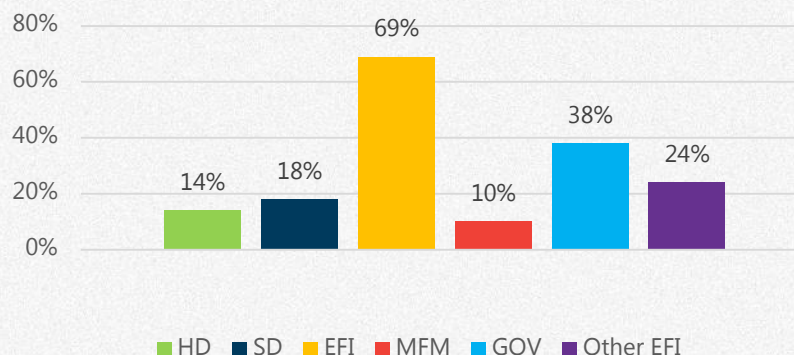
Within EFI, MFM (now MTI) led 78 percent of IDA DPF operations, compared to 4 percent each for the Governance and Finance and Markets GPs. However, only 10 percent of objectives are related to macroeconomic policy reforms, compared to 38 percent focused on governance issues and 24 percent on reforms associated with other EFI topics (finance, trade and competitiveness).

Figure 11. Share of IDA DPF operations by Practice Groups and GPs within EFI



Note: EFI = Equitable Growth, Finance, and Institutions; GOV = Governance; GP = Global Practice; HD = Human Development; MFM = Macroeconomic and Fiscal Management; SD = Sustainable Development.

Figure 12. Share of IDA DPF objectives by Practice Groups and GPs within EFI



Note: EFI = Equitable Growth, Finance, and Institutions; GOV = Governance; GP = Global Practice; HD = Human Development; MFM = Macroeconomic and Fiscal Management; SD = Sustainable Development.



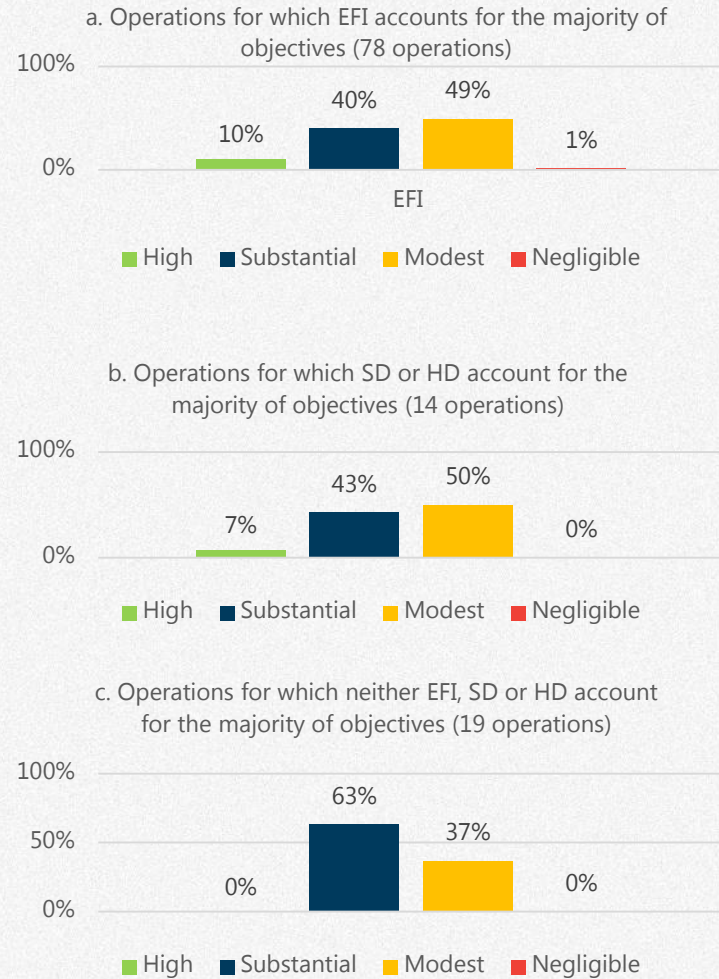
# Relevance of Design Does Not Vary Greatly by Sector

For operations in which EFI accounts for more than a half of the respective objectives, the relevance of design rating is above the line in 50 percent of the cases. In these 78 operations, EFI accounts for 86 percent of objectives on average.

When operations' objectives are dominated by other Practice Groups (PGs)—that is, more than half of pertain to either SD or HD—the share with above the line relevance of design ratings is also 50 percent. In these 14 operations, EFI accounts for 10 percent of objectives on average.

The share of operations with above the line relevance of design ratings is slightly higher, 63 percent on average, for the group of 19 operations in which neither EFI or other PGs have more than half of objectives. Note that in all operations in this group (100 percent), EFI accounts for exactly 50 percent of objectives.

Figure 13. Relevance of Design Ratings for IDA DPF Operations, by Dominant Practice



Note: EFI = Equitable Growth, Finance, and Institutions; HD = Human Development; SD = Sustainable Development.

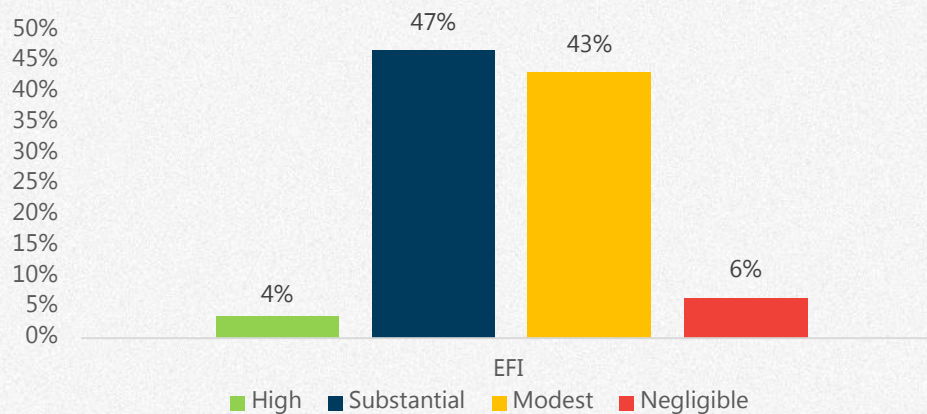
# Deconstructing IDA DPF Performance: Efficacy Is Above the Line for About Half of Objectives

Efficacy is about the assessment of the achievement of each project development objective. It is defined as the extent to which the operation's objectives were achieved, or are expected to be achieved, and are attributable to the activities or actions supported by the operation.

In 47 percent of the cases, operations achieve or nearly achieve their objectives (*Substantial* rating), and in 4 percent they exceed their expected outcomes.

In 43 percent of the cases, objectives are only partially achieved, and in 6 percent they are not achieved at all.

Figure 14. Efficacy of Objectives Ratings



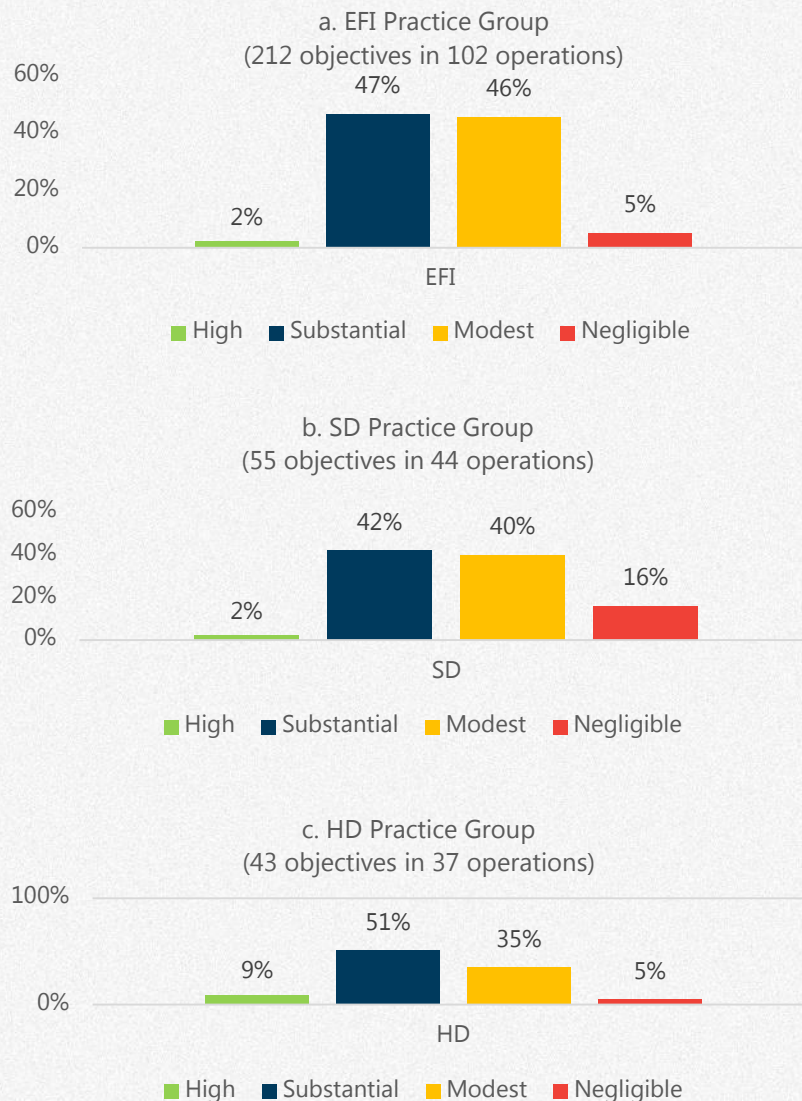
Note: Percentage of 308 objectives in 111 rated operations. EFI = Equitable Growth, Finance, and Institutions.

# Efficacy Is Highest for HD Objectives

For EFI-related objectives, efficacy ratings are “above the line” (substantial or high) in 49 percent of the cases. In comparison, non-EFI sector objectives (either SD- or HD-related), have ratings of at least substantial in 53 percent of the cases.

Within the group of “sector” objectives, those linked to HD perform better than SD ones, with shares of above the line efficacy ratings of respectively 60 percent (HD) and 44 percent (SD), versus 49 percent for EFI. SD objectives also exhibit the highest share of negligible efficacy ratings (16 percent compared with 5 percent for EFI and HD).

Figure 15. Efficacy of Objectives, by Practice Group



Note: EFI = Equitable Growth, Finance, and Institutions; HD = Human Development; SD = Sustainable Development;

# Econometric Analysis

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# Empirical Analysis: Variable Definition (I)

## Outcome Rating

A binary variable was constructed, with a score of 1 for operations with IEG outcome ratings of moderately satisfactory or higher, and 0 otherwise. The outcome rating of an operation is defined as the extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. IEG uses a six-scale grading system: highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory and highly unsatisfactory.

## Corruption

Program documents were reviewed to ascertain whether task teams described corruption within government as a major issue for the respective operations. A binary indicator was thus constructed, with a score of 1 for those cases, and 0 otherwise. For programmatic series, each operation was reviewed and rated separately.

## Institutional Capacity

An indicator variable for countries classified as having low income was used as a proxy for the level of institutional capacity.

## Government Ownership

The description of risks in program documents was used to identify operations in which government commitment risks were low, medium or high. A binary variable was used in the econometric analysis, activated for low commitment risks (we treat high government commitment to the program as synonymous of high government ownership of the program).

## Macroeconomic Conditions

The Country Policy and Institutional Assessments (CPIA) score for the economic management cluster (A) in the year preceding the approval of the operation was used as a proxy. For programmatic series, each operation was reviewed and rated separately.

## External Shocks

An indicator variable was used for each operation, taking the value 1 when task teams described the country as being affected by external shocks ranging from natural disasters to commodity price shocks and conflicts, and taking the value 0 if there were no shocks. For programmatic series, each operation was reviewed and rated separately.

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# Empirical analysis: Variable Definition (II)

## Democracy

The evaluation used the Democracy Index produced by the Economist Intelligence Unit. The index ranks countries on a scale of 0 to 10. Countries with scores greater than 8 are described as having full democracies, those with scores below 8 but greater than 6 have flawed democracies, those between 6 and 4 have hybrid regimes, and those below 4 have authoritarian regimes.

## Technical Assistance

Based on a review of Program Documents and Completion Reports, a binary variable was created for whether the operation helped built government capacity to implementation the policy program supported (coded as 1; 0 otherwise). For programmatic series, an average across operations was used.

## Analytical Work

As a proxy for the extent to which the operation was supported by analytical work, an indicator variable was created for whether a Public Expenditure Review (PER) was produced to inform the operation (coded as 1; 0 otherwise). For programmatic series, an average across operations was used.

## Program Design

A categorical variable was constructed based on IEG relevance of design ratings. These are established based on the extent to which the project's design (its prior actions) is consistent with the stated objectives. This includes an assessment of the results framework, that is of the underlying project logic linking its inputs to its expected outcomes. IEG uses a four-point scale: high, substantial, modest or negligible. Except for the analysis of interactions with other variables (slide 44), a binary variable was used in the econometric analysis, activated for substantial-plus designs.

## Donor Coordination

The evaluation reviewed the program document of each operation to ascertain whether it was linked to a JPAF involving the World Bank, the government and other development partners. The JPAF can be viewed as the end product of the policy dialogue between the government and its development partners and serves as the document from which the World Bank selects its prior actions and triggers. A binary variable was created (coding cases where a JPAF existed as 1, 0 otherwise).

# Descriptive Statistics

	mean	sd	min	max	count
Outcome Rating	0.73	0.45	0.0	1.0	111
Ownership	2.13	0.91	1.0	3.0	111
Macro CPIA (lagged)	3.58	0.64	1.8	5.5	111
Technical Assistance	0.89	0.30	0.0	1.0	111
Joint Pol.Ass.Fram.	0.62	0.49	0.0	1.0	111
Design Rating	2.61	0.65	1.0	4.0	111
Public Exp. Rev.	0.59	0.48	0.0	1.0	111
corruptionteam	0.73	0.43	0.0	1.0	111
Low Income	0.48	0.50	0.0	1.0	111
External Shocks	0.89	0.29	0.0	1.0	111
Democracy	3.97	1.82	0.0	6.7	110
Program(2+oper.)	0.42	0.50	0.0	1.0	111
Program(3+oper.)	0.27	0.45	0.0	1.0	111
Commitment Amount	2.78	2.44	0.1	12.9	111

	(1) Full sample mean	(2) MS-Plus mean	(3) MS-Less mean	(4) Diff. (3)-(2) b	se
Ownership	2.13	2.17	2.00	-0.17	(0.19)
Macro CPIA (lagged)	3.58	3.57	3.59	0.02	(0.14)
Technical Assistance	0.89	0.92	0.83	-0.08	(0.06)
Joint Pol.Ass.Fram.	0.62	0.57	0.77	0.20*	(0.10)
Design Rating	2.61	2.79	2.13	-0.66***	(0.12)
Public Exp. Rev.	0.59	0.61	0.54	-0.07	(0.10)
corruptionteam	0.73	0.70	0.81	0.11	(0.09)
Low Income	0.48	0.42	0.63	0.21**	(0.11)
External Shocks	0.89	0.88	0.90	0.02	(0.06)
Democracy	3.97	3.83	4.37	0.54+	(0.39)
Program(2+oper.)	0.42	0.43	0.40	-0.03	(0.11)
Program(3+oper.)	0.27	0.28	0.23	-0.05	(0.10)
Commitment Amount	2.78	2.83	2.66	-0.17	(0.52)
Observations	111	81	30	111	

(\*) P<20 percent (\*) P<10 percent, (\*\*) P<5 percent, (\*\*\*) P<1 percent.

Caveats on econometric analysis:

-The study's focus on results achieved in the period immediately following the closing of DPF operations, as assessed in Implementation Completion and Results Report (ICR) Reviews (ICRRs) or Project Performance Assessment Reports (PPARs), is a possible limitation. Further analysis could consider exploring longer-term development benefits of DPF, noting however that attributing long term development outcomes to development policy financing would also entail higher attribution challenges.

-Furthermore, because the choice of programmatic versus stand-alone operations is potentially endogenous – although many of its possible drivers are controlled for – the respective econometric findings should be interpreted with caution. The same applies to the findings related to commitment amounts, donor harmonization activities, technical assistance, and DPF analytical underpinnings.

-The potentially endogenous variables measuring corruption risks, design relevance and government ownership are instrumented as explained below.

-Levels of income, democracy external shocks and macro conditions prior to DPF are arguably exogenous

# Econometric Estimates

Using a Probit model, we find that most variables highlighted in the literature have statistically significant correlations with the probability of "MS+" DPF outcome ratings.

Exceptions are the measures of Democracy and Country Capacity (proxied by a low income indicator), and the measure of crisis presence (noting that the respective variable combines various types of shocks and that future studies could explore the impact of different types of shocks separately).

Donor budget support harmonization as proxied by JPAFs has a negative correlation with DPF outcomes.

East Asia and Pacific performs better than other regions even after controlling for other factors. Multi-sector DPF (50 percent EFI and 50 percent other PGs) perform better.

Table 5. Dependent Variable: Outcome Rating at Least Moderately Satisfactory

	General b/se	Parsimonious b/se	W. Year Dum. b/se	W. Region D. b/se	W. Sector D. b/se	Final Model b/se	F.M.wo.Corr. b/se
<b>Outcome Rating</b>							
Ownership	0.532** (0.27)	0.465* (0.24)	0.517* (0.29)	0.744*** (0.27)	0.465* (0.24)	0.756*** (0.27)	0.782*** (0.28)
Macro CPIA (lagged)	0.748*** (0.28)	0.491** (0.24)	0.481* (0.25)	0.802*** (0.28)	0.488* (0.26)	0.848*** (0.26)	0.759*** (0.25)
Technical Assistance	1.046** (0.52)	1.120*** (0.41)	1.063*** (0.41)	0.838* (0.43)	0.905** (0.42)	0.823** (0.41)	0.670* (0.40)
Joint Pol.Ass.Fram.	-0.845*** (0.32)	-0.856*** (0.31)	-0.885** (0.36)	-1.019*** (0.29)	-0.763** (0.31)	-0.971*** (0.27)	-0.840*** (0.27)
Design Rating	2.137*** (0.45)	1.904*** (0.36)	1.915*** (0.37)	2.312*** (0.45)	1.874*** (0.37)	2.200*** (0.43)	2.069*** (0.40)
Public Exp. Rev.	0.554+ (0.34)	0.420 (0.35)	0.417 (0.34)	0.727* (0.39)	0.429 (0.37)	0.673* (0.36)	0.532+ (0.37)
Corruption	-0.719* (0.39)	-0.955** (0.39)	-0.924** (0.41)	-0.837** (0.37)	-0.697* (0.42)	-0.718** (0.36)	
Low Income	-0.392 (0.32)						
External Shocks	-0.684 (0.61)						
Democracy	-0.093 (0.08)						
FY10 Dummy			0.207 (0.51)				
FY11 Dummy			0.298 (0.51)				
FY12 Dummy			0.102 (0.37)				
FY13 Dummy			-0.065 (0.50)				
FY14-15 Dummy			-0.049 (0.67)				
EAP Dummy				2.237*** (0.60)		2.141*** (0.59)	2.257*** (0.56)
LCR Dummy				-0.130 (0.33)			
ECA Dummy				0.820 (0.74)			
SAR Dummy				-0.445 (0.38)			
Sector DPF					0.395 (0.48)		
Multi Sector DPF					1.080* (0.59)	0.706+ (0.44)	0.804* (0.46)
Constant	-2.079** (1.02)	-2.017** (0.95)	-2.046** (1.00)	-3.503*** (1.12)	-2.231** (0.96)	-3.776*** (1.05)	-3.896*** (1.03)
PseudoR2	0.396	0.350	0.356	0.452	0.378	0.446	0.429
No.Obs.	110	111	111	111	111	111	111

Note: We use a Probit estimator with standard errors clustered by country. We start from a model that contains the 10 variables identified most frequently in the literature as drivers of DPF success. A parsimonious model is retained (last column), including all variables that are significant at least at the 20 percent level, including a region dummy for East Asia and Pacific and a dummy for DPF operations in which neither EFI or the HD and SD sectors accounted for the majority of DPF objectives. Corruption is dropped from this model as it is nonsignificant once instrumented (next slide).



# Econometric Estimates with Instrumental Variables

We used instrument teams' assessments of corruption with a lagged control of corruption index (from World Bank Governance Indicators, evaluated at the first year for which data available). We instrument design ratings with monitoring and evaluation (M&E) quality ratings and ownership risks with countries' fiscal deficit as a share of gross domestic product (potentially a driver of reform momentum, based on experts views).

Instruments perform well and with signs as expected in the endogenous variables regressions. The results allow to reject the hypothesis of exogeneity of the corruption variable which becomes non-significant once instrumented. We cannot reject the exogeneity of the ownership and design rating variables. For simulations purposes, we thus rely on the Probit model reported in the previous slide (last column).

Table 6. Dependent Variable: Outcome Rating at Least Moderately Satisfactory

	Corrupt. IV b/se	Design IV b/se	Ownersh. IV b/se	Own./Des. IV b/se
Outcome Rating				
Ownership	0.850*** (0.28)	0.745*** (0.28)	1.047*** (0.40)	1.128*** (0.41)
Macro CPIA (lagged)	0.814*** (0.25)	0.777*** (0.22)	0.738*** (0.25)	0.748*** (0.22)
Technical Assistance	0.668+ (0.46)	0.656* (0.38)	0.610+ (0.39)	0.544+ (0.38)
Joint Pol.Ass.Fram.	-0.804*** (0.25)	-0.705** (0.28)	-0.801*** (0.27)	-0.638** (0.29)
Design Rating	2.058*** (0.41)	2.566*** (0.40)	2.040*** (0.40)	2.533*** (0.39)
Public Exp. Rev.	0.468+ (0.36)	0.520+ (0.35)	0.558+ (0.36)	0.550+ (0.34)
Corruption	0.367 (0.41)			
EAP Dummy	2.081*** (0.50)	2.194*** (0.54)	2.277*** (0.54)	2.227*** (0.52)
Multi Sector DPF	0.709+ (0.44)	0.662* (0.40)	0.783+ (0.48)	0.630+ (0.42)
Constant	-4.358*** (1.04)	-4.299*** (0.93)	-3.937*** (1.02)	-4.360*** (0.92)
Corruption Corr. (Gov.Ind.)	-0.903*** (0.30)			
Design Rating M&E Rating		0.878*** (0.20)		1.030*** (0.20)
Ownership Fiscal Deficit			5.686** (2.66)	5.005* (2.63)
Chi2	5.770	2.235	0.415	2.972
Exog.p-value				
No.Obs.	111	111	111	111

+ p<0.20, \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Note: We use a simulated maximum likelihood multivariate probit model (Stata command mvprobit). Standard errors are clustered by country. Regression results for endogenous variable equations are presented only for the respective instrumental variables (on Corruption, Ownership and Design Rating). Probability values for the Chi2 test of exogeneity are respectively 0.0163, 0.1349, 0.5194 and 0.3959.

# Estimated Marginal Effects

## Drivers of DPF outcomes:

- Relevance of operation design: large estimated marginal effect.
- Sound macro policies at the outset;
- High government ownership;
- Analytical work (as proxied by Public Expenditure Review (PER) prior to DPF operations);
- Technical assistance;
- All else equal, East Asia and Pacific and multisector operations perform better than other regions;
- JPAFs appear negatively correlated with DPF success.

Table 7. Marginal Effects (dy/dx) Estimated for the Full Sample and by Outcome Rating Level

	At Means b/se	At MS- b/se	At MS b/se	At S+ b/se
Ownership	0.143*** (0.05)	0.239*** (0.08)	0.121*** (0.04)	0.084** (0.04)
Macro	0.139*** (0.04)	0.232*** (0.07)	0.118*** (0.03)	0.082** (0.03)
Technical	0.123* (0.07)	0.205* (0.12)	0.104* (0.06)	0.072* (0.04)
Joint Pol.Ass.Fram.	-0.154*** (0.05)	-0.256*** (0.08)	-0.130*** (0.05)	-0.091** (0.04)
Design Rating	0.379*** (0.04)	0.632*** (0.08)	0.321*** (0.04)	0.223*** (0.04)
Public Exp. Rev.	0.097+ (0.06)	0.162+ (0.11)	0.082+ (0.05)	0.057+ (0.04)
EAP Dummy	0.414*** (0.10)	0.689*** (0.16)	0.350*** (0.09)	0.243*** (0.09)
Multi	0.147* (0.08)	0.246* (0.14)	0.125* (0.07)	0.087** (0.04)
No.Obs.	111	30	52	29

+ p<0.20, \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Table 8. Marginal Effects (dy/dx) Estimated for the Full Sample and by Regions

	At Means b/se	AFR b/se	EAP b/se	ECA b/se	LCR b/se	SAR b/se
Ownership	0.143*** (0.05)	0.164*** (0.06)	0.053* (0.03)	0.139*** (0.05)	0.142*** (0.05)	0.154*** (0.05)
Macro	0.139*** (0.04)	0.159*** (0.05)	0.052* (0.03)	0.138*** (0.03)	0.138*** (0.04)	0.150*** (0.04)
Technical Assistance	0.123* (0.07)	0.140* (0.08)	0.046+ (0.03)	0.119+ (0.07)	0.122* (0.07)	0.132+ (0.09)
Joint Pol.Ass.Fram.	-0.154*** (0.05)	-0.176*** (0.06)	-0.057* (0.03)	-0.149*** (0.05)	-0.153** (0.06)	-0.165*** (0.06)
Design Rating	0.379*** (0.04)	0.433*** (0.04)	0.141** (0.06)	0.367*** (0.06)	0.377*** (0.05)	0.408*** (0.06)
Public Exp. Rev.	0.097+ (0.06)	0.111+ (0.07)	0.036+ (0.03)	0.094* (0.06)	0.097+ (0.07)	0.105+ (0.07)
EAP	0.414*** (0.10)	0.473*** (0.13)	0.154*** (0.04)	0.400*** (0.10)	0.411*** (0.13)	0.445*** (0.11)
Multi	0.147* (0.08)	0.168* (0.09)	0.055+ (0.04)	0.143* (0.08)	0.146** (0.07)	0.158* (0.09)
No.Obs.	111	67	16	10	7	10

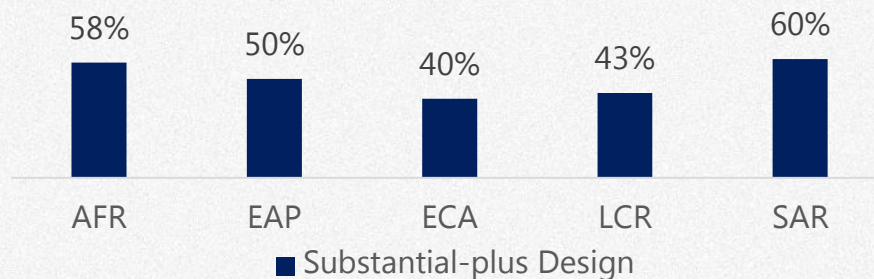
+ p<0.20, \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

# Congruence of DPF Policies and Objectives Offers Potential to Increase Success (simulations based on estimated regional marginal effects)

*Based on IEG's relevance of design ratings (substantial or higher), such congruence is present in almost 60 percent of DPF in Africa and South Asia, 40 percent in Latin America and the Caribbean.*

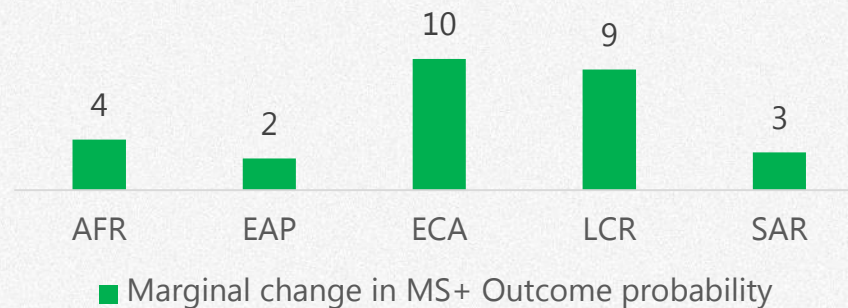
*Achieving high levels of congruence between policies and objectives in two-thirds of DPF operations would increase regional DPF outcome ratings by 9–10 percentage points in Europe and Central Asia and Latin America and the Caribbean. Increases would be smaller in other Regions, as their starting points are higher.*

Figure 16. DPF Operations with Substantial or Higher Relevance of Design Ratings: Current Region Averages (percentage)



Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; SAR = South Asia.

Figure 17. Increase in Probability of MS+ Outcome from Moving from Group Average to 67 Percent Notional Target for S+ Relevance of Design (percentage points)



Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; SAR = South Asia.

# Relevance of Design Affects the Impact of Other Factors

*The positive effects of high government ownership and multisector operations are enhanced when design relevance is stronger. In contrast, where design relevance is weak, sound macro policies become even more important. Similarly, the negative correlation of JPAFs with DPF success is restricted to operations with strong design relevance.*

*Note: Future analysis of the role of design relevance could decompose it on newly constructed measures of the quality of prior actions, as well as macro and result frameworks. Such measures would be less subject to the risk of being affected by reverse causality from outcome results to design ratings – even if such endogeneity risk has been controlled for in the results in slide 41.*

Table 11. Marginal Effects (dy/dx) allowing for interactives with design relevance (evaluated at means)

	Ownership b/se	Macro b/se	JPAF b/se	Multi_Sector b/se	EAP b/se
Ownership	-1.963*** (0.37)	0.123*** (0.05)	0.113** (0.04)	0.158*** (0.05)	0.144*** (0.05)
Macro CPIA (lagged)	0.139*** (0.04)	0.723*** (0.20)	0.141*** (0.05)	0.130** (0.05)	0.122** (0.05)
Technical Assistance	0.194** (0.10)	0.148+ (0.09)	0.223* (0.12)	0.137+ (0.09)	0.150* (0.09)
Joint Pol.Ass.Fram.	-0.150*** (0.06)	-0.153** (0.06)	1.984*** (0.34)	-0.182*** (0.06)	-0.183*** (0.06)
Design Rating	0.212*** (0.05)	1.220*** (0.29)	1.255*** (0.15)	0.295*** (0.04)	0.306*** (0.04)
Public Exp. Rev.	0.109* (0.06)	0.078+ (0.06)	0.121** (0.06)	0.127* (0.07)	0.113* (0.06)
EAP Dummy	0.374*** (0.10)	0.449*** (0.11)	0.389*** (0.10)	0.434*** (0.12)	-0.804** (0.36)
Design*Owner.	1.001*** (0.17)				
Multi Sector DPF	0.185** (0.08)	0.153* (0.08)	0.143* (0.08)	-1.648*** (0.55)	0.166* (0.09)
Design*Macro		-0.254*** (0.08)			
Design*JPAF			-1.019*** (0.17)		
Design*MST				0.861*** (0.23)	
Design*EAP					0.599*** (0.16)
No.Obs.	111	111	111	111	111

+ p<0.20, \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

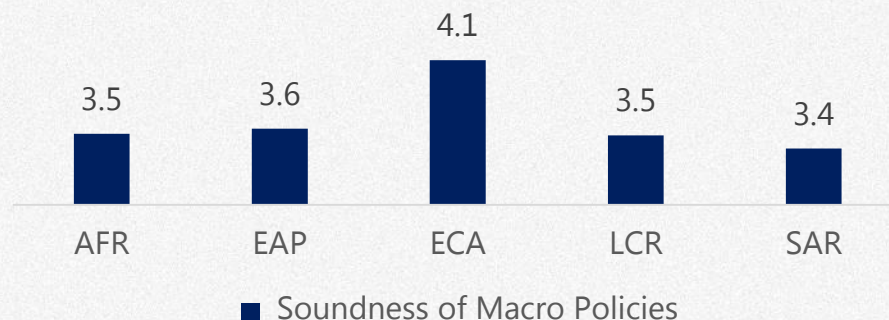
# DPF Perform Better with Sound Macro Policies

(simulations based on estimated regional marginal effects)

*On average, there are small differences across regions in the soundness of macro policies in the year preceding DPF—at least as proxied by average macro ratings in CPIA and with the exception of Europe and Central Asia, which is at a higher level over this period.*

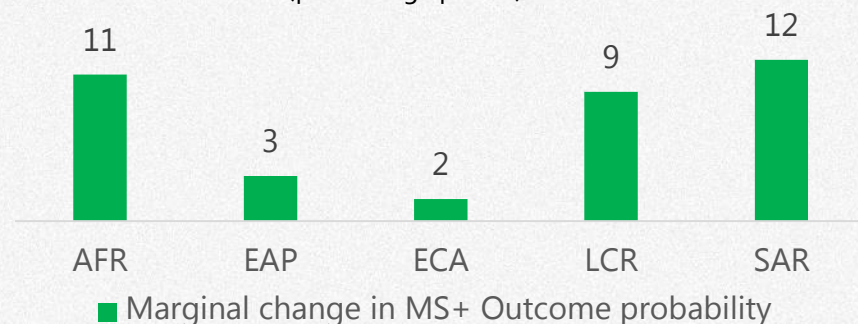
*Bringing macro policies to above the 80th percentile in our database — a macro CPIA of 4.2 — would be associated with potentially large improvements in DPF success rates in Africa, Latin America and the Caribbean and South Asia: increases of 9–12 percentage points in MS+ outcome ratings. The increase is smaller for East Asia and Pacific, as it starts from a high MS+.*

Figure 18. Macro CPIA Ratings at the Outset of DPF Operations: Current Region Averages



*Note:* AFR = Africa; CPIA = Country Policy and Institutional Assessment; DPF = development policy financing; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; SAR = South Asia.

Figure 19. Increase in Probability of MS+ Outcome from Moving from Group Average to a 4.2 Macro CPIA Rating (percentage points)



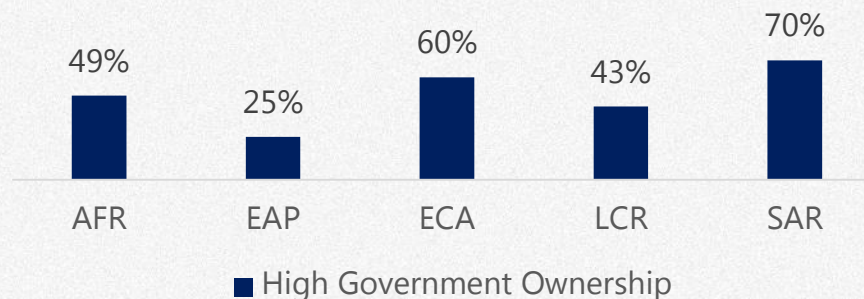
*Note:* The 4.2 macro CPIA is above the 80th percentile. AFR = Africa; CPIA = Country Policy and Institutional Assessment; DPF = development policy financing; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; SAR = South Asia.

# Improving Government Ownership Offers Considerable Potential (simulations based on estimated regional marginal effects)

Based on teams' assessments, government ownership of the DPF programs is highest in South Asia (70 percent of operations with low commitment risk) and Europe and Central Asia (60 percent). It is lowest in the sampled operations in East Asia and Pacific (25 percent). Africa and Latin America and the Caribbean are in between (respectively 43 percent and 49 percent).

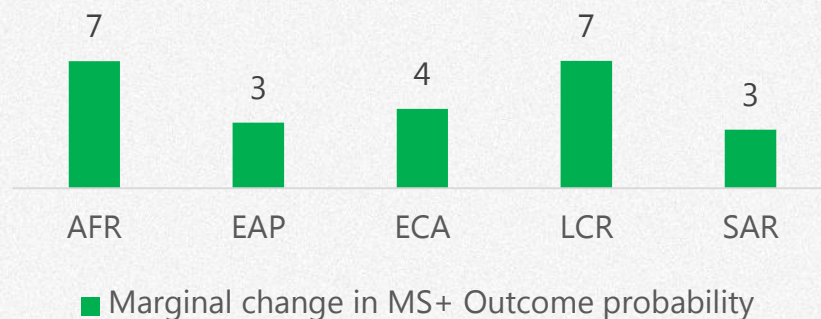
Achieving high government ownership in 90 percent of DPF operations would increase regional DPF outcome ratings by about 7 percentage points in Africa and Latin America and the Caribbean. Increases would be smaller in other Regions (3-4 p.p.) due to better starting points either in terms of government ownership (South Asia) or outcome ratings (Europe and Central Asia and East Asia and Pacific).

Figure 20. DPF Operations with High Government Ownership: Current Region and Sector Averages



Note: AFR = Africa; DPF = development policy financing; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC/LCR = Latin America and the Caribbean; SAR = South Asia.

Figure 21. Increase in Probability of MS+ Outcome from Moving from Group Average to 90 Percent Notional Target for High Government Ownership (percentage points)



Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC/LCR = Latin America and the Caribbean; SAR = South Asia.

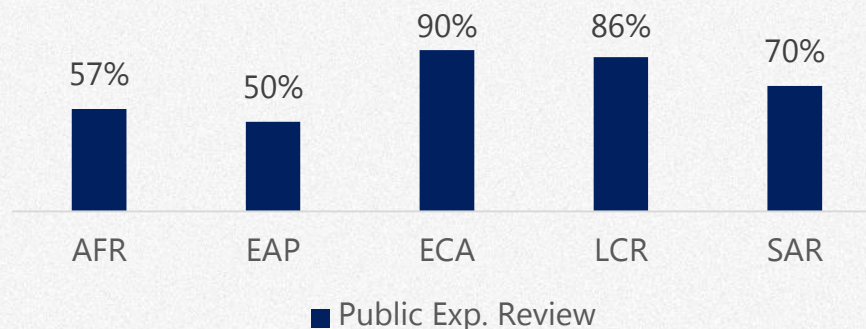
# Analytical Work Increases DPF Success

(simulations based on estimated regional marginal effects)

About 60 percent of DPF operations are preceded by PERs, which are most frequent in Europe and Central Asia (90 percent) and Latin America and the Caribbean (86 percent) and Africa (57 percent). Generalizing PERs to a notional target of 95 percent of DPF operations would increase regional DPF outcome ratings by about 3-4 p.p. in Latin America and the Caribbean and Africa. Increases would be smaller in other regions (1-2 p.p.) due to better starting points either in terms of the presence of PERs prior to DPF (Europe and Central Asia and Latin America and the Caribbean) and/or outcome ratings (Europe and Central Asia and East Asia and Pacific).

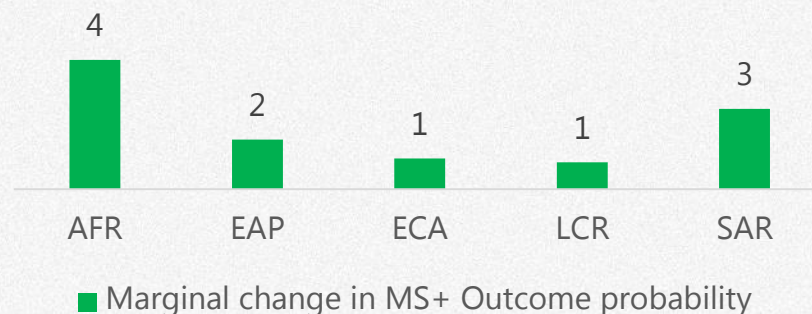
Note: This evaluation used PERs as a proxy for DPF analytical underpinnings. The results may thus underestimate the positive effect of the latter by not picking up the contributions of other analytical products. Further econometric analysis could test the effect of the use of other analytical products and the time between the completion of analytical work and its use in a DPF operation.

Figure 22. Public Expenditure Reviews before DPF: Current Region Averages



Note: AFR = Africa; DPF = development policy financing; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; SAR = South Asia.

Figure 23. Increased Probability of MS+ Outcome from Moving from Group Average to 90 percent Notional Target for PERs before DPF (percentage points)



Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MS+ = moderately satisfactory and above; SAR = South Asia.

# Desk-Based Case Studies



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# Methodology: Focus on Understanding Factors of DPF Success

Projects were selected for the purpose of identifying and illustrating the mechanisms through which the factors of success featured in the literature affect the outcomes of IDA DPF operations (in terms of contributing to reform) in practice.

The selection of cases followed the pattern matching approach adopted for the evaluation which triangulates results using different approaches.

Cases were selected by taking into account the strength of causal evidence found in the literature on each factor, the direction of the expected reform impact and the results of the econometric analysis. Each of the ten key factors identified in the literature were placed in one of the four following categories.

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## Selection criteria for case studies of projects.

To inform the selection of case studies four scenarios were considered based on the findings of the literature review and the results of the econometric analysis:

### **Category 1: Consistent matching between the literature and the econometric analysis.**

This concerns variables where we have strong and significant evidence from both the literature and the econometric analysis. Four variables fall in this category: program design, analytical work, initial macro conditions and government ownership. Given that the evidence is consistent between the literature and our econometric findings, desk-based cases (of projects) are used mainly to illustrate the mechanisms linking the presence of the respective factors and the occurrence of reform success.

### **Category 2: Strong evidence from the literature but inconclusive findings from the econometric analysis.**

This concerns variables where the literature has a clear and consistent view on the role and direction of causality but our econometric results were not statistically significant. Two variables fall in this category: institutional capacity and external shocks. We purposely select two projects (for each variable) to understand what may be driving the differences between our findings and the literature.

### **Category 3: Inconclusive causal evidence from the literature but plausible statistically significant results from the econometric analysis.**

These are cases where we observe weak patterns in the literature while the econometric results are statistically significant (in the same direction as suggested by the literature). One variable falls into this category: technical assistance. We purposely select a limited number of cases to understand the role of this variable in potentially influencing reform success.

### **Category 4: Inconclusive causal evidence from the literature and opposing signs or non-statistically significant results from the econometric analysis.**

Three variables fall in this category: democracy, corruption and donor coordination. We purposely select a larger number of cases (looking both at successful and non-successful results of projects) to understand the potential causal influence of each of these variables and the direction of causality.

# **Category 1 Variables: Consistent Matching between the Literature and the Econometric Analysis**

**Program Design**

**Analytical Work**

**Macro Conditions**

**Government Ownership**

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# Designing Operations for Success

## Operation Design Must Be Relevant

Designing an operation is creating a plan that clearly indicates the path of influence running from the policy actions supported to the respective expected outcomes. IEG's assessment of the relevance of the design is based on the strength of the causal chain that goes from the identified root causes of the problems at hand (not the symptoms), to the proposed policy actions to address them and the expected intermediate and final outcomes of the operation.

Various analysis are required to create a clear link during the design of an operation such as undertaking stakeholder analysis to understand their interest in the reforms, having strong analytical work as the basis for the reforms, understanding the context, and developing a theory of change that guides the entire policy reform process.

### IEG Assessment of Design Focuses on Four Main Pillars

(i) Prior actions: IEG assesses whether the prior actions are linked to objectives and outcomes, using the following criteria:

a. **Relevance:** It assesses whether prior actions are aligned to the objectives and associated outcomes.

b. **Criticality:** The extent to which prior actions have sufficient institutional depth to trigger policy and institutional change. Policy actions that are excessively process-oriented, easily reversible or only indicate intentions are considered to have low criticality and should be avoided.

c. **Additionality:** The extent to which prior actions reflect the World Bank's value added with respect to the borrower's reform agenda. This is assessed based on factors such as the timing of the action, World Bank-borrower dialogue in the specific policy area, and rationale for possible cross-conditionality with IMF or other donors.

d. **Measurability:** The extent to which the expected impact of prior actions is measurable. This largely depends on the quality of the M&E framework and the links between results indicators and prior actions.

(ii) **Macroeconomic framework:** The design rating gives consideration to whether there was an adequate macroeconomic framework in place at appraisal, and an appropriate treatment of macroeconomic risks and mitigating factors (OP 8.60 para 12).

(iii) **Lending Instrument:** It assesses the appropriateness of the choice of instrument used for the operation based on the country's context. In the context, it ascertains whether Development Policy Financing is the appropriate instrument to support reforms.

(iv) **Exogenous factors:** It assesses the extent to which exogenous shocks, which might impact the program were considered and their effects mitigated/managed during the design of the operation.

*Source: IEG (2015), The Quality of Results Frameworks in Development Policy Operations*

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# Careful Design Makes a Difference

**Myanmar: Reengagement and Reform Support Program (2013), thrived on strong program design to become highly satisfactory.**

Myanmar had not maintained normal relations with the World Bank for over two decades due to arrears owed to IDA. The operations supported critical reforms for strengthening macroeconomic stability and improving public financial management. Moreover, they tackled the issue of arrears, which had constrained Myanmar's engagement with the World Bank.

The design identified important stakeholders needed to support the reforms. The arrears clearance was carefully timed with bridge financing from the Asian Development Bank and Japanese authorities. Next, a clear result chain linked actions in three policy areas to intermediate objectives. Analytical work from earlier years (the mid-1990s) remained largely valid and helped to shore up support for the reforms. For example, the exchange rate reforms utilized an exchange rate auction system recommended many years earlier, which allowed a measure of Central Bank institutional oversight and movement toward market determined rates.

In each area, the policy actions supported were critical steps in the market reform agenda, and appropriate within the institutional and administrative limitations of the government.

**Well-designed operations pursue reforms consistent with the priorities of country. They are flexible enough to capture the changing country context and enjoy the support of the government and implementing agencies.**

The design of the program allowed to support reforms that helped to sustain the adequacy of the macroframework during implementation. It built on a prior action of enacting a Foreign Exchange Management Law and introduced a managed float exchange rate system overseen by the Central Bank. The reforms helped to eliminate the spread between official and parallel exchange rates.

The operation appropriately identified risks and exogenous factors which could affect results and mitigated their impact.

Finally, the design built on lessons from other country experiences on reengagement. It emphasized core reforms on institutional transformation which were appropriate to the country's institutional capacity, knowledge, and context.

In the end, the design led to a stronger government ownership of the reforms. All reforms supported by the operation were implemented and the results were measured using a simple but sound M&E framework.

Efficacy of the two objectives was rated high and substantial respectively. The operation achieved a highly satisfactory outcome rating.

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# Weaknesses in Design Limit Success

**Mali: In the Poverty Reduction Support Credit (PRSC3-5), the government did show strong commitment to reforms and the result framework was weak.**

Mali faced severe security challenges and political instability, including an insurgent movement claiming independence in the north, and Islamist groups fighting for control of the north.

In 2011, the World Bank designed the successor of the discontinued PRSC-2 series which was described as overambitious and not selective. It attempted to address too many issues and too many sectors with a blunt instrument. The results framework of PRSC3-5 had some important gaps similar to its predecessor. For instance, for one of the objectives the linkage between prior actions, intermediate and final outcomes, was vague. The operations expected relatively early-phase reforms to lead to quick changes in infrastructure development and private investment. This was unrealistic and overly ambitious.

The operations addressed many sectors with different formulations of the objectives in each operation of the series. This weakened the results framework and the logical chain linking reforms to outcomes.

**Operations that do not take into account changing country contexts are unlikely to secure continuous government commitment to implement reforms. In such cases, critical reforms supported by World Bank operations may not be implemented and the respective failures are to a large extent attributable to weak design.**

The program design did not take into account the changing country context or made sufficient efforts to mitigate the respective risks. It expected the government to make difficult policy reforms even in the absence of broad consensus – for example, in the cotton and electricity sectors, and in terms of providing incentives for investment. The government was unable to commit to these reforms because of security challenges.

The design also did not cover the most important priorities of the government. By the end of the series, junior military officers dissolved the government (March 2012). It is estimated that about 320,000 people were displaced from the combat zone as of May 2012.

The series achieved less results than it anticipated. Very minimal results were achieved in an attempt to improve the policy environment for infrastructure and private investment. Modest progress were made on the objectives to strengthen public financial management and improve social service delivery.

Overall, the program’s unsatisfactory outcome rating was driven to a large extent by design failures, including weak links between the reforms supported and the respective objectives, and hence a minimal government ownership.

# Analytical Work: The Importance of PERs

Out of 49 types of analytical products used to support prior actions in the DPF operations, public expenditure reviews were the single most frequently used type of analytical work.

Other types of analytical products which are often used by World Bank teams include country economic memoranda, public sector studies, investment climate assessments, poverty assessments, financial sector studies, and social protection studies.

Some of the other Advisory Services and Analytics (ASA) used to underpin DPF operations include International Monetary Fund (IMF) reports, academic papers, government's analytical work, action plans, background studies, and doing business reports.

Table 12. Analytical Products Support Policy Actions

	Frequency of use	Percentage of total
Accounting and Auditing Assessment (ROSC)	1	0
City Development Strategy (CDS)	3	0
Commodities Study	3	0
Corporate Governance Assessment (ROSC)	11	1
Country Economic Memorandum	65	6
Country Environmental Analysis (CEA)	4	0
Country Financial Accountability Assessment	30	3
Country Gender Assessment (CGA)	8	1
Country Infrastructure Framework	0	0
Country Procurement Assessment (CPAR)	27	3
Debt and Creditworthiness Study	2	0
Development Policy Review (DPR)	1	0
Economic Updates and Modeling	4	0
Education Sector Review	2	0
Energy Study	26	3
Energy-Environment Review	1	0
Financial Sector Assessment Program (FSAP)	21	2
Foreign Trade, FDI, and Capital Flows Study	22	2
General Economy, Macroeconomics and Growth	13	1
Health Sector Review	5	0
Institutional and Governance Review (IGR)	0	0
Integrative Fiduciary Assessment	4	0
Investment Climate Assessment (ICA)	46	5
Knowledge Economy Study	1	0
Legal and Judicial Sector Assessment	1	0
Mining/Oil and Gas	16	2
Other Agricultural Study	33	3
Other Education Study	24	2
Other Environmental Study	21	2
Other Financial Accountability Study	45	4
Other Financial Sector Study	41	4
Other Health Study	22	2
Other Infrastructure Study	27	3
Other Poverty Study	25	2
Other Public Sector Study	64	6
Other Rural Study	8	1
Other Social Protection Study	43	4
Other Urban Study	2	0
Policy Note	25	2
Poverty Assessment	44	4
PSD, Privatization and Industrial Policy	9	1
Public Expenditure Review	111	11
Public Investment Review	6	1
Risk and Vulnerability Assessment	3	0
Social Analysis	16	2
Strategic Environmental Assessment/Analysis	2	0
Systematic Country Diagnostic	1	0
Women in Development and Gender Study	1	0
Other ASA ( others not specified)	121	12
	1011	

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# Strong Analytical Work Aids Program Design

**Solomon Islands: Solomon Islands Dev. Policy Operation 1 was supported by a Public Expenditure Review jointly produced by the World Bank and the government. This eased the policy dialogue on key reforms.**

The operation in Solomon Islands was built around strong analytical work produced by the World Bank. The design was based on the conclusions and recommendations presented in a number of analytical documents, especially the PER.

All policy reforms supported by the operation were derived from a World Bank prepared or supported analytical work. The PER was the core diagnostic assessment which underpinned this operation. For instance, the design of reforms concerning public financial management were informed primarily by the 2010/11 PER, which focused on issues related to budget preparation and execution.

The 2010 PER was well received in part because it was jointly produced by the government and the World Bank. In 2010, the government created a Public Expenditure Analysis Section within the Budget Division of the Ministry of Finance to conduct the PER together with the World Bank. This unit has developed operational analytical capacity to review spending patterns. This new capacity eased the policy dialogue on the reforms supported by the World Bank and other donors.

**Strong analytical work improves the design of operations and credibility of reforms. It is the evidence for policy dialogue which increases the likelihood for governments to own the reforms supported through DPF. It also eases the implementation of complex reforms, especially in fragile and conflict-affected situations (FCS) or other countries with low local capacity.**

Other policy reforms supported by the operation were derived from analytical products endorsed by the government. For instance, the policy reform addressing state-owned enterprise (SOE) weaknesses was informed by an ASA titled 'Designing a Program of Support for Strengthening the Solomon Islands' State Owned Enterprises'.

Some of the analytical products used include the Solomon Islands Public Financial Management Performance Report (2008), Solomon Islands Operational Procurement Review (IDA, 2008), the Financial and Economic Management Strengthening Program (2010), Solomon Islands Education Sector Public Expenditure Review (2009) and the Health Financing Options report (2010).

As a result of these analytical products, the design of the operation benefited from broad public and internal consultations which improved the credibility of the reforms. Strong government ownership and commitment to the program was demonstrated by the adequacy of the macroeconomic environment throughout the operation and the implementation readiness of the various actors.

At completion, "substantial" outcomes were achieved, particularly on public budget consultations, budget accounting for better expenditure tracking, control of tax and wage expenditures, procurement transparency, addressing SOE debts, and laying the foundations for mining sector transparency. The outcome was satisfactory.

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# Listing Analytical Products Does Not Improve Program Design

## **Niger Growth Policy Reform series (2009-2012), pursued tax reforms without the World Bank's assessment of the economic and social impacts.**

In the case of this series, the program documents provided a long list of analytical products which were not directly related to policy reforms pursued by the operations. Others were broadly aligned to the reforms. Some of these include Core Welfare Indicators Questionnaire survey (CWIQ) 2005, a Household Budget Survey (2007/08), an Investment Climate Assessment (2006) and annual Doing Business surveys.

The team recognized that the underlying analysis for tax reform and the reduction of the business income tax were not comprehensive enough to allow a full appreciation of the economic and social impacts of the measures. In addition, poverty and social impact assessment of the reforms had not been conducted at the time of the Board's approval for the second operation in the series.

The lack of adequate and sound analytical work significantly affected the design of the operation and the ability to adjust the reforms in the face of exogenous shocks. A Supplemental Financing provided under the series in 2012 to response to the impact of some of these external shocks but it did not improve the design.

## **Reforms are more likely to be fully implemented when underpinned by solid analytical work.**

The analytical work supporting the reforms did not cover scenarios with significant macroeconomic risks, potential political instability, difficult climatic conditions, and capacity constraints which prevailed during the operation in Niger.

The lack of sound analytical work was one of the root causes of three key factors identified in the ICRR of the series as driving the lower than expected outcomes. These are (i) the prior actions selected did not address the key obstacles in a particular policy area; (ii) the results indicators were poorly defined and difficult to measure; and (iii) the causal link between some of the reforms undertaken and results targeted were unclear. The series was not supported by a Public Expenditure Review.

The design challenges were exacerbated by political challenges. The World Bank could not support the implementation of pension and PPP reforms when a change in the government occurred following a coup. Planned prior actions for the second operation on pensions and PPP were dropped, significantly diluting the impact of the overall program objectives.

Overall, only modest achievements were made towards meeting the objectives of the series. While political developments played a role, a key factor explaining the moderately unsatisfactory outcome of the operation was the presence of weak analytical underpinnings, which led to weak program design and lack of government ownership.



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# Sound Macro Policies Can Contribute to Broader Policy Reform Success

*Strong macro conditions create the fiscal space and/or the stable environment needed for governments to plan and execute reforms.*

*Sustaining a stable macro environment is critical for enabling government to pursue structural and complex reforms. Governments tend to explore more ambitious reforms options when macro conditions are good.*

*Once governments own the reforms, they are more likely to put in place the necessary arrangements for smooth implementation.*

*When the macro conditions are weak, governments become amenable to reforms that are not well researched. Such reforms get more easily reversed once macro conditions improve.*

**Bhutan: Development Policy Grant /Credit – 2009 had reforms that sustained the adequacy of the macroeconomic framework.**

The macroeconomic framework was in place before the operation, as evidenced by a CPIA macro cluster score of 4.5 in 2008. The operation had subobjectives that aimed at strengthening macroeconomic monitoring and helping improve the quality of responses to external shocks. The operation improved the quality of the budgeting process and enabled the Ministry of Finance to better manage budget execution.

The operation supported reforms on public financial management, procurement, and accountability institutions, which further strengthened the macro situation and directly contributed to better public resource management. The government owned the reforms and facilitated their implementation. An inter-ministerial group of officials, headed by the Secretary of the Ministry of Finance, provided overall coordination of implementation. The operations achieved substantial results in the areas of governance and fostering more dynamic labor markets. The outcome was satisfactory.

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# Strong Government Ownership Can Make a Difference

*Ownership requires countries to exercise leadership in developing and implementing their national development strategies through broad consultative processes (Paris Declaration-2005).*

*Strong government ownership occurs when government accepts proposed reforms as their own and defends them before voters. Ownership improves the likelihood that governments will fully implement difficult reforms, even in the face of political opposition.*

**Nepal: Financial Sector DPC 2013 obtained a satisfactory rating partly thanks to high government ownership of reforms, as reflected in efforts to defend them in the midst of an uncertain political context.**

The financial sector of Nepal became vulnerable to internal shocks and began to impose a heavy burden on the budget. The operation addressed issues in the government's agenda. In particular, it addressed the vulnerability of the financial sector and increased the transparency of the banking sector. The implementation of the reforms was opposed by stakeholders with vested interests and took place in a challenging political context. It took strong government support and commitment for the reforms to be implemented.

The government accepted the reforms as their own and cited the support of the World Bank and other development partners as a form of endorsement of the reforms. The World Bank simplified the program by including substantial short-term actions that addressed immediate priorities, while setting the stage for longer-term reforms.

The two objectives of the operation were achieved and had "substantial" IEG ratings. The outcome was satisfactory.

**Category 2 Variables: Strong Evidence  
from the Literature but Inconclusive  
Findings from the Econometric Analysis**

**Institutional Capacity**

**External Shocks**

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# Government Capacity Can Contribute to Success

**Tonga: The government played a key role in defining the reform agenda for Economic Recovery Operation I & II which led to better implementation of difficult reforms.**

In Tonga, the government played a key role in defining the reform agenda underpinning the program, and pursued an open and constructive dialogue with donors regarding a broader range of reforms. However, the reforms were implemented during the period when the government faced several serious challenges, including declining revenue and increasing poverty. Commitment and effort of officials in the Ministry of Commerce and Ministry of Public Enterprises were key factors in the achievement of several outcome indicator targets. The operation had moderately satisfactory outcome rating.

**Tonga Energy Development Policy Operation benefited from improved capacity and had satisfactory overall rating.**

The operation followed an intense World Bank dialog with the government and key stakeholders in Tonga, based on a substantive analytic work conducted under the umbrella of the Tonga Energy Road Map. Once they reached a consensus on the reforms, the government worked with donors to implement the reforms as planned. The operation ignited a virtuous circle of fiscal consolidation and enhanced petroleum price risk management.

Countries with high capacity tend to have effective government institutions which reduces the discretion of bureaucrats in implementing national reforms. Once government agrees to the policy reforms, the responsible agencies put structures in place for effective implementation. The World Bank can also respond effectively to low capacity contexts by using simpler designs and ensuring high ownership.

**Liberia reengagement and reform support program project 2009 was successful in a low capacity context.**

Liberia is a low income country with very high level of indebtedness, and limited capacity to mobilize domestic resources.

The operation was successful because the World Bank responded effectively and strategically to the low capacity country context. The program was consistent with the priorities of Liberia's Poverty Reduction Strategy and the World Bank's assistance strategy. In developing the program, there were substantial consultations with donors and civil society groups. The design was kept simple and aligned with the M&E established for monitoring the Poverty Reduction Strategy.

Implementation was done by a committee under the chairmanship of the Ministry of Finance, but also relied on monitoring by the IMF. The Parliament rapidly passed laws to support the implementation of the reforms, despite their own political divisions.

Within this context, the validity of our hypothesis on the negative impact of low capacity does not hold. Other factors, such as strong government commitment, effective assistance from other donors, and a simple program design contributed significantly to the success of the operation. The outcome of the operation was satisfactory.

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# High Capacity Does Not Guarantee Success

**Maldives could not capitalize on its high capacity to implement structural reforms supported by a Development Policy Credit.**

The program identified appropriate actions in the government's reform that needed financing from the World Bank. The team identified substantial risks during the program preparation, but a decision was taken to move ahead because of the critical nature of external financial and technical support for the new and inexperienced government. The World Bank assumed the presence of capacity to implement the reforms.

However, several factors including political instability affected the implementation of the reforms. Out of fourteen policy actions envisaged for the program, six were not implemented and four were partially implemented which made the World Bank cancel the second operation in the series. The design of the program was complex for an inexperienced government, despite the country's overall relatively high capacity. The lack of close coordination among implementing agencies within government compounded the challenges. The objectives of operation were not achieved. The efficacy rating was negligible and the outcome moderately unsatisfactory. The capacity of a new governments is as important as the capacity of the State when designing operations that tackle structural reforms.

**When pursuing structural reforms in high capacity countries, it is important to assess the willingness and capacity of the government to implement the reforms. Where the borrower lacks readiness, DPF operations may not be the right instrument.**

**In Marshall Islands, the World Bank ignored early warning signs because there was high capacity at the State level during the preparation of the first ICT Sector Development Operation.**

The Marshall Islands operation is another example of the need for the World Bank to be more responsive to early warning signs of reform failure. The low capacity to implement the targeted reforms – aimed at increasing the availability of ICT services – became obvious.

The Board date was originally scheduled for July 2012, but it was postponed until March 2013 to accommodate delays by the government in preparing a new legal framework document. The delay and lengthened time needed to complete the prior actions was an early indication of the difficulties that the government would experience in executing the reforms. However, the World Bank team ignored the warning.

The government continued to confirm its commitment to the Program and reassured the World Bank that it could complete all agreed actions, notwithstanding opposition to ICT sector reforms from key stakeholders within the government and from the National Telecommunications Authority.

After the World Bank Board approval, the government repeatedly requested additional time to commence the analytical work required to support the Program. None of the objectives were achieved. All three objectives were rated "negligible" and the outcome "unsatisfactory" by IEG. Where the borrower lacks readiness, DPF operations may not be the right instrument.

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# Proactive Risk Mitigation Can Pay Off in Fragile Settings

**Sierra Leone: Programmatic Governance Reform & Growth Grant mitigated the impact of shocks to achieve a satisfactory outcome.**

Sierra Leone is a fragile state with significant vulnerabilities to shocks. The operation was implemented amidst several shocks, including the inability of government to secure timely adequate funding for the budget and fiduciary risks emanating from weak institutional capacity and governance. The government developed a stability response plan that enabled it to maintain macroeconomic stability during the implementation phase of the operation. When donor funding for complementary reforms was delayed, the government initiated more intense policy dialogue to discuss the fiduciary concerns raised by donors. The government reduced the backlog of unpublished public accounts which increased donor confidence and led to the release of funds. These actions helped the government to overcome the domestic shocks and made way for the implementation of longer term reforms. The operation achieved satisfactory results.

**Guinea-Bissau: Economic Governance Reform Project (2009) mitigates fiduciary risks.**

In Guinea-Bissau, the operation was designed and implemented in an environment characterized by political instability, vulnerability to shocks, weak capacity and weak fiduciary conditions. The government mitigates risks by improving its fiduciary standards, and used donor assistance to improve the PFM system. The prospect of attaining the HIPC completion point provided a strong incentive for implementing the reforms. The operation had a satisfactory outcome.

**Large external shocks may cause governments to shift their priorities at the detriment of reform programs – often leading to failure of the respective operations – or to adjust them in order to secure highly needed donor support, potentially leading to successful outcomes. The key factor is whether the reforms supported by donors in such contexts are in line with government priorities or not.**

**Significant shocks overwhelmed the reforms pursued through the Economic Governance Reform Operation (2009) in Haiti.**

In 2008, Haiti experienced a series of shocks that threatened its macroeconomic stability and diverted resources away from the priorities of the National Strategy for Growth and Poverty Reduction. In addition to the political stalemate following a food and fuel price riots, Haiti was hit by four back-to-back hurricanes, earthquakes and tropical storms in August-September 2008, which caused damages and losses estimated at about 15 percent of its GDP.

The World Bank's operation focused more on supporting traditional reforms such as reducing the inefficiencies in the electricity sector, modernizing public financial management, and strengthening the implementation of the legal framework for public procurement. However, the negative impact of earthquakes, the process of reconstruction, and weak capacity in managing a vast increase of donor supported reconstruction assistance derailed focus from the operation. The reforms supported by the operation were not implemented leading to negligible achievements. The outcome of the operation was moderately unsatisfactory. The negative impact of the shocks changed government priorities and led to the non implementation of the Bank's operations.

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# Political Shocks Can Derail Program Implementation

## Central African Republic: Economic Management and Governance Reform Grant 3 (2010).

At appraisal, the Central African Republic (CAR) was striving to build on progress it had made since conflict ended in 2003. Domestic and external shocks in 2008 had reduced GDP growth to 2 percent from 4 percent in 2007. In 2009, owing to the global economic slowdown, CAR's main exports (timber and diamond) decreased significantly. Shortly after the release of the first tranche, serious slippages in financial management emerged, and the government's focus on the remaining actions for the release of the second tranche seriously weakened.

The World Bank's operation had focused on improving the transparency and efficiency in the management of public resources and promoting private sector development. The Ministry of Finance had acted as the champion for the reforms but this changed during implementation. Although the program helped CAR to advance in a number of areas and provided strongly needed financial support to withstand the external shock, the overall achievement of objectives was severely undermined because of the government's departure from the reform path during program implementation and the reversal of many gains in budget execution and fiscal management.

The operation made modest achievements. The achievements under the program were further undermined by political instability and military conflict. In the spring of 2013, the government of CAR was overthrown by rebels after a 3-month military conflict. The outcome of the operation was moderately unsatisfactory.

**The many challenges the World Bank faces in implementing DPF operations in FCS contexts highlight the need for comprehensive analyses of the political and security situations before operations are approved. A thorough analysis of the shocks impacting an economy is also key prior to initiating DPF operations in such contexts, as this can allow for an improved design and higher chances of success.**

**Category 3 Variable: Inconclusive Causal Evidence from the Literature but Plausible Statistically Significant Results from the Econometric Analysis**

**Technical Assistance**



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# Effective Technical Assistance in Vietnam

## **In Vietnam, technical assistance aided the implementation of new reforms during the PRSC series.**

The PRSC series benefitted from strong support from development partners, who partnered with the World Bank to provide technical assistance to the government. The World Bank's 2007 country partnership strategy was explicitly organized around the four pillars of the government's Socio-Economic Development Plan (SEDP) 2006-2010. The reforms proposed under the pillars required technical assistance alongside analytical products to aid implementation. The World Bank used the PRSC series as the main vehicle to pursue the CPS agenda and hence, the provision of the needed technical assistance.

Many donors supported the PRSC series by providing technical assistance to the government to support the policy dialogue in highly technical and complex areas. The technical assistance enabled the government and development partners to assess the potential impacts of related policy actions. The PRSC6-10 achieved satisfactory outcomes.

## **Other DPF operations benefited from technical assistance in Vietnam.**

**In the Higher Education DPF Program (1-3)**, the timing between adoption of policies and results expected through autonomous higher education institutions (HEIs) was ambitious. In addition, HEIs were offered only minimal technical assistance to put in place the new mechanisms, institutional arrangements, and overall improvements that were required of them. Parallel technical assistance was provided through other operations and prior actions were adjusted to adapt to implementation realities. The series had a moderately satisfactory outcome.

**In the Climate Change DPL (1-3)**, the World Bank found that an effective cross sector platform with strong and persistent commitment of key ministries was needed. The implementing agencies had to achieve significant progress on policy and institutional reforms. Advisory services to inform and enhance the quality of institutional dialogue across sectors were developed as a mitigation measure for the challenge of limited institutional capacity. Advisory services helped build the policy framework and guided the government in addressing challenges in the implementation of the reform agenda. The series had a satisfactory outcome.

**In the case of Program 135 DPL**, the ICRR found that the increased channeling of resources to provinces encountered important challenges which created the need for large scale local capacity development. The PPAR (p. 60) noted that for the series to be successful, tens of thousands of people had to be trained, decentralized procurement procedures developed, fiduciary systems at district levels put in place, and a complex M&E system constructed. Without timely direct capacity building support, local capacity would not be strengthened. Other donors provided technical assistance to support the series. About 11 out of 50 provinces targeted by the series benefitted from technical assistance. This contributed to the achievement of the objectives of the series. At completion, it had a satisfactory outcome rating.

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# Technical Assistance Must Be Provided Early

If structural reforms are pursued, timely and well coordinated technical assistance would be necessary for reform success. In crisis environments the depth of crisis may demand additional time for reforms to yield results even when technical assistance is provided.

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**In Yemen, technical assistance was provided late and could not impact on the results of Private Sector Growth and Social Protection operation (2010).**

Yemen's macroeconomic situation had deteriorated significantly in 2009. The macroeconomic imbalances were structural. The World Bank had identified these structural problems as an obstacle for greater growth in the non-oil sector and improved targeting of subsidies and cash transfers.

The design of the operation linked technical assistance to other operations and donors. IFC provided technical assistance to improve the business climate, while the EU financed technical assistance to draft and advice on the By-laws. The World Bank Public Finance Modernization project also provided technical assistance for the operation.

Overall, the technical assistance provided through these various channels proved insufficient to ensure the operation's success. Other factors contributed to the non-achievement of results, such as weak design, and the extent of the crisis in the country. The operation achieved an unsatisfactory outcome.

# **Category four variables: Inconclusive Causal Evidence from the Literature and Opposing Signs or Nonstatistically Significant Results from the Econometric Analysis**

**Democracy**

**Corruption**

**Donor Coordination**

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# Political Environments Can Affect DPF Results

**Moldova: Economic Recovery DPO (2010) thrived on the government's quest to gain public trust after two highly contested elections.**

The operation was designed within the context of the global economic crisis as well as a high political uncertainty. After two rounds of heavily contested elections (April and July, 2009), a reform-minded government needed to obtain the trust of the people. It launched the 'Economic Stabilization and Recovery Plan' built on a set of policy notes from the World Bank in October 2009. The operation (including USD 11.2 million from the IDA Crisis Response Window) was aligned with government priorities. The operation achieved satisfactory outcome.

**Honduras: Fiscal Sustainability DPC (2015) gained from strong government ownership of the reforms.**

In Honduras, a controversial Supreme Court ruling in 2015 had suspended a constitutional ban on re-election and heightened political tensions when the operation was designed. Elections (Presidential and Congressional) had been scheduled for November 2017 and the government needed to address fiscal problems to gain the trust of the citizens. The government demonstrated strong ownership of the reform program and remained committed throughout the implementation period and beyond. The fiscal stability efforts were successful and had a high efficacy rating. Overall, the operation had a satisfactory outcome rating.

**Corruption arising from government bureaucrats reduces the effectiveness of government institutions in implementing DPF programs. Reforms aimed at permanently reducing bureaucratic powers are likely to be met with strong resistance, which can only be withstood when there is government commitment at the highest level.**

**Moldova: Competitiveness Development Policy Operation (2012) benefited from the political situation but was unsuccessful due to weak design.**

After the presidential elections in March 2012, the authorities moved swiftly to implement the reform program proposed by the World Bank. All agreed policy actions were completed rapidly, meeting conditions for Board presentation and approval of the operation. The government sustained the measures initiated under the DPO and continued to make progress in several reform areas. This operation was rated moderately unsatisfactory because of weak design and the lack of information on actual results achieved on one of the two objectives at the time of ICR and validation.

**Afghanistan Development Policy Programmatic series (2014) was unsuccessful after political bureaucrats had nothing to lose.**

The operation was implemented in an uncertain political environment, declined regional security, and deteriorated domestic security. The government was committed to the policy reforms supported by the operation until the 2014 election period. Thereafter, commitment was undermined by the formation of the National Unity Government which did not need the trust of the citizens. The government delayed making decisions and filling key administrative positions. This lack of coordination within government exacerbated vested interests among policymakers, who had nothing to lose at that point. Reforms were implemented at a slow pace. The operation could not achieve its objectives. The ICR and ICRR rated it moderately unsatisfactory.

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# Corruption Affects Reforms

**In Uganda the PRSC 9 was delayed for seven months due to corruption.**

Public perception of accountability was low and corruption was deemed high during the preparation of the PRSC8&9 series (2010-13). Disbursement of funds from PRSC 9 was delayed for several months after the office of the Auditor General of Uganda (set up by another World Bank operation) released a report raising concerns about the transfer of funds for budget support to dormant accounts at the Bank of Uganda and then used fraudulently. The government of Uganda committed to carry out actions to strengthen governance and improve public financial management. The operation also supported the removal of ghost workers from the payroll which saved the country US\$1.45million in April 2014. Overall, the operation had moderately satisfactory results.

**In Burundi, the Economic Reform Support Grant had government support to tackle corruption.**

In 2008, Burundi was a post-conflict with weak institutions that were benign to corrupt practices. The Economic Reform Support Grants II and III pursued both traditional PFM reforms and anti-corruption reforms. The government committed to the reforms at the highest level. This enabled the passing of a new budget law and a decree that setup an influential cash management committee in 2009/10. Significant progress was made in strengthening audit and control systems. Comprehensive government accounting reports were produced and a new procurement code was passed. The operation had a satisfactory outcome.

**Corruption arising from bureaucrats reduces the effectiveness of government institutions in implementing reforms. To address this type of corruption, the powers of the bureaucracy must be reduced. However, reforms aimed at permanently reducing these powers are likely to be met with strong resistance.**

**In Benin, the traditional PFM reforms pursued by the operation achieved substantial results though the perception of corruption was high.**

In Benin, the perception of corruption was high and the public had no access to key official economic statistics. The Poverty Reduction Support Credit (8) focused on building strong institutions to reduce corruption. The targets directly focused on anti-corruption were not met, but PFM reforms which had no consequences for political bureaucrats were fully achieved. The government was strongly reluctant to commit to anti-corruption reforms. The operation had moderately satisfactory outcomes.

**In Burkina Faso, the PRSC series (7-11) attempted to deal with difficult corruption issues but could not achieve significant results.**

At the time, the judiciary and parliament exercised relatively weak controls on executive actions, and both institutions lack independence. Deep-seated reforms that had the potential to impact upon vested interests received little to no engagement on the part of the government. The operation made progress on strengthening the accountability of some public institutions. However, the increased independence of public institutions pursued under the operation was not achieved. Overall, the series achieved moderately unsatisfactory results.

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# Expected Benefits of Donor Coordination Materialize

## **In Mozambique, 19 donors monitored the targets of the operation to ensure it was successful.**

The PRSC (3-5) was drawn from a donor-harmonized Performance Assessment Framework (PAF) for 2007-2009. The PAF is a subset of the Strategic Matrix of Second Poverty Reduction Strategy. Donor support was well aligned and harmonized within the government's framework. Donor provided support to different sectors in the government's program. Effective donor coordination supported the achievement of the objectives in the World Bank's operations. The outcome of the operation was satisfactory.

## **In Guinea, the Emergency Macroeconomic & Fiscal Support operation(2014) benefited from strong donor support.**

The Emergency Macroeconomic and Fiscal Support Operation strengthened government's ability to manage public funds in response to the Ebola crisis and related macroeconomic and fiscal shocks. The World Bank collaborated with other donors within the framework of general budget support. The operation helped the government to cover the wage bill and training costs for most of the health workers providing Ebola response care. The objective of the operation was achieved because of strong donor coordination in support of the government's Ebola Response Plan. It achieved moderately satisfactory results.

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Donor coordination has been applauded because it allows beneficiary countries to the reduce transaction costs of dealing with many donors and avoid duplication of donor efforts as well as uncoordinated activities that undermine development impact and dilute the impact of aid.

## **In Georgia, donors provided additional resources to support the DPO series in 2010.**

The government of Georgia was receptive to structural reforms proposed by the World Bank and other donors in 2010. Donors pledged US\$4.5 billion support to government following a Joint Needs Assessment led by the World Bank and the United Nations with support from other donors. Donors supported the issuance of a procedural manual for tax audits covering 254 scenarios and continued improvement of the risk-based system. As a result, the government was able to mitigate the impact of the economic downturn in 2010. The objectives of the operation were achieved and the outcome was satisfactory.

## **In Central African Republic (2009), only three donors provided predictable aid to support the World Bank and yet the operation was successful.**

The Economic Governance and Reform Grant DPO was undertaken within a difficult context. The government had difficulty honoring its 6-months salary arrears, tax revenue was low (7.3 percent of GDP in 2007), and donor disbursements were low. Three donors (AfDB, European Union, and France) harmonized their reforms with those of the World Bank to improve the predictability of aid to the government. The operation's outcome was satisfactory. Its success benefited from donor coordination.

# Strong Donor Coordination May Not Guarantee Success

**In Togo, Economic Recovery & Governance Credit 6 was affected by excessive donor activities.**

Donors had coordinated well and supported government to undertake major economic reforms with the hope of reaching the HIPC (Heavily Indebted Poor Countries) completion point in December 2010 and qualifying for additional debt relief under the MDRI (Multilateral Debt Relief Initiative).

The operation was undertaken when the government had started complaining about reform fatigue and its commitment to reforms had begun to wane. A Minister of Finance, who had the complete trust of the President voiced his discontent about the ganging up of development partners to pressure the country to undertake certain reforms in the previous years. Also, the government's shifted its focus towards selected public investment projects and the provision of certain public goods.

The World Bank coordinated with other donors to design and implement its program focusing on strengthening economic governance and the efficient use of resources. The objectives of the operations were not met. The outcome of the operation was unsatisfactory.

**Note: The study did not explore the varying objectives and ambition of donor coordination. Future studies could attempt to explore these issues as well as quantify the possible costs of donor harmonization in IDA countries, analyze their effect on the success of DPF operations and explore possible hypothesis to explain the negative correlation found between JPAF and DPF outcomes.**

**In Ghana, the PRSG 8 was negatively affected by declining Government commitment to reforms and its resistance to the JPAF.**

Ghana is a good example where strong donor coordination influenced the policies implemented by the government (2004-2012). The PRSG 8, approved in 2012, was fully aligned with the Multi-Donor Budget Support (MDBS) process. Policy dialogue and donor coordination led to effective and close monitoring of prior actions. However, the country context for reforms began to change rapidly after cyclical election-year over-spending began to negatively impact on the economy. Election-related spending excesses in the 2000 and 2004 elections led donors to introduce macro related indicators into the PAF in response to macro imbalances.

In 2013, the newly elected government resisted all macro related reforms and refused to sign the PAF. The PRSG 8 operation, which had been approved the preceding year and aimed at restoring budgetary discipline and financial stability did not achieve its objectives and was rated moderately unsatisfactory. Complaining about reform fatigue, the government became less responsive to donors. The World Bank assessed macroeconomic conditions as unsatisfactory and, together with other donors, withdrew from budget support in 2013–14. Budget support fell from about \$500–600 million in 2009–12 to \$100 million in 2013 and almost disappeared in 2014. It is not possible to establish whether the government's commitment to the reform program supported through the JPAF would have been stronger had the World Bank offered DPF separately from other donors. However, while the government showed a clear resistance to continue with the JPAF, it maintained its policy dialogue with the World Bank and subsequently reached a bilateral agreement for the first policy based guarantee operation in 2015.

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# Country Context May Affect Donor Coordination

**In Senegal, the Poverty Reduction Support Credit 5 relied heavily on other donors and failed to achieve results.**

The preparation of the proposed PRSC relied extensively on donor collaboration. In particular, the World Bank used core analytical work on public financial management produced by the EU (2007 PEFA), the IMF (FAD technical assistance), as well as a Debt Management Performance Assessment. The harmonization framework for budgetary support was expected to lower government transaction costs from dealing with multiple donors, and generate reform momentum.

However, some donors had difficulty implementing the Framework Agreement on Budget Support (Accord Cadre pour les Appuis Budgétaires). Each donor developed a more limited but enhanced collaboration mechanism with the government to improve predictability of their budget support. As a result, the implementation of reforms for this operation was not well coordinated. Only modest achievements were realized from the operation. The operation achieved moderately unsatisfactory results.

**When the country context becomes challenging, bilateral negotiations tend to develop which may not contribute to successful reform implementation. Simply relying on an existing PAF or other signed agreements may not cause a newly elected government to implement DPF-supported reforms.**

**In Niger, more tactful negotiations were needed to get the reforms implemented. This was not the case under the Shared Growth Credits (I&II) and Shared Grant (III) series, which counted on strong donor coordination.**

The World Bank closely collaborated with other development partners to prepare the operation, especially the European Union and the African Development Bank. The operation pursued reforms agreed in a harmonized multi-donor budget support framework. It was hoped that effective donor coordination would increase complementarity of donor operations, enhance the coherence of policy dialogue, and reduce the administrative burden imposed on the authorities.

The political context under which the operation was prepared required more tactful negotiations with a new government. The preparation of the program coincided with the transition from a military to a civilian government. Government commitment to the reforms became variable. In particular, the Ministry of Finance was split into two which exacerbated the coordination of reforms within government.

Only modest results were achieved for all three objectives of the operation. The operation's outcome was assessed as moderately unsatisfactory.



# Financing Predictability and DPF Success

# Financing Predictability versus DPF Outcome Success

*As emphasized by Walliser and Koeberle (2006), the World Bank "needs to exercise the flexibility of programmatic approaches cautiously to balance predictability with performance."*

*There are at least two possible drivers of trade-offs between financing predictability and DPF outcome success.*

*The challenge of managing these risks increases when DPF accounts for larger shares of government budgets: this increases the costs of disruptions in planned DPF.*

By favoring a programmatic approach to DPF, the World Bank has attempted to provide more predictable medium-term financing flows while avoiding negative incentives for borrowing countries.

## Possible Trade-Off Drivers

### *Moral Hazard:*

Risk that budget support is perceived as an entitlement irrespective of country performance, thus leading to dampened government accountability incentives.

### *Finite Policy Reform capacity:*

As argued by Eifert and Gelb (2006), countries run out of opportunities for aid to have high social returns. Such situations are especially likely to occur in countries with relatively poor public sector management.

## Costs of Disruptions

They are of special concern since DPF funds may be used for recurrent budget expenditures. Disruptions may reduce the efficiency of expenditure allocation and execution, reduce the credibility of the budget process in recipient countries, lead to macroeconomic instability and ultimately undermine the achievement of poverty reduction objectives.

## Tools for Managing Trade-Offs

A disciplined and transparent use of the World Bank's discretion, in the design of prior actions and in possible gradual adjustment of support volumes in response to performance: to provide borrowers clarity about conditions and level of support at a sufficiently early stage to adjust their budgetary planning.

# Trade-Offs: Econometric Estimates

*Programmatic series of two or more operations perform better than standalone operations.*

*While commitment amounts by themselves (as a share of government expenditures) are not directly correlated with DPF success, higher amounts tend to reduce the benefits of programmatic series.*

Table 13. Dependent Variable: Outcome Rating at Least Moderately Satisfactory

	Main Model b/se	2+Ops b/se	2+Ops_Amount b/se	3+Ops b/se	3+Ops_Amount b/se
Ownership	0.143*** (0.05)	0.113** (0.05)	0.110** (0.05)	0.110** (0.05)	0.118*** (0.04)
Macro	0.139*** (0.04)	0.098** (0.04)	0.096** (0.04)	0.105** (0.04)	0.110*** (0.04)
Technical Assistance	0.123* (0.07)	0.108+ (0.07)	0.116* (0.07)	0.105+ (0.07)	0.095+ (0.07)
Joint Pol.Ass.Fram.	-0.154*** (0.05)	-0.157*** (0.05)	-0.160*** (0.05)	-0.161*** (0.05)	-0.142*** (0.05)
Design_Rating	0.379*** (0.04)	0.386*** (0.04)	0.398*** (0.04)	0.378*** (0.04)	0.357*** (0.03)
Pub.Exp.Rev.	0.097+ (0.06)	0.091+ (0.06)	0.103* (0.06)	0.098+ (0.06)	0.099* (0.06)
Multi_Sector_DPF	0.147* (0.08)	0.202*** (0.07)	0.183*** (0.07)	0.177** (0.07)	0.148** (0.07)
Program(2+oper.)		0.121* (0.06)	0.228*** (0.08)		
Prog.2+_DPF_Amount			-0.035** (0.02)		
Amount_DPF			0.011 (0.01)		0.010 (0.01)
Program(3+oper.)				0.093 (0.08)	0.262** (0.12)
Prog.3+_DPF_Amount					-0.058** (0.03)
No.Obs.	111	111	111	111	111

+ p<0.20, \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Note: Because the choice of programmatic versus stand-alone operations is potentially endogenous – although many of its possible drivers are controlled for – the respective econometric findings should be interpreted with caution. The same applies to the findings related to donor harmonization activities.

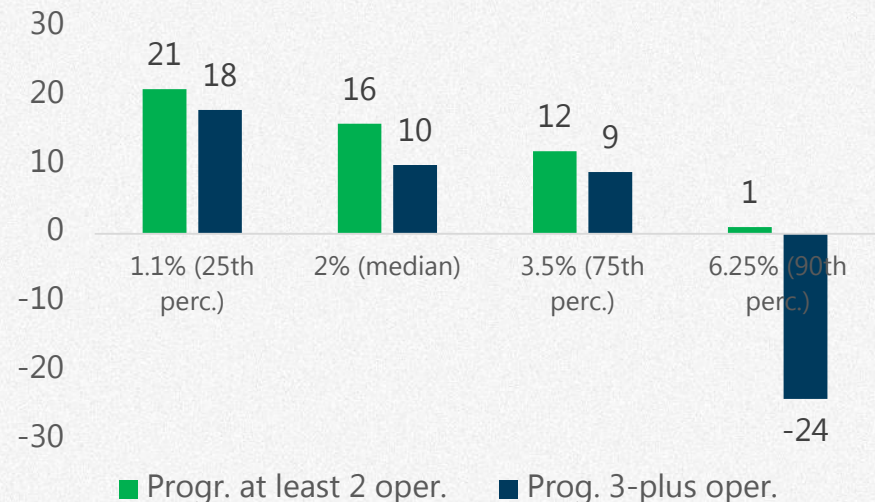
# Programmatic DPF Series Are More Likely to Succeed Than Stand-Alone DPF

Compared to standalone operations, longer DPF programs have on average a higher success rate (MS+ outcome). However, this positive effect decreases with the size of commitment amounts.

As an example, when commitment amounts are 1.1 percent of Government Expenditures (25<sup>th</sup> percentile of DPF in our database), programmatic series with at least 3 operations are 18p.p. more likely to succeed than shorter series or standalone operations. At the 90<sup>th</sup> percentile of commitment amounts, 6.25 percent of Gov. Exp., the success probability of such a program (of at least 3 operations) is 24 p.p. lower.

This is consistent with the cost of disrupting a series in cases of low country performance increasing with commitment amount.

Figure 24. Marginal Effect on MS+ Outcome Probability of Moving from Stand-Alone to Programmatic DPF (percentage points)



Note: By commitment amount of first operation as percent of government expenditures.

# Main Findings

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# Main Findings (1)

## **Maximizing congruence of DPF policies and objectives offers high potential for improving success.**

DPF success has been associated with the congruence or “line of sight” between the policy reforms supported and the development objectives being pursued. We found success to be associated with development objectives that are the priorities of the government. In such cases, the designs are flexible enough to capture the changing country context.

Based on IEG’s relevance of design ratings (substantial or higher), such congruence is present in almost 60 percent of DPF in Africa and South Asia, 40 percent in Latin America and the Caribbean. The simulated marginal effects of improving design relevance are large.

Multi-sector operations that balance EFI-related and sector objectives (HD&SD) perform better after controlling for other factors, especially when design relevance is strong.

## **Ensuring that DPF has strong analytical underpinnings and providing timely technical assistance during implementation offer potential for improving DPF success.**

Technical assistance provided with DPF is already widespread. At least 80 percent of DPF operations are accompanied by some sort of TA. Public Expenditure Reviews (PERs) are also commonly done prior to DPF. About 60 percent of DPF operations are preceded by PERs, which are most frequent in Latin America and the Caribbean (86 percent) and least frequent in Africa (57 percent).

Technical assistance is associated with success when it fills capacity gaps that affect the implementation of DPF supported reforms, and it is provided in time to fit into the sequencing of supported reforms.

Operations with strong analytical underpinnings that help inform government priority reforms contribute to improved policy dialogue. Analytical work eases negotiations with government and contributes to the implementation of complex reforms, especially in FCS and other countries with low local capacity.

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## Main Findings (II)

**Government Ownership risks are an issue in many DPF Programs and in those cases tend to reduce success rates significantly.**

The strength of DPF depends strongly on the political will for reform of the recipient government. Strong government ownership facilitates the implementation of difficult reforms, even in the face of political opposition. The benefits of government ownership increase with the strength of design relevance.

Based on teams' assessments, government ownership of the DPF programs is highest in South Asia (70 percent of operations with low commitment risk) and Europe and Central Asia (60 percent). It is lowest in the sampled operations in East Asia and Pacific (25 percent). Africa and Latin America and the Caribbean are in between (respectively 43 percent and 49

**The better the macro policies at the outset of DPF, the greater the chances of achieving expected development outcomes.**

Better rated macroeconomic policies, as measured by the economic management cluster of Country Policy and Institutional Assessments (CPIA), are associated with higher rates of DPF success. For operations with weak design relevance, sound macro policies become even more important.

Operations that pursue reforms needed to sustain the adequacy of the macroeconomic framework or improve it during implementation tend to be more successful.

**In countries with low capacity, operations that secure high government ownership and use simpler designs tend to be more successful. In high capacity contexts, the borrower's readiness to pursue structural reforms is still important for success.**

Delays in the implementation of prior actions is a signal of a government's unwillingness to implement reforms or the lack of capacity to successfully implement the reform. We found cases where such delays had resulted in unsuccessful operations. Adapting designs and providing additional technical assistance are possible ways of mitigating these risks, together with reconsidering the timing of DPF support.

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# Main Findings (III)

**When governments priorities shift towards addressing the impact of large external shocks, operations tend to be more successful when they pursue policy reforms that are congruent with new government priorities and/or when they address key roadblocks for gaining access to expanded aid.**

Operations which purposely mitigate the impact of shocks by adapting designs tend to be more successful. Many unsuccessful operations are overwhelmed by the effects of shocks even if they support reforms that had been deemed consistent with medium term government priorities prior to the respective crisis.

**Democracy was insignificant in our econometric analysis but our desk based case studies show that operations that pursued reforms aligned with the objective of a government seeking re-election were successful.**

In such cases, the government owned the reforms and implemented them rapidly in order to gain legitimacy from voters. However, newly elected governments may be reluctant to implement reforms previously agreed by their predecessors. In such cases, DPF may not be successful unless designs are adapted to new government priorities.

**Corruption was insignificant in our econometric model but case studies confirm its potential to reduce DPF success.**

Corruption arising from government bureaucrats reduces the effectiveness of government institutions in implementing DPF programs. Reforms aimed at permanently reducing bureaucratic powers are likely to be met with strong resistance, which can only be withstood when there is government commitment at the highest level.



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## Main Findings (IV)

**DPF with other Development Partners using JPAFs has not been associated with better outcomes when other drivers of DPF success are kept constant.**

When design relevance is already strong, the net added benefits of JPAFs may be negative. Lower reform success has been found in countries with strong donor coordination in contexts of government reform fatigue or when changing political contexts requires bilateral negotiations.

In the literature, unsuccessful DPF policy reforms in the context of extensive donor coordination have been linked to lower flexibility in operations designed and implemented jointly with other donors. Pressure to agree to donors' preferred policy reforms may also lower government ownership in the context of power disparity between coordinated donors and the recipient government.

**Financing predictability can be balanced with performance as evidenced by the finding that on average, and ceteris paribus, programmatic series perform better than standalone operations.**

The added benefits of programmatic DPF are higher when commitment amounts are lower as a share of government expenditures. This may suggest that when DPF commitment amounts are lower as a share of government expenditures, World Bank teams are less concerned about the magnitude of the potentially disruptive effects on client countries when faced with the option of responding to low reform performance by delaying or canceling operations in programmatic series. To the extent that the World Bank is better able to exercise those options when DPF commitment amounts are relatively low, and this may be potentially factored in by clients, incentives for maintaining reform momentum may be higher in those cases.

# Appendixes

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# Literature Review Methodology (I)

Team reviewed relevant literature from peer reviewed academic sources, bilateral and multilateral institutions. The process included the identification of key pre-existing evidence (and evidence gaps) relating to the research questions.

Three-step methodology employed to:

- a. Literature Identification; and
- b. Coding and analysis of the literature

## Step 1: Literature Identification

- The team used an explicit search strategy which determined the inclusion and exclusion of two main literature subsets.
- Three literature subsets utilized in the evaluation included: peer reviewed academic literature, and bilateral/multilateral institutions' reports.

## Methodology for Identification of Peer Reviewed Academic Literature

A two step approach utilized for literature identification.

- a. Key word search in web of science using the search string below:  
"World Bank' OR 'IDA' OR 'Donor' AND 'budget support' OR 'policy based lending' OR 'adjustment lending' OR 'policy loan' AND 'policy reform' OR 'policy change' OR 'reform'".
- b. The terms 'World Bank' and 'IDA' were introduced to further filter the literature.
  - The text of 94 peer reviewed academic papers produced in step one were relevant to the research questions.
  - The abstract and executive summary were reviewed to find key findings on the variables that contribute to DPF success.

## Methodology for Identification of Bilateral and Multilateral Institutions' Reports (I)

- Two-step vetting process was used to identify the reports. The search string below was used in websites of the institutions: 'budget support' OR 'policy based lending' OR 'adjustment lending' OR 'policy loan' AND 'policy reform' OR 'policy change' OR 'reform'.
- The websites of the following institutions were searched: OECD - DAC, World Bank, IEG, IMF, IDB, AfDB, ADB, European Commission, DFID, DEVAL, and DANIDA.

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# Literature Review Methodology (II)

## Methodology for Identification of Bilateral and Multilateral Institutions' Reports (II)

- To answer the second question, a slightly different search string was used. This included 'policy reform' OR 'policy change', and 'tradeoff' OR 'trade-off', and, 'IDA countries' OR 'fragile' OR 'conflict'.
- Further narrow selected reports of most relevant literature were selected from each institution.
- The selected literature were subjected to a simple quality assessment. These included:
  - methodological rigor;
  - collection of primary data;
  - cross-national nature of the data; and
  - Whether there were quantitative analysis.
- The abstract and executive summary were reviewed to find key findings on the variables that contributed to DPF success.
- This produced 36 reports/studies by multilateral and bilateral development agencies.

## Step 2: Coding and Analysis of the Literature

- A list of most relevant variables mentioned in the literature of both peer reviewed academic literature and bilateral/multilateral literature were compiled.
- The top 10 most mentioned variables from the literature were listed for further analysis. The selection was based on the frequency of occurrences across various publications and explicit mention of the variable as a factor of success in DPF operations.
- In total, 36 literature were identified as the most relevant for more detailed reading and analysis. Out of the 36 literature, 20 studies were from peer reviewed academic papers and 16 reports/studies by multilateral and bilateral development agencies.
- The analysis produced two matrixes. In one matrix, the evaluator coded text explaining the relevance of the variable as a success factor. This was used to produce a literature review for the evaluation.
- In another matrix, numerical codes were assigned to the presence of the variable. The matrix was coded 1 where the variable was discussed in literature and 0 where the element was not. This allowed the team to rank the variables. The ten most important variables were selected for econometric analysis.
- The literature differentiated between context variables and nature of the instrument.

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# Portfolio Review Methodology

## Process Followed in the Design of the Portfolio

Broad consultations within the team and IEG methods advisory on the most appropriate approach to use.

The team developed protocol based on theory of change, theoretical review, and OPCS guidelines for Development Policy Financing.

The protocol included 133 questions related to the nature of DPF instruments, country context, results and lessons. The distribution of the questions followed the nature of the instruments = 66, country context = 22, results = 38 and lesson = 7.

The protocol was subjected to peer review within IEG. It received comments from IEGEC manager, methods advisory team, and colleagues with DPF experience. It also received comments from external consultants with knowledge on DPF instruments.

175 IEG rated operations were selected for the coding. For each operation, the team utilized the Program Document, ICR, ICRR and PPAR (where available) for the coding.

## Process Followed in the Coding of the Portfolio

Harmonized the protocol were coded by five team members.

The five team members were trained on how to apply the protocol. Each member had previous experience on either the preparation of ICR, ICRR or PPAR, and previous experience working with government or on DPF operations.

Each coder applied the protocol and where there were difficulties the protocol was adjusted. The test coding gave an opportunity for the team to assess the usability of the protocol.

Mid coding review: After coding 50 percent of the operations, coders provided feedback on areas where they had challenges. Mid course challenges were discussed by the team to harmonize the coding.

A workshop was held to discuss the results after the coding was completed. Coders were given an opportunity to revise their work before the validation process.

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# Portfolio Validation and Analysis

## The Robust Validation Process

All coded operations were subjected to consistency checks.

The team leader coded two operations given to each coder and compared the results with those received.

At the same time, coders were given 10 operations they had not coded to recode. The selection of the operation were by random sampling and coders were not allowed to share their original codes with other colleagues.

The results from the second stage of coding helped to validate the results and to check whether specific questions had been answered based on the protocol. Where there were discrepancies, the team discussed and harmonized the answers. Consistency checks were also performed for all questions for which coders had put "N/A", indicating the non-availability of information.

The results of the validation indicated that the coders had followed the protocol or the protocol was easy to apply.

## Data Analysis

Descriptive statistics were produced for the questions. The entire data was loaded into Stata for analysis.

Crosstabs were produced for the key variables of interest. The team determined the variables which had sufficient variation and could be used for analysis. Where a variable did not have sufficient variation, the team explored the use of other external variables.

The main variables for which the team used other variable included initial macroeconomic condition (CPIA cluster A), corruption (Governance group index on corruption) and democracy (Economic Intelligence Unit data on democracy).

Team proceeded with the pattern matching exercise and econometric modelling as described in the concept note.

## Limitation of the Analysis

The team used the most available and appropriate data as proxies to measure each of the ten variables. For example, the IEG outcome rating of MS+ was used as a proxy of success while MS- ratings measured unsuccessful operations. These proxies are not perfect but they were the most appropriate binary indicators. Another proxy tested by the team is the IEG efficacy rating, which is also limited.

# Limitations of the Study

**The following limitations should be taken into account in interpreting the present findings and may suggest avenues for future research on the drivers of success of DPF in IDA countries. Note that they have already been mentioned in the main body of the document.**

1. The portfolio used for this analysis does not cover all DPF operations rated by IEG since the inception of the instrument. Further work in this area could test the robustness of our findings using a larger sample.
2. Further analysis could consider exploring and presenting longer-term development benefits of DPF. We note that, attributing long term development outcomes to development policy financing will be challenging.
3. Because the choice of programmatic versus stand-alone operations is potentially endogenous – although many of its possible drivers are controlled for – the respective econometric findings should be interpreted with caution. The same applies to the findings related to commitment amounts, donor harmonization activities, technical assistance, and DPF analytical underpinnings. The potentially endogeneous variables measuring corruption risks, design relevance and government ownership are instrumented. Levels of income, democracy, external shocks and macro conditions prior to DPF are arguably exogenous.
4. The study did not explore the role of different types of objectives and levels of ambition in donor coordination activities or quantify their possible costs. These issues could be explored in future studies, together with possible hypothesis to explain the negative correlation found between JPAF and DPF outcomes.
5. Given the finding on the importance of “relevance of design” in determining the success of DPF, further econometric work could develop alternative protocol-based variables to represent “relevance of design” relying for instance on the coding of various aspects pertaining to the quality of prior actions – for example, their relevance, criticality, additionality, measurability of impact, and completeness (see IEG, 2015) – as well as of macro and result frameworks. Results from such an exercise could be compared with those obtained in the evaluation.
6. Findings suggest that successful development Policy Financing benefits from strong analytical underpinnings. This evaluation used Public Expenditure Reviews as a proxy for such analytical work. Further analysis could test the effect of other analytical products and the time between their completion and that of DPF operations.
7. While the variable used to measure external shocks turned out to be insignificant in our regression analysis, future studies could explore the impact of different types of shocks separately.

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**Note: A detailed bibliography is available upon request from the task team.**

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