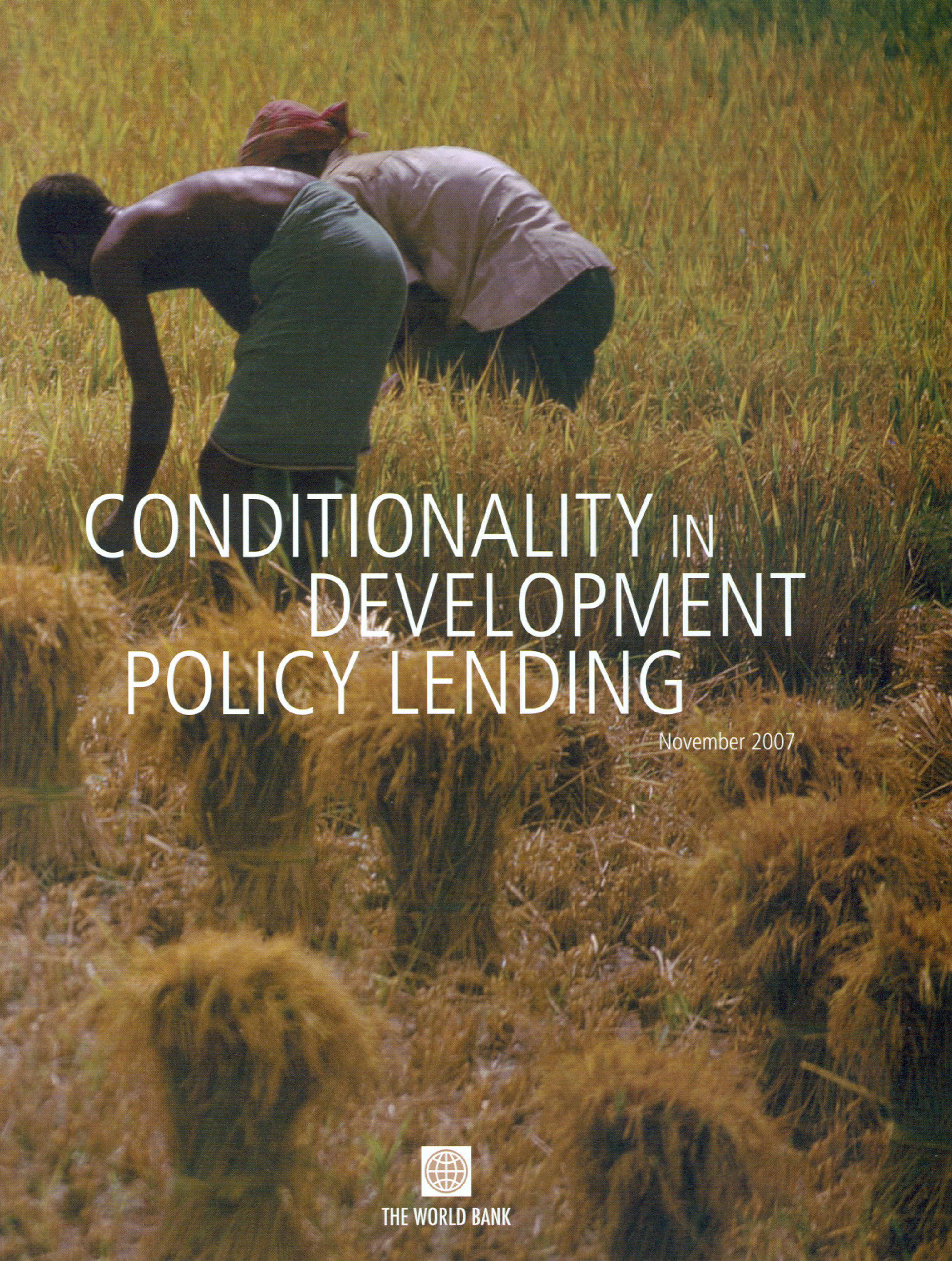


CONDITIONALITY IN DEVELOPMENT POLICY LENDING

November 2007

THE WORLD BANK

CONDITIONALITY IN DEVELOPMENT POLICY LENDING

OPERATIONS POLICY AND COUNTRY SERVICES
WORLD BANK

November 15, 2007

ABBREVIATIONS AND ACRONYMS

BP	Bank Procedures (statement)
CSO	Civil society organization
DfID	Department for International Development (UK)
DPL	Development policy lending
DPO	Development policy operation
DR-CAFTA	Dominican Republic–Central America Free Trade Agreement
DSC	Development support credit
ESW	Economic and sector work
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDG	Millennium Development Goal
NGO	Nongovernmental organization
OP	Operational Policy
OPCS	Operations Policy and Country Services
PAF	Performance assessment framework
PAL	Program adjustment loan
PEFA	Poverty Expenditure and Financial Accountability Assessments
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty reduction strategy
PRSC	Poverty reduction support credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and social impact analysis
SOE	State-owned enterprise
VAT	Value-added tax
WTO	World Trade Organization

Conditionality in Development Policy Lending

Contents

ACKNOWLEDGMENTS

This report was prepared by Jan Walliser with important contributions from Zhanar Abdildina, Francisco Carneiro, John Factora, Jason Mayfield, and Mamadou Lamine N'Dongo. The authors gratefully acknowledge support of country teams, governments, civil society, and development partners in Benin, Haiti, Mali, Mozambique, Vietnam, Pakistan, Rwanda, Vietnam, and Zambia for conducting in-country consultations, as well as the advice from John R. Mitchell during the preparation and implementation of the consultations. Feedback received in meetings with development partners and civil society groups in London and Oslo was also much appreciated. Patricia Rogers and Henry Chase provided editorial assistance, and Pansy Chintha formatted the document. The work was carried out under the general direction of Jeffrey S. Gutman, Vice President, Operations Policy and Country Services, and Kyle Peters, Director, Country Services, and was supervised by Manuela Ferro, Manager, Country Economics.

CONDITIONALITY IN DEVELOPMENT POLICY LENDING

EXECUTIVE SUMMARY

1. The Bank's 2005 conditionality review proposed—and the Development Committee endorsed—five good practice principles (summarized below) to strengthen the quality of the Bank's application of operational policy for development policy lending (DPL). These principles, which are summarized below, were endorsed by the Development Committee in September 2005.[1] A first progress report on the application of these principles discussed by the Board of Executive Directors in December 2006[2] found that the Bank's use of conditionality is broadly consistent with the good practice principles. It also highlighted the following as areas for further action: (a) undertaking analytic work upstream in the policy dialogue; (b) avoiding conditions on sensitive policy areas if ownership is uncertain or the political environment is fragile; (c) avoiding process conditionality; (d) reducing the number of benchmarks, especially in mature programmatic series; (e) conducting progress reviews at a time conducive to predictable financing; and (f) using baselines for results indicators more systematically.

Good Practice Principles	
Ownership	***Reinforce country ownership.***
Harmonization	***Agree up front with the government and other financial partners on a coordinated accountability framework.***
Customization	***Customize the accountability framework and modalities of Bank support to country circumstances.***
Criticality	***Choose only actions critical for achieving results as conditions for disbursement.***
Transparency and predictability	***Conduct transparent progress reviews conducive to predictable and performance-based financial support.***

2. ***Coverage and Consultations.*** This report reviews the application of the good practice principles in development policy operations (DPOs) that were approved during FY07. Among the 57 operations reviewed, 35 (61 percent) were IDA-only operations and 22 (39 percent) IBRD or blend operations. The report incorporates findings from consultations conducted during July-September 2007 in eight countries eligible for financing from IDA (Benin, Haiti, Mali, Mozambique, Pakistan, Rwanda, Vietnam, and Zambia) and draws also on other external studies and reports.

3. ***Findings.*** On the basis of a review of 57 operations approved during FY07 and consultations in eight IDA countries, this report confirms that Bank support remains broadly consistent with the good practice principles on conditionality. In particular, the paper gives broad evidence for government ownership of Bank-supported programs, including where they support sensitive reforms, and for the use of analytic work to identify ways to reduce negative poverty and social impacts of policies and to enhance positive ones. Progress has also been made in several other areas identified in the 2006 paper: (a) sensitive reforms are rarely used in fragile

---

1 *Review of World Bank Conditionality* (DC2005-0013), September 9, 2005.

2 *Good Practice Principles for the Application of Conditionality: A Progress Report* (R2006-0201, IDA/R2006-210), November 13, 2006.

environments and only when there is sufficiently strong evidence of ownership; (b) use of process conditions is rare; (c) matrix sizes have been sharply reduced, and a further reduction may not be possible without harming harmonization efforts; (d) in many countries the Bank is working closely with financial partners in harmonizing support around government budget cycles and the Bank maintains a strong record of predictability of budget support; and (e) most results frameworks now have baseline indicators.

A. Trends in the Use of Conditionality and Benchmarks

4. By historical standards, the average number of conditions per policy-based operation continues to be low for both IDA and IBRD borrowers: it declined from above 30 in the mid-1990s to about 10-12 in FY05, where it has remained. As in past years, the thematic focus of conditionality is on public sector governance, followed by social sectors and private and financial sector development. The average number of benchmarks (actions and indicators describing a government's program that are not conditionality) in policy-based operations funded by IDA declined sharply—by 40 percent—from FY06 to FY07, confirming the early trend described in the 2006 report. In IBRD and blend operations, by contrast, the use of benchmarks increased, by contrast, as the Bank supported more multi-sectoral and complex programs in these countries during FY07 than in past years.

B. Application of Conditionality

5. The report reviews implementation aspects along the five good practice principles.

6. ***Ownership.*** A realistic assessment of ownership relies on the government's policy intentions and its track record of reform; it acknowledges that reforms may be owned by some constituencies and opposed by others who stand to lose from them; and it recognizes the value of sound analysis and stakeholder participation to strengthen ownership. Bank-funded operations continue to rely on governments' expressed policy intentions and on countries' track record of sustained policy implementation, which gives confidence that programs reflect government priorities. Furthermore, recent operations—such as those on cotton reform in Benin or social security reform in Turkey—show how the Bank has allowed internal policy processes to play out or to give space for trying different policies. Supported programs continue to be informed by a range of analytic work, and poverty and social impact analysis (PSIA) has been conducted for most sensitive reforms. In addition, guidance on PSIA is being strengthened to further improve practices, make better use of opportunities for upstream engagement of stakeholders, and reflect the range of circumstances that teams face when carrying out such analysis. The consultations confirm that the Bank is generally seen as having considerably improved its respect of ownership in recent years, although civil society organizations in some countries disagree. There was universal agreement among participants that capacity constraints in government and civil society are a major obstacle for effective building of ownership.

7. ***Harmonization.*** Under the lead of country authorities, Bank staff should reach understandings with the government and other partners on a single and internally coherent framework for measuring progress under the government's program. All 57 operations reviewed contain such an accountability framework: a matrix of policy actions and expected results that has been agreed with the government on the basis of a government program. The use of policy matrices for harmonization varies with country circumstances: in many IDA countries, the policy matrix serves as a tool for harmonizing donor interventions under a single donor framework,

whereas in many IBRD countries it serves as a coordination tool for parallel support. Consultation feedback highlights both improvements made in harmonizing budget support and the need to foster closer donor collaboration and reinforce government capacity to lead harmonization processes.

8. ***Customization.*** The conditionality review stated that accountability frameworks should never be used to add policy actions to the government's agenda or leverage outside preferences. Policy actions supported under FY07 Bank-funded operations are firmly anchored in government programs, a link made explicit in Bank Program Documents. Several operations support reforms in such "sensitive" areas as privatization, trade reform, price liberalization, utility price adjustment, subsidy reform, and user fee adjustments—although they constitute only a small part of Bank conditions and benchmarks. Of the DPOs approved in FY07, 15.8 percent had a privatization-related condition, reflecting about 1.5 percent of all conditions; 8.8 percent had a condition on public enterprise restructuring; 17.5 percent had conditions connected with price liberalization, utility tariff adjustments, or subsidy reform; 7 percent of operations had conditions related to trade reforms; and none included user fee increases. Overall, about 30 percent of operations had policy actions in potentially sensitive areas. All privatization-related measures reflect the government's policy priorities, and most privatization measures involve support for a government-led privatization program (e.g., in Turkey) rather than specific transactions. Where transactions are involved (as in Benin and Mali), operations are generally designed to give governments space to build internal consensus about future reform steps. Where privatization is not a government priority, the Bank supports reforms to improve the performance of public enterprises. Most price and subsidy changes during FY07 involved utility price adjustments, reflecting common government responses to rising oil prices. Trade measures drew on government policy priorities and were largely focused on trade integration, with reduction in external protection levels in two cases (Bangladesh, Mauritius). Consultation feedback in this area was driven by country-specific issues and interactions: discussion often centered on how past differences in views had been resolved and whether government voices were heard or sufficiently respected (as in Rwanda and Mali). Some stakeholders also argued for improving governments' capacity to lead in prioritizing and sequencing policy actions.

9. ***Criticality.*** The 2005 conditionality review noted that in establishing the conditions for lending, Bank and country staff should choose from the agreed accountability framework a set of policy and institutional actions that are critical for achieving the results of the program. All operations reviewed for this report identified the program supported by the Bank, actions completed before Board approval, and, if applicable, tranche release conditions. Overall, the criticality of most prior actions and conditions is well established in recent Program Documents, and the use of process conditions such as "action plans" is exceedingly rare. The Bank has also worked successfully with government counterparts and other financial partners in several countries to avoid overloading accountability frameworks, leading to a reduction in the size of the matrix. At the same time, it has proven difficult to limit the size of the policy matrix in the early stages of donor harmonization efforts. During consultations, government representatives generally confirmed that Bank conditionality is drawn from an agreed accountability framework. However, some participants wondered how the Bank chooses specific actions from the overall accountability framework.

10. ***Transparency and Predictability.*** The 2005 review suggested that in the context of medium-term Bank support, progress should be reviewed regularly and in line with a country's

monitoring and evaluation cycle, drawing to the extent possible on internal accountability processes. Program Documents consistently present the actions taken before approval of an operation, and all programmatic operations lay out the next steps of the program and identify triggers. Advances have also been made in using baseline indicators for results measurement. The Bank has a strong overall record on predictability, and where government financing needs are annual and this is a priority, it has made an effort to confirm resource flows early. Nonetheless, in a few cases disbursements were delayed because of electoral cycles or macroeconomic slippages. With the exception of Zambia, during the consultations government officials confirmed the good overall predictability of DPOs.

C. Conditionality and Development Outcomes

11. Policy actions taken by governments, and highlighted in Bank documents as prior actions or conditions, ultimately intend to change development outcomes. Programmatic series of DPOs can illustrate this point. For example, under Ghana's poverty reduction support credits, sustained changes to education, including measures to respond to gender imbalances, supported an increase in school enrollment rates, with a strong increase in girls' enrollment. Similarly, a series of financial management reforms supported a significant improvement in the quality of Tanzania's systems, as recognized in ratings prepared in 2001 and 2004 for the HIPC Initiative.

D. Key Messages and Next Steps

12. This report identifies a few key areas for continuing work. When the Bank supports policy and institutional changes in sensitive areas, it is critical to ensure sufficient ownership. Where time is not an essential consideration, giving the country space to develop the policy reform and build internal consensus can considerably strengthen the program. Finally, a strong message from the consultations, repeated consistently across countries and stakeholders, is that involving local counterparts more in planning and executing analytic work, and in building and reinforcing local capacity for policy formulation and analysis should be an essential element of the Bank's support.

13. ***Next Steps.*** Corporate review processes for DPOs will remain the principal means of ensuring the consistent application of good practice. The following additional actions should further strengthen the implementation of the good practice principles: (a) the issuance of a revised good practice note for poverty and social impact analysis and related internal training; (b) the revision of the Bank's disclosure policy, based on broad consultations, clarifying the disclosure of informal analytic work to facilitate dialogue with stakeholders; (c) as part of the planned review of analytic and advisory activities, a review of the extent to which local capacity is used in the Bank's analytic work; (d) the next biennial development policy lending retrospective planned for FY09, which will again review the application of conditionality in development policy in the context of the overall operational policy for development policy lending.

CONDITIONALITY IN DEVELOPMENT POLICY LENDING

I. INTRODUCTION

1. At the request of the Development Committee, the Bank reviewed its "policy and practice on conditionality" during 2004-05 and a prepared a "report on the continued efforts by the Bank and the Fund to streamline their aggregate conditionality."[1] Drawing on an extensive dialogue with the Board, donors, civil society, and governments, the 2005 *Review of World Bank Conditionality* discussed the rationale for and modalities of conditionality in policy-based lending (now known as development policy lending), and evaluated trends and key challenges in the application of conditionality.[2] In September 2005 the Development Committee endorsed the review's findings and recommendations.

2. ***Good Practice Principles.*** The 2005 review proposed five good practice principles for the application of conditionality in development policy lending (summarized in Box 1). A first progress report on the application of these principles was discussed by the Executive Directors on December 5, 2006, and Management agreed to report on progress again in a year's time.[3]

Box 1. Good Practice Principles

1. Ownership	***Reinforce country ownership.***
2. Harmonization	***Agree up front with the government and other financial partners on a coordinated accountability framework.***
3. Customization	***Customize the accountability framework and modalities of Bank support to country circumstances.***
4. Criticality	***Choose only actions critical for achieving results as conditions for disbursement.***
5. Transparency and predictability	***Conduct transparent progress reviews conducive to predictable and performance-based financial support.***

3. ***Findings and Recommendations of the 2006 Report.*** The 2006 report found that the Bank's use of conditionality is broadly consistent with the good practice principles. It also suggested that Management give particular attention to the following areas in going forward with the implementation of the good practice principles:

- encouraging upstream disclosure of analytic work to reinforce ownership (principle 1);
- avoiding conditions on sensitive policy areas if ownership is uncertain or the political environment is fragile (principle 1), and avoiding duplication of IMF conditions (principle 3);

---

1 *Development Committee Communiqué*, Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, October 2, 2004, para 7.

2 *Review of World Bank Conditionality* (DC2005-0013), September 9, 2005. Policy conditions in investment lending have since been reviewed in *Policy Conditions in Investment Lending: A Stocktaking* (SecM2006-0349), August 2, 2006. The report found that the use of policy conditions in investment lending has declined and is rare, and it reinforced existing corporate guidance to avoid such conditionality.

3 *Good Practice Principles for the Application of Conditionality: A Progress Report* (R2006-0201, IDA/R2006-210), November 13, 2006.

- avoiding process conditionality (principle 4);
- reducing the number of benchmarks, especially in mature programmatic series (principle 4);
- working with financial partners to conduct progress reviews conducive to the predictable financing of government budgets (principle 5); and
- using baselines for results indicators more systematically (principle 5).

4. ***Objective of this Report.*** This report reviews the application of conditionality and the implementation of the recommendations of the 2006 progress report in recent operations, and reports on consultations undertaken in mid-2007 in eight IDA countries. It draws attention to some key lessons learned from the implementation of the principles and underscores the link between the policy and institutional actions highlighted as conditionality in Bank support and the results agenda.

5. ***Coverage.*** This report reviews in detail the application of conditionality in 57 development policy operations (DPOs) approved during FY07: 35 (61 percent) IDA-only operations and 22 (39 percent) IBRD or blend operations (Annex A lists the operations by country). Five of these operations (Madagascar, Colombia Labor, Burundi, India-Orissa, and Guatemala), which were already reviewed in the 2006 progress report, are included here in the aggregate statistics for FY07, but their contents are not discussed in detail. The application of the good practice principles for all operations is reviewed in detail in Annex B.

6. ***Engaging with Borrowing Countries and Stakeholders.*** The 2005 *Review of World Bank Conditionality* built on an extensive process of consultations with borrowing country representatives, donors, and civil society organizations.[4] As suggested by several Executive Directors during the discussion of the 2006 report, the Bank renewed its engagement with stakeholders in preparing this report. It organized in-country consultations with government representatives, donors, and civil society representatives in eight IDA-eligible countries covering four Regions (Benin, Haiti, Mali, Mozambique, Pakistan, Rwanda, Vietnam, and Zambia) during July-September 2007 to obtain additional feedback on its practice of conditionality. The discussions, structured along the five good practice principles, were mostly chaired by donor representatives and summarized in writing by other stakeholders or independent consultants. As the summaries of these sessions demonstrate, the consultations allowed key stakeholders to freely and openly discuss issues surrounding conditions in recent Bank operations, often eliciting a range of different viewpoints. The Bank invited further comments on conditionality through its external website, an invitation that was widely disseminated by civil society organizations (CSOs).[5] The summaries of the discussions, as well as submissions by commentators, are available on the Bank's external website,[6] and a summary report of feedback received is attached as Annex C. After the conclusion of the in-country consultations, Bank staff discussed preliminary findings with CSOs in Oslo and London in October and November 2007. The key messages from the consultative process are incorporated in this report.

---

4 A summary of the feedback received in 2004-05 was distributed as *Review of World Bank Conditionality: Summary of External Consultations* (SecM2005-390/6), July 11, 2005.

5 See, for example, http://www.eurodad.org/uploadedFiles/Newsletters/PRSWATCH_10th_September_2007.pdf.

6 http://www.worldbank.org/conditionality.

7. ***Other Related Studies.*** This report also draws on related work by third parties to reflect the evolving application of conditionality: the 2006 *Evaluation of General Budget Support*, with its seven underlying case studies (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam), as well as similar studies for Tanzania and Ghana.[7] In addition, the Norwegian government commissioned a study on conditionality in 2006, drawing on desk reviews as well as case studies on Bangladesh, Mozambique, Uganda, and Zambia.[8] Some of these country studies also give a glimpse of the conditionality practices of bilateral and other multilateral development partners; however, it is not feasible to systematically compare those practices with the Bank's, since neither the number nor the content of conditions and benchmarks used by other development partners is readily available.

8. ***Structure of the Report.*** Section II discusses recent trends in the number and content of conditions in DPOs and summarizes the activities undertaken to implement the recommendations of the 2006 report. Section III briefly discusses the objectives of the five good practice principles and then reviews their implementation and the feedback from consultations under each of the principles. Section IV illustrates how Bank conditionality relates to outcomes, and Section V summarizes the findings and suggests next steps.

II. RECENT TRENDS IN WORLD BANK DEVELOPMENT POLICY LENDING

9. This section reviews the terminology attached to conditionality, summarizes conditionality-related trends through end-FY07, and discusses how the Bank has supported incorporating the good practice principles into recent operations.

10. ***Share of Development Policy Lending.*** The Bankwide share of policy-based lending has fluctuated widely over time; however, it has remained close to 30 percent during FY03-06 without any discernible overall trend in recent years (see Figure 1). IBRD's share of policy-based lending spiked as a result of crisis lending during FY02 (Turkey, Argentina), while IDA's share fell sharply in both FY04 and FY07 during a rapid scale-up of IDA investment lending.

A. Distinguishing Conditionality from Other Indicators in Bank Operations

11. In the World Bank context and for the purposes of this paper, *conditionality* is defined as the set of conditions that, in line with para. 13 of the Bank's Operational Policy (OP) 8.60, must be satisfied for the Bank to make disbursements in a development policy operation.[9] These conditions are (a) maintaining an adequate macroeconomic policy framework; (b) implementing the overall program in a manner satisfactory to the Bank; and (c) implementing the policy and

---

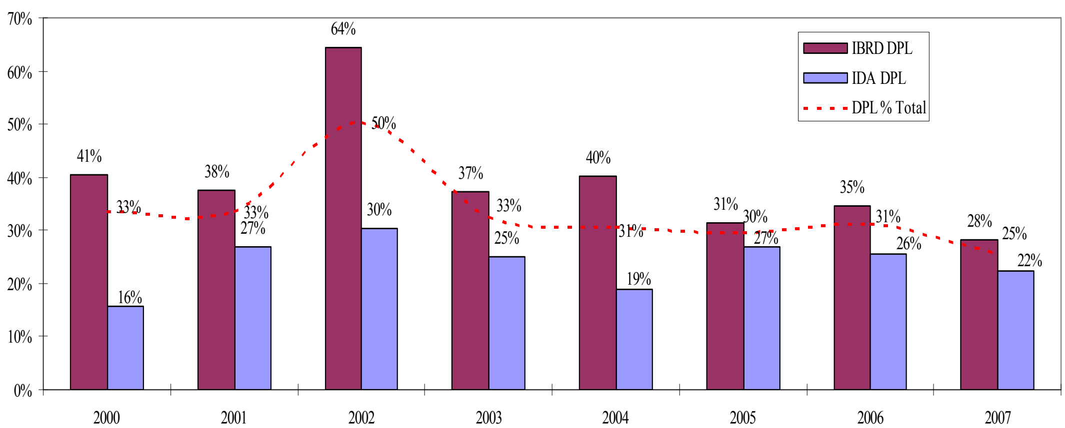
7 *Evaluation of General Budget Support: Synthesis Report*, International Development Department, University of Birmingham, and Associates, May 2006; see also Andrew Lawson, David Booth, Meleki Msuya, Samuel Wangwe, and Tim Williamson, "Does General Budget Support Work? Evidence from Tanzania" in *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*, Stefan Koeberle, Zoran Stavreski, Jan Walliser, eds, World Bank (Washington, DC), 2006; and Andrew Lawson, et al., *Joint Evaluation of Multi-Donor Budget Support to Ghana*, Overseas Development Institute and Ghana Center for Democratic Development (London and Accra), 2007.

8 Benedicte Bull, Alf Morten Jerve, and Erlend Sigvaldsen, *The World Bank's and the IMF's Use of Conditionality to Encourage Privatization and Liberalization: Current Issues and Practices*, Report prepared as background for the Oslo Conditionality Conference, University of Oslo (Oslo), 2006.

9 *Review of World Bank Conditionality: Legal Aspects of Conditionality in Policy-Based Lending* (SecM2005-360/2, July 8, 2005), para. 9.

institutional actions that are deemed critical for the implementation and expected results of the supported program. Only these conditions are included in the Bank's Loan Agreements.

Figure 1. DPL Share in Bank Lending FY00-07



Source: Staff calculations.

12. ***Typology of Conditionality.*** Policy-based loans are made available when the borrower[10] accomplishes critical policy and institutional actions, or *loan conditions*. In the context of different loan designs, the Bank uses different terminology for conditionality. Actions to be met before an operation is approved by the Board are referred to as *prior actions* and are listed in a schedule to the legal agreement. For single-tranche operations all conditions are prior actions. (90 percent of the FY07 DPOs were single-tranche.) In an operation with more than one tranche, besides prior actions, the borrower complies with certain conditions after Board approval and effectiveness, which are termed *tranche-release conditions*. Unless all tranche-release conditions are met, a tranche may be released only if the Board approves a waiver of the unmet condition(s).

13. ***Triggers and Benchmarks.*** In addition to the critical policy and institutional actions that are recorded as prior actions or tranche-release conditions in legal agreements, the Bank uses *triggers* and *benchmarks* to review and describe progress under programmatic series of loans. Neither triggers nor benchmarks are conditionality.

- *Triggers* represent anticipated critical actions for achieving and sustaining the results of the medium-term program. Achievement of triggers is therefore intended to signal sufficient progress to move from one operation to the next. Triggers offer operational flexibility because they can be adapted to a changing program environment and can be revisited in light of the original program objectives as program implementation progresses. Bank operational documents are expected to lay out how triggers are adapted and modified to support program objectives.

- *Benchmarks* in program matrices describe the contents and results of the government's program in areas supported by the Bank. They are frequently used to describe steps in a reform process that represent significant, though not necessarily

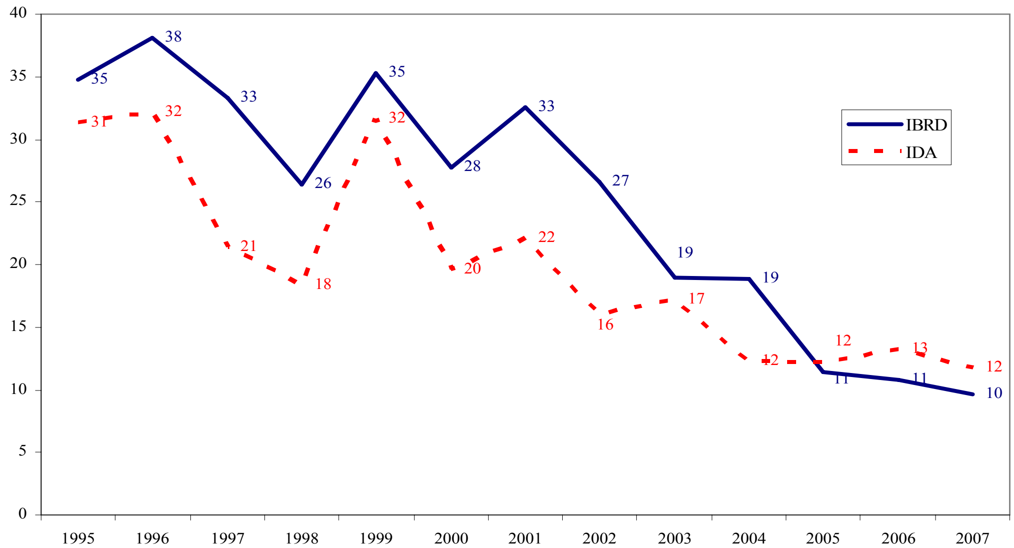
[10] For simplicity, the term *borrower* is used throughout the report, independent of the financial terms attached to Bank support.

critical, progress markers for the implementation of the program. Although they help define an area of the Bank's policy involvement, they do not determine disbursements of Bank loans or grants.[11] Even benchmarks that have been achieved are, therefore, not conditionality.

B. Number and Content of Conditions

14. By historical standards, the number of conditions (prior actions and tranche-release conditions) per operation continues to be low for both IDA and IBRD borrowers (see Figure 2).[12] The average number of conditions per policy-based operation declined from above 30 in the mid-1990s to about 10-12 in FY05, and has remained at this level during FY07. Thus, the low level of conditions in the two most recent years has been maintained in FY07.

Figure 2. Average Number of Conditions



Source: Staff calculations.

15. ***Thematic Coverage of Conditionality.*** The thematic coverage of conditions in FY07 operations remains much the same as in the 2005 conditionality review (see Figure 3). Public sector conditions accounted for half of all conditions, reflecting the use of DPOs to support a broad set of changes in public sector governance, including public financial management reform

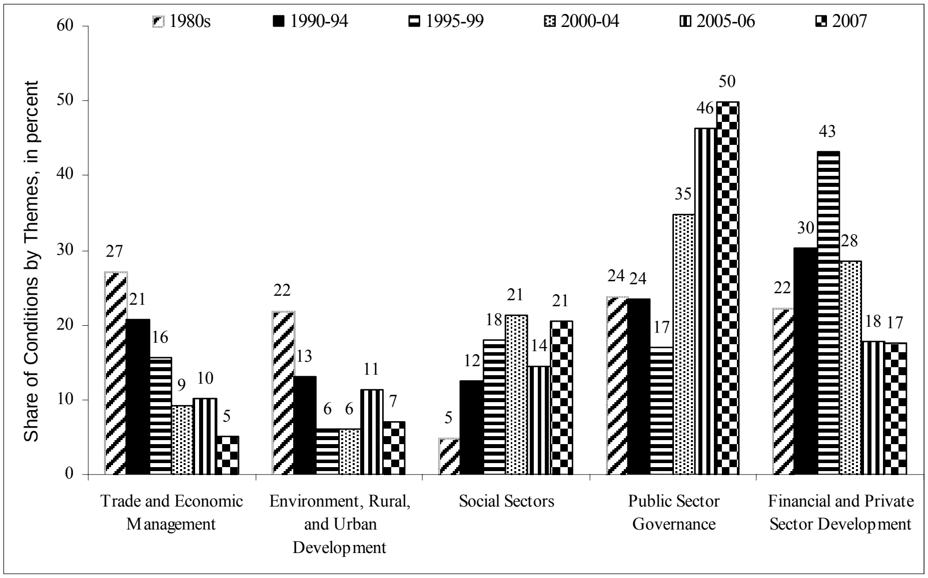
---

11 Some bilateral donors are also monitoring a government's broader poverty reduction programs that they support without necessarily using all actions or indicators of the program as conditionality. For example, the United Kingdom's Department for International Development (DfID) uses a distinction between conditions and benchmarks similar to the Bank's to monitor progress under its poverty reduction budget support. Conditions are defined as "action, circumstance, or situation which is required for committed aid to be disbursed," whereas benchmarks are defined as an "indicator (action, process, target) which is adopted by a recipient government and used to monitor progress against agreed objectives and inform policy dialogue. Failure to meet individual benchmarks should not lead to interruption of aid flows." See "Implementing DfID's conditionality policy," Draft How To Note, A DfID practice paper, January 2006.

12 *Conditions* include prior actions, tranche-release conditions, and conditions of effectiveness (which are very rarely used in DPOs; indeed, their use is discouraged), all of which are set out in the Bank's legal agreements. The number of conditions is not a measure of the complexity of each action, which may vary greatly from condition to condition.

and improvements in financial accountability and budget processes. Next in importance were social sector reforms (21 percent) and financial and private sector conditions (17 percent), which mostly reflect conditions related to business climate and financial sector reforms but also include some conditions related to privatization. Trade and economic management conditions, on the decline since the mid-1990s, now represent only 5 percent of all conditions.

Figure 3. Thematic Coverage of Conditionality in Policy-Based Lending



Source: Staff calculations.

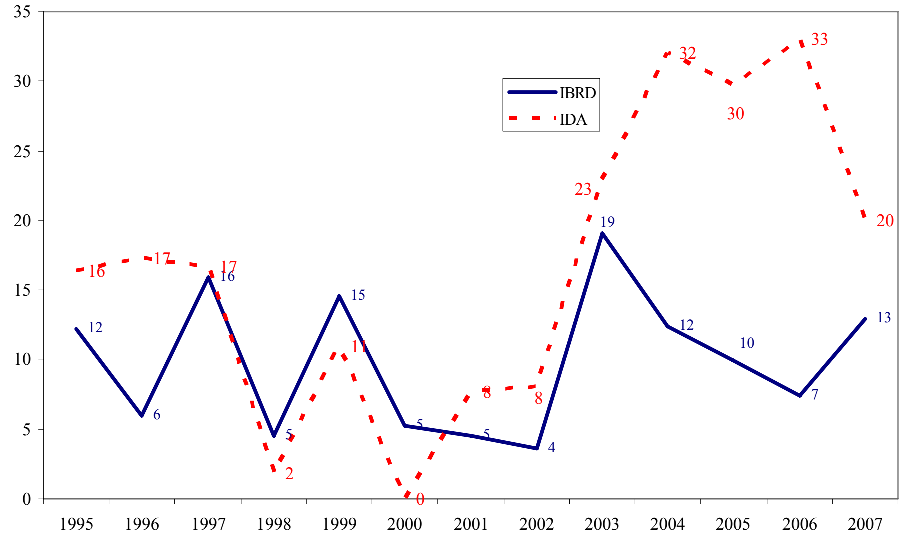
C. Trends in the Use of Benchmarks

16. The number of benchmarks in policy-based IDA operations declined sharply—by 40 percent—between FY06 and FY07 (see Figure 4), confirming the early trend described in the 2006 report. The number of benchmarks in IDA operations rose from 5-10 in the mid-1990s—before the introduction of programmatic lending—to 32 in FY04 and 33 in 2006. This trend is closely associated with the emergence of large policy matrices under multisectoral programs supported by poverty reduction support credits (PRSCs). The declining use of benchmarks to about 20 in FY07 reflects teams' overall greater discipline in using policy matrices that describe Bank support to a government program, but also a trend toward using smaller matrices under mature programmatic series (such as Benin's PRSC-4). For IBRD operations, the declining use of benchmarks that began in FY04 and continued in FY06 has been partially reversed in FY07 because of a larger number of operations in countries where policy matrices describe a broader program, such as IDA-IBRD blend operations for the Indian states of Orissa and Andhra Pradesh. In addition, sectoral reform operations, such as the Punjab Irrigation DPL in Pakistan, tend to have larger program matrices. This development is consistent with prior fluctuations of benchmarks in IBRD lending operations and still leaves the number of benchmarks in these countries at low levels. It also does not represent a reversal of the general trend in IBRD countries to leave the description of a country's broader program to government documents or analytic underpinnings.

D. Supporting the Implementation of the Good Practice Principles

17. The Bank has built on the proposals in the 2006 report to introduce or reinforce several initiatives to strengthen application of the good practice principles.

Figure 4. Average Number of Benchmarks



Source: Staff calculations.

18. ***Standardized Box.*** All but two operations presented to the Board in the second half of FY07 contained a standardized box on the application of the good practice principles. Although the contents of the boxes were of varying quality, the requirement itself reinforces the focus on good practice guidance for applying conditionality and facilitates retrospective reviews of conditionality.

19. ***Corporate Review Process.*** Bank Procedures (BP) 8.60 requires that the appraisal and negotiation of each DPO be authorized by a corporate review (the Regional Operations Committee, typically chaired by the Regional vice-president; or the Operations Committee, typically chaired by the Managing Director).[13] In addition to verifying consistency with the principles, the review meetings have provided guidance to teams on strengthening the design of DPOs as regards prior actions and triggers, and on making disciplined use of benchmarks, particularly in multisectoral settings. During FY07, reviews gave specific attention to criticality in putting together policy matrices, the establishment of baselines for results indicators, and the alignment of support with budget cycles where such alignment was a government priority.

20. ***Disclosure Policy Review.*** The Bank is currently reviewing its disclosure policy. This review, to be discussed by the Board during FY09 after a consultative process, will clarify the disclosure rules and processes for informal analytic work and other Bank products that may feed into a country's broader policy process. In this respect, the disclosure policy update will contribute to the Bank's broader effort to strengthen country ownership of policies and provide analytic input and policy options for the discussion of economic reforms.

---

[13] BP 8.60, para. 5.

21. ***Dissemination and Training.*** Following the December 2006 Board discussion, more than 2,000 copies of the conditionality review and the follow-on report were distributed to Bank staff, interested parties, and the Bank's Public Information Centers around the world. In addition, standard training courses, such as the Introduction to Bank Operations and the DPL Academy, place great weight on the good practice principles and the appropriate use of conditionality in DPOs in general.

III. APPLICATION OF CONDITIONALITY

22. This section describes the good practice principles and examines the extent to which each one was incorporated into the 57 FY07 operations that are being reviewed in this report.

A. Ownership

23. The conditionality review concluded that the Bank's DPOs should support only policies and programs for which there is some clear evidence of country ownership, as described, for example, in a poverty reduction strategy (PRS) adopted by the government after broad-based consultations. It pointed out that the Bank may need to allow sufficient time for country processes, such as parliamentary debate, to be completed before establishing the details of Bank support. Moreover, it highlighted that the Bank and other donors should support the government in filling analytic gaps and feeding such analysis into the country's own policy-setting mechanism.

24. ***Assessing Ownership.*** Ownership is difficult to assess. An understanding of a country's political economy and the concerns of stakeholders are required to identify the scope for a sustainable reform program. For the purposes of this report, as for previous reports on conditionality, the Bank gauges the degree of ownership by reviewing borrowers' expressed policy intentions and their track record of reform. These findings are augmented by a broader review of national development strategies in 62 IDA-eligible countries conducted in 2007.[14] The Bank does not suppose that ownership implies uniform support and understands that reforms may be owned by some constituencies and opposed by others who stand to lose from them.[15] However, the Bank needs to assure itself of the sustainability of the reform process, which typically implies support for reforms beyond a narrow group of country officials. Given the political economy of reforms, which can be complex, this report therefore reviews FY07 operations for signs of fragile or fluid country situations that may put at risk reforms in particularly sensitive or controversial areas.

25. ***Government Strategies.*** Bank operations continue to rely on expressed policy intentions of governments in describing the program supported by the Bank (see Annex B). In all countries with IDA-only operations, the government sets out its policy intentions and strategy in a Poverty Reduction Strategy Paper (PRSP) or an interim PRSP (I-PRSP). In the Central African Republic,

---

14 *Results-Based National Development Strategies: Assessment and Challenges Ahead*, World Bank, October 2007. The report and individual country profiles are available at www.worldbank.org/aer.

15 For a discussion of conceptual frameworks for assessing ownership, see World Bank, *Adjustment Lending Retrospective,* Report 22723, June 15, 2001, p.73; see also J. Johnson and S. Wasty, *Borrower Ownership of Adjustment Programs and the Political Economy of Reform*, World Bank Discussion Paper No. 4, Washington D.C., World Bank, 1986; and World Bank, *An Operational Approach to Assessing Country Ownership of Poverty Reduction Strategies*, OPCS, February 2005.

the I-PRSP was outdated and Bank support drew on the government's 2006 Economic and Social Policy Framework and a transitional results matrix, which in turn built on the draft PRSP. Some operations (e.g., the Bangladesh railway reform or Vietnam's program 135) also rely on more detailed sectoral strategy documents that were developed to flesh out elements of the PRSP. A recent comprehensive review of national development strategies in low-income countries finds that the formulation of national development strategies in 26 of the 27 countries with IDA-only operations during FY07 involved CSOs. This finding gives some confidence that the government's policy intentions were shared and discussed with key stakeholders.[16] A significant majority of these countries also involve CSOs in the implementation and monitoring of the national development strategy, ensuring that modifications and new elements of the strategy are subject to debate. By contrast, the involvement of parliaments varies, with only some countries requiring formal parliamentary adoption of national development strategies. Overall, the review finds that 5 of the 27 countries with IDA-only operations have significantly developed operational development strategies, and 19 others have taken important steps toward such a strategy.[17] In general, the development of the policy framework is at earlier stages in more fragile environments. In IBRD countries and countries with blend operations, the Bank draws on a mix of national strategy documents (such as the National Development Plan in Colombia), detailed sector strategies (for example, for the water sector in Morocco) and broad government policy statements that were vetted through electoral processes (such as the reform program pursued in Panama or Uruguay).

26. ***Track Record.*** The vast majority of DPOs during FY07 were extended to countries with a track record of sustained policy implementation. Although a track record is not equivalent to ownership, it is an important predictor of the sustainability of reforms;[18] it indicates whether government programs supported by the Bank are based on mechanisms of policy formulation that enhance the breadth of ownership and internal consensus for potentially controversial policy measures. Among the 43 countries receiving DPOs during FY07, 34 had a significant track record of policy-based lending in recent years, generally signifying a continuous policy dialogue and stable government commitment to the program and its objectives. In the other 9 countries, the Bank re-engaged in a post-conflict situation or as part of arrears clearance (Burundi, Central African Republic), began a new programmatic engagement in IDA countries where the policy environment had stabilized (Moldova, Tajikistan), or provided new loans at the request of IBRD countries as part of an emerging significant reform program (Namibia, Mauritius, Panama, Philippines, Uruguay). Six of these new engagements were programmatic with explicit trigger actions for follow-on support and in a medium-term horizon, indicating the Bank's belief that ownership was sufficient to carry forward a medium-term program.

27. ***Policy Space.*** FY07 operations show how the Bank has stepped back in order to allow policy processes to play out or to give space to try different policies. They also demonstrate that the predominant use of single-tranche programmatic operations has helped in adapting Bank

---

16 Country profiles for the 62 countries at www.worldbank.org/aer describe the participatory processes underlying the PRSP although these were not explicitly part the objectives of the 2005 Paris Declaration on Aid Effectiveness that guided the review. The description for Lao PDR notes that the strategy formulation included few steps to involve civil society, and that NGOs are not legally permitted.

17 Afghanistan, Haiti, and Central African Republic have elements of a national development strategy, but are still operating under I-PRSPs. Burundi adopted a full PRSP in 2006.

18 Operational Policy 8.60, para. 3, also refers to the track record as an important indicator in determining the appropriateness of development policy lending.

support to changing policy environments, and avoided "intruding" into policy processes through tranche conditionality. For example:

- The government elected into power in Benin in 2006 initiated consultative processes about ways to reform the cotton parastatal and the state electricity company, even though the previous government had already set certain reform processes in motion. The Bank gave space to these debates and the resulting policy choices developed in a consultative manner—restructuring of the electricity company, better regulation, and eventual private-sector participation in generation; and relaunching the privatization process for the industrial assets of the ginning parastatal SONAPRA with significant state, workers' union and producer ownership—are supported under the fourth PRSC.

- In Mali, after past difficult debates over cotton reform between donors and government, the PRSC series has no triggers for cotton privatization, respecting the government's intention to build consensus on cotton reform and wait until 2008 before taking the next steps in the privatization process.

- In Turkey, the social security reform agenda supported by the Bank suffered a setback in December 2006 when the constitutional court annulled certain parts of the new law. The Bank continued its financial support for the government's broader reform agenda, while allowing the time to analyze implications and new options for social security reform during 2007, and permitting elections for a new president and parliament to come to conclusion.

- In Indonesia, Bank analysis shows that rice import policies may have contributed to rising poverty levels in 2005-06. However, these findings, as well as rice import policies, are politically sensitive. While the Bank stresses its own analysis in loan documents, it does not force the issue or try to influence policy choices through its lending operations, instead counting on further technical debate of this issue.

- By contrast, in Croatia, the Bank may have overestimated the government's ability to implement a complex and controversial privatization agenda before parliamentary elections in late-2007. Its approach—to increase the loan amount and attach several difficult conditions related to shipyard privatization and railway privatization to a second tranche—could create at least the appearance of narrowing, rather than opening, policy space.[19]

28. ***Analytic Work.*** The government programs supported by DPOs during FY07 continue to be informed by a range of analytic work (as detailed in Annex B). Changes in the use of the Bank's analytic work upstream during policy formulation are more difficult to measure objectively over a short time period since these processes are often informal, are not systematically documented, and ultimately depend on government decisions on how to debate policies internally. However, the Bank has taken several steps to strengthen its work in this regard. First, the internal review process is encouraging staff to include in DPO documentation a better description of in-country participatory processes underpinning the program (see, for

---

19 Experience shows that attaching controversial conditions with significant internal opposition to future tranches is generally not conducive to successful operations. See also *Adjustment Lending Retrospective* (SecM2001-215), April 2, 2001.

example, the operation for Guatemala). Second, the Bank is currently in the process of revising its disclosure policy to clarify, inter alia, disclosure rules for informal economic and sector work (ESW). And third, a revised good practice note on PSIA has been prepared that incorporates new lessons on the application of PSIA in DPLs.[20] Where likely and significant poverty and social impacts of policy reforms have been identified, analytic work (known as PSIA) has been used to analyze these impacts. The good practice note on PSIA, reaffirms the government's central role in determining the process of policymaking and encourages early identification of policy issues for such work (and its inclusion in country assistance strategies). However, the note also underscores that realistically not all studies on policy changes may be conducted upstream, and that PSIAs are not necessarily stand-alone pieces of analytic work but can draw on a variety of analytic sources and take different forms. A frank assessment of political economy processes (in developed as well as developing countries) must acknowledge that governments may at times seize an opportunity for reform without drawing on external analysis or extensive prior debate of options. In these cases, governments may still value Bank advice on the impact of reforms and possible mitigation measures, and seek Bank support. Bank policy then requires the Bank to conduct its due diligence on the impact of such policy actions in the DPL context[21]—analysis that may draw on existing work or data, without necessarily resulting in a formal report.

29. ***Political Economy Analysis.*** The Bank has continued to encourage political economy analysis as part of its analytic work. Many PSIAs, such as work on crop boards in Tanzania, tea sector reform in Rwanda, or energy reform in Morocco, explicitly identify potential winners and losers, thus providing insights on the possible degree of ownership of, or opposition to, reform. The Bank has also recently undertaken analytic work on reviewing and addressing the political economy in agricultural reforms (supported through policy-based lending) and water-sector reform (supported with investment lending). Findings from this work will be used for future guidance in Bank lending.

30. ***Feedback from Consultations.*** Consultations confirm that the Bank is generally seen as having considerably improved in respecting ownership in recent years. Government representatives pointed out clear progress and reform within the Bank, with more space for beneficiary countries (Mozambique); acknowledged notable progress in the alignment with PRSP priorities (Mali); said that government largely owns its programs and in most cases goes further than expectations of stakeholders (Rwanda); emphasized the existence of home-grown programs (Pakistan); agreed that the Bank generally has given more policy space but criticized "rigid" conditions (Zambia); noted that reforms in the PRSP, including privatization, are widely debated (Benin); confirmed that ownership has increased over time and that the three most recent

---

[20] "Using Poverty and Social Impact Analysis to Support Development Policy Operations," draft, December 2007, available at http://go.worldbank.org/YGRZJ0MN50.

[21] The Bank's approach differs in this regard from the approach proposed in recent briefing note by NGOs on PSIAs, which argues for *all* PSIA to be (a) conducted under the leadership of a multi-stakeholder group as part of the PRS process; (b) carried out ex-ante, country-led, with results used in public debate; and (c) completed at least 6 months before deciding on a reform, with wide publication of results, to foster debate on several policy options. See *Blind Spot: The Continued Failure of the World Bank and IMF to Fully Assess the Impact of their Advice on Poor People*, Joint NGO Briefing Note, September 2007. Such an approach, while relevant for major structural policy changes, would, for example, disqualify much of the smaller-scale PSIA work that underpinned urgent government responses to rising international oil prices during FY07. It also overlooks that government leadership in policymaking needs to allow for a variety of models, based on a country's internal policy- and decisionmaking processes.

operations were closely aligned with the government's strategy (Vietnam); and noted the importance of broadening the policy dialogue to lower levels of the administration to build ownership (Haiti). CSOs tended to be more critical, doubting that there was ownership as there was little to no participation in designing policies and programs (Mozambique, Pakistan); noting a vast power imbalance between government and the Bank (Benin, Zambia); considering the PRSP process to be mainly Bank-driven (Rwanda); or expressing concern over seemingly "ideological" positions on privatization (Mali). More positive CSO voices affirmed improvements in ownership (Benin) but called for a better balance between state and non-state actors (Vietnam). A recurring theme was that capacity constraints affect both the ability of governments and local CSOs to critically evaluate Bank analytic work and develop alternatives, and the ability of governments to conduct their own analysis. Many participants therefore called for greater use of local expertise, particularly local researchers, for analytic work, and for greater efforts to strengthen local analytic capacity. Some emphasized more demand-driven analytic work, more efforts at decentralization, and better information sharing on supported programs. Some of these messages were reinforced in the Oslo and London meetings, where strong emphasis was placed on strengthening local capacity for analysis and policy development and on the importance of "behavioral" changes to fully recognize all stakeholders' views. Some also voiced concerns that the Bank's definition of ownership focuses too narrowly on government ownership.

31. ***Additional Studies by Third Parties.*** Other studies broadly confirm the messages of the consultations. The study commissioned by the Norwegian government finds a stronger sense of national ownership, with programs adequately reflecting government priorities.[22] It notes that the international financial institutions have become more open, inclusive, and flexible in implementing conditionality. The report highlights as challenges countries' weak participatory processes, lack of local input into analytic work, and lack of analysis of policy alternatives. It points out that the Bank and other donors could exploit governments' internal divisions on policies; however, it also acknowledges the opposite possibility—that policymakers can use their close relationship with donors to enhance their internal influence. Another study—a joint evaluation of general budget support in seven countries—reviews the consistency of the policy dialogue and conditionalities with high levels of ownership and sensitivity to country constraints. It finds improvements in three countries (Burkina Faso, Mozambique, Vietnam), stable situations based on previous progress in three others (Nicaragua, Rwanda, Uganda), and weaknesses in one country (Malawi).[23]

B. Harmonization

32. The conditionality review suggested that, under the leadership of country authorities, Bank staff should reach an understanding with the government and other partners on a single and internally coherent framework for measuring progress under the government's program. Typically, such an accountability framework takes the form of a policy matrix of actions, outputs, and outcome indicators drawn from the government's own program over a medium-term

---

[22] Benedicte Bull, Alf Morten Jerve, Erlend Sigvaldsen, *The World Bank's and the IMF's Use of Conditionality to Encourage Privatization and Liberalization: Current Issues and Practices*, Report prepared as background for the Oslo Conditionality Conference, University of Oslo (Oslo), November 2006.

[23] The study also notes that the difficult political context in Malawi and Nicaragua diminished the impact of general budget support frameworks in these countries. See *Evaluation of General Budget Support: Synthesis Report*, IDD and Associates (Birmingham), May 2006.

period. The conditionality review also noted that in countries that receive support from many partners, the framework should be used to foster coherent interventions: all financial partners would support a set of policies that aim at achieving a single set of results agreed under the framework, possibly with a division of labor among them.

33. ***Policy Matrices.*** All 57 reviewed operations contain a policy matrix comprised of policy actions and expected results that has been agreed with the government on the basis of a government program. All policy matrices are either supporting single-tranche operations that form part of a programmatic series under which the government and the Bank agree on indicative actions to move from one operation to the next (46 operations), are stand-alone single-tranche operations supporting a medium-term government program (Central African Republic, Chile, Colombia-Labor, Panama, Turkey) or identify actions for the disbursement of a second tranche (Burundi, Croatia, Haiti, India-Andhra Pradesh, India-Orissa, Niger).[24]

34. ***Harmonization with Other Financial Partners.*** Overall, policy matrices used in DPOs seem to be generally well coordinated with other development partners, with strategic differentiation according to government preferences and country situations. In many IDA countries, the policy matrix serves as tool for harmonizing donor interventions under a single donor framework, often in the context of budget support groups (in Benin, Cape Verde, Ghana, Mozambique, Nicaragua, Rwanda, Sierra Leone, Uganda, Tanzania, and Vietnam).[25] In some cases the Bank is transitioning to such a framework (e.g., Mali) or a budget support group is being formalized (e.g., Senegal). In other countries, the policy matrix serves as a coordination tool, with cofinancing of budget support by some donors (e.g., Georgia, Indonesia, Lao PDR). Frequently, financial partners that are not providing budget support also use the matrix to identify areas where they can support the technical implementation of reforms. In many IBRD countries, the policy matrix delineates the Bank's support program as part of a harmonization effort, with different donors supporting different reform areas (e.g., Panama, Colombia-Business Productivity). In line with the Paris Declaration, to minimize duplication and reduce government transaction costs, the Bank will continue to encourage full integration of Bank support into budget support groups, where these exist, and adherence to such frameworks.

35. ***Feedback from Consultations.*** Government representatives noted the ongoing harmonization process under a new memorandum of understanding (Mali); the existence of a common policy matrix (Benin); the use of the PRSP matrix as tool to measure progress under the program (Rwanda); and general appreciation of harmonization efforts (Mozambique).[26] Participants also considered previous policy matrices in Benin and Rwanda as too large and welcomed the progress toward a focused matrix under the second-generation PRSP, which also avoids the problem of differing assessments by donors. In Pakistan, both government and CSOs felt that donors could do more to harmonize their support, which all parties thought was

---

[24] Operations for Andhra Pradesh, Croatia, Niger, and Orissa are also part of a programmatic series. Andhra Pradesh and Orissa operations were tranched in accordance with guidelines by the India's central government.

[25] See also *Good Practice Note for Development Policy Lending: Budget Support Groups and Joint Financing Arrangements*, Operations Policy and Country Services, June 2005.

[26] Donors in Mozambique noted that formal Board approval and thus the formal commitment of PRSC resources, is not aligned with the annual joint review cycle (review in April to set support volumes for the following budget staring in January). Bank staff have explained that this is the only solution if long delays between Bank Board approval and disbursements are to be avoided.

fragmented and relied on different instruments.[27] In Zambia, where the Bank has not provided budget support since 2005, participants from different groups noted progress made in joining a common performance assessment framework (PAF) under the Poverty Reduction Budget Support Programme. However, they stated the Bank could go further in consistently relying on joint assessments, better explaining how it selected indicators from the PAF, and disbursing on the basis of partial achievement of indicators. The 2006 Norwegian report finds better donor harmonization practices, but also mentions the danger that donors may use the additional influence to "gang up" on governments and reduce policy space, a concern echoed by CSOs in Vietnam.[28]

C. Customization

36. The conditionality review stated that the process of agreeing on policy matrices should never be used to add policy actions to the government's agenda, or leverage outside preferences. It noted that any agreed accountability framework should be fully consistent with the government's expressed policy intentions and internal accountability mechanisms. Moreover, the detail, size, and frequency of review of progress under government programs are expected to fully reflect country circumstances, such as country capacity and readiness for reform; and the modalities and timing of support should respond to country- and program-specific needs. The review also highlighted that Bank support for sensitive policy reforms (such as privatization, trade liberalization, and user fees) should be based on an understanding of the country-specific political economy of reform and may be warranted when such reforms are part of a well-designed and broadly owned government strategy.

1. Alignment of Bank Support with Government Programs

37. FY07 operations built consistently on government programs as the primary sources of policy actions in the policy matrix (see Annex B for a details on how Bank support aligns with the priorities of national strategies). However, the exact origin and development of detailed policy actions continued to vary. Increasingly, in IDA countries with repeated Bank support, the government takes the lead in updating the policy matrix, typically annually and in alignment with the PRSP process (e.g., Cape Verde, Ghana, Madagascar, Mozambique, Rwanda, Tanzania, Vietnam). Where programmatic support is less entrenched (e.g., Moldova, Niger, Tajikistan) or budget support groups are fairly new (e.g., Mali, Sierra Leone), this process may still be under development. Finally, where support is not yet programmatic because re-engagement is recent (e.g., Burundi, Central African Republic, Haiti), operations identify the medium-term intentions of government, with the understanding that government capacity to mobilize financing based on regular reviews of its program is still weak. In many IBRD countries, Bank operations rely on fairly detailed sectoral strategies as implementation road maps (e.g., Bulgaria, Chile, Namibia, Punjab-Education, Punjab-Irrigation): in other cases governments have defined a broad-based medium-term reform program to tackle emerging economic challenges (e.g., Mauritius, Philippines, Uruguay).

---

27 CSOs also felt that bilateral support to Pakistan had a political rather than developmental agenda, limiting the scope for harmonization.

28 Benedicte Bull, Alf Morten Jerve, and Erlend Sigvaldsen, *The World Bank's and the IMF's Use of Conditionality*, op.cit.

38. ***Fragile States***. Fragile states are generally at an earlier stage of developing their policy frameworks; have only short track record; and often face greater internal political and security challenges. Good practice guidance, therefore, suggests customizing support and conditionality carefully to such circumstances.[29] Operations approved in FY07 demonstrate the variety of circumstances and tailoring of support to local capacity, with the major emphasis placed on improving public financial management, transparency, and the general functioning of the state (e.g., Central African Republic, Haiti).[30]

39. ***Breadth of Bank-Supported Program***. This review cannot, of course, discuss all policies supported under Bank operations. Below, the paper focuses in more detail on a limited set where conditionality may be more controversial. Many of the supported reforms not discussed further aim at increased transparency of government activities, greater financial accountability (including to parliament and citizens), and increased quantity and quality of social expenditure. Listing just some of the actions accomplished before approval of FY07 DPOs can show the breadth and country specificity of reforms:

- civil service reform and increased allocation for primary health (Tajikistan);
- improved budget execution of poverty reducing spending and the registration of titles for indigenous territory (Nicaragua);
- auditing of government accounts, independent review of mining agreements, and prohibition of special forest harvesting permits (Central African Republic);
- scaling-up performance-based payment schemes in health (Rwanda);
- hiring of procurement staff and appointment of an accountant general (Sierra Leone);
- a new treasury system and accounting law and enactment of regulatory framework for budget management performance (Peru);
- procedures for more transparent public contract bidding (Philippines);
- launch of e-procurement (Panama);
- publication of audits of treasury accounts and audits of key public enterprises (Haiti);
- pilots for conditional cash transfer programs (Pakistan);
- new public financial management regulations (Afghanistan);
- school stipends for girls (Pakistan's North-West Frontier Province);
- budget preparation, accounting reform, and local government budgeting (Georgia);
- an external evaluation of schools (Bangladesh)
- public procurement reform and development of e-procurement strategy (Armenia).

---

29 *Good Practice Note on Development Policy Operations and Program Conditionality in Fragile States* (SecM2005-0353), OPCS, July 21, 2005

30 The longer-term experience with engagement in fragile states under DPOs will be discussed in the next development policy lending retrospective.

2. Support for Sensitive Policy Reforms

40. Some Bank-supported reforms may be seen as politically sensitive and require strong ownership to be successful. They often also have distributional and social implications that require careful analysis and management to sustain reform processes.[31] The Bank supports such sensitive reforms if they are critical to improving economic performance or poverty reduction and are fully owned by government (see Table 1 for a summary). *Sensitive reforms* for the purposes of this paper include privatization-related measures, price liberalization, utility price adjustments, subsidy reduction, trade liberalization, and introduction of user fees.[32] Consistent with the customization principle, the Bank also supports opposite reforms, such as public enterprise restructuring, reducing user fees and introducing new subsidies (see also Table 1).

41. ***Sensitive Reforms.*** In the operations approved during FY07, 15.8 percent had a privatization-related condition (19.3 percent had privatization-related policy actions, including benchmarks, in the policy matrix). This metric includes any action related to a privatization process, not necessarily privatization transactions of which there are few. It implies, with 10-12 conditions per operation, that about 1.5 percent of all conditions in FY07 were related to privatization; 17.5 percent of operations had conditions (22.8 percent had actions) connected to price liberalization, utility tariff adjustments or subsidy reform; 82 percent of these operations (representing 14 percent of all operations) were utility price adjustments in response to crude oil price changes during 2005-06. Seven percent of operations had conditions (10.5 percent had actions) related to trade reforms, most of them linked to trade integration. None of the supported programs included user fee increases. At the same time, in line with the customization principle, the Bank supported reforms at the other end of the spectrum, including public enterprise restructuring in 8.8 percent of operations. One operation also included measures to reduce user fees, and another introduced new subsidies. All country examples are examined in detail in Annex D.

---

[31] Where poverty and social impacts of these actions are likely and significant, the programs generally identify mitigation measures for negative impacts. Mitigation can occur through the government's policy framework, but may also be financed under parallel investment operations (see, for example, Turkey's privatization program).

[32] The Bank's approach to identify potentially sensitive reform proposals to review the ownership and customization aspects is not comparable to the recent approach taken by others, who seek to categorize conditions broadly under "economic policy conditionality." See *Untying the Knots: How the World Bank is Failing to Deliver Real Change on Conditionality*, EURODAD Report, November 2007. For example, EURODAD's report considers a law for accreditation of public and private health providers in Bangladesh as privatization measure and economic policy condition whereas the Bank treats such action as improved regulation to avoid poor quality treatment. Many other actions, such as the development of a private sector strategy in Benin or the corporatization of public enterprises, were classified as privatization or privatization-related, which explains the discrepancy to Bank statistics in Table 1 below.

Table 1. Select Policy Reforms Supported by World Bank Operations during FY07

Sensitive policy reform	*Operations*	*Percent Operations with Conditions*	*Percent Operations with Conditions and benchmarks*	*Opposite Reforms*	*Operations*	*Percent Operations with Conditions*	*Percent Operations with Conditions and benchmarks*
Privatization related	**Burundi, India-Orissa, Benin (PRSC-4), Croatia, Turkey, Afghanistan, Pakistan (PRSC-2), Mali, India-AP,** Sierra Leone, Rwanda	15.8	19.3	Public enterprise restructuring	**Bangladesh (DSC-4), Afghanistan, Lao PDR, India-AP, Bangladesh (railway)**	8.8	8.8
Commodity price liberalization, utility tariff adjustments, or reduction of subsidies	**Burundi, Bangladesh (DSC-4), Croatia, Morocco (energy), Afghanistan, Lao PDR, Pakistan (PRSC-2), Cape Verde, Philippines, Mauritius**, Moldova, Morocco (water), Vietnam	17.5	22.8	Commodity price regulation or subsidy introduction	Morocco (water)	0.0	1.7
Trade reform, including tariff reduction	**Bangladesh (DSC-4), Peru, Mauritius, Nicaragua**, Lao PDR, Sierra Leone	7.0	10.5	Trade protection, external tariff increase	None	0.0	0.0
User fee introduction or increases	None	0.0	0.0	User fee reduction or elimination	**Niger**	1.7	1.7
Total sensitive		29.8	38.6	**Total opposite**		10.5	12.2

Note. Countries in boldface type are those with related conditionality. Totals are not necessarily the sum of individual rows because some operations have conditions in several areas.
Source: World Bank staff review of program documents.

42. ***Privatization.*** Nearly all of the operations that contained privatization-related activities[33] build on strong government leadership of a reform process and/or reflect an ongoing process that draws on credible consultations with stakeholders. In five of the operations, Bank support is for a program of privatization rather than individual transactions, giving additional space for governments to consult and appropriately time and adjust the process for individual transactions. Where individual transactions are supported, they typically build on a variety of analytic work that helped governments examine options as part of a dialogue among internal stakeholders and with external financial partners, and to identify impacts of the reform. Frequently, solutions chosen by government at the end of the process differ from those originally identified in analytic work.

43. ***Public Enterprise Restructuring.*** In five operations in four countries, the Bank supported the restructuring of public enterprises, with strong government ownership. These governments preferred not to use privatization to seek performance improvements, and the Bank supported the

---

[33] Two of these operations (Burundi, India-Orissa) have already been discussed in the 2006 report and are not discussed further here.

proposed reforms (for example, the Bangladesh railway reform). Afghanistan and Andhra Pradesh simultaneously identified, under a single program, public enterprises for privatization and restructuring, with strategic enterprises remaining in the public hand. These examples reflect how the reform approach is customized to the particular country circumstances.

44. ***Price and Subsidy Reform.*** In operations in which governments undertook reforms of prices, utility tariffs, and subsidies (mainly involving petroleum prices and/or electricity tariffs following the sharp increase in crude oil and gas prices during 2006), the price and subsidy adjustments were at times controversial but were universally introduced with strong government ownership (see Annex D for details). One operation, the third PRSC for Georgia, did not directly include measures related to utility price changes, but it supported the government's review of the adequacy of the social protection system to reduce the poverty and social impact of the tripling of natural gas prices (and concomitant adjustments to electricity tariffs), illustrating the usefulness of downstream analysis in cases governments need to respond quickly.[34]

45. ***Trade and Tariff Reform.*** In the operations that contained conditions or benchmarks related to trade and tariff reforms, these policy actions fall into two broad categories: reduction of trade protection (Bangladesh, Mauritius) and implementation of trade integration (Peru, Nicaragua) or international agreements (Lao PDR, Sierra Leone). As outlined in Annex D, in all cases the measures are explicit objectives under government strategies with strong ownership, and where relevant, (i.e., Mauritius), impacts have been reviewed and studied upstream.

46. ***User Fees.*** No operation in FY07 supported increases in user fees, and one operation supported elimination of user fees. Conditionality in the social sectors frequently included measures to reduce the cost of access. In Niger, the rural and social development credit supports the government in its policy to eliminate fees for contraceptives, caesareans, prenatal consultation, and health care for children less than 5 years of age, and monitors that appropriate budgetary resources are allocated for that task.

3. Feedback from Consultations and Outside Studies

47. Discussions on customization often centered on country-specific issues and interactions. Generally government representatives did not raise concerns about customization of reforms. Issues raised included the tendency to use previously formulated policies even if the approach had softened recently (Zambia), the concern that specific policies on cotton reform had originally not been developed with sufficient respect for the government's views (Mali), and the view that poorer and resource-dependent provinces may not be able to resist donor demands (Pakistan). In Rwanda, officials and donors pointed to instances in which government and Bank views originally differed (on electricity tariffs and tea reform) but noted that the dialogue had resulted in an agreement, with the government's views prevailing. CSO views generally differed widely, with some seeing the Bank as not having contributed to development with its advice (Mozambique), not respecting the country's realities or imposing conditions that negatively

[34] In case of external events as rapidly rising oil prices, governments frequently must decide rapidly on policy measures to preserve the financial viability of public enterprises or the budget. Reviewing the poverty and social implications of these policy changes downstream is often as important as upstream analysis to identify how the poorest people can be protected, whether under social assistance programs or subsequent changes to tariff structures or other taxes. If policy and social impacts are likely and significant, Bank operations discuss how negative impacts can be mitigated and positive ones can be enhanced. If further analytic work is needed, it is generally built into the program.

affect the population (Benin), or still setting the agenda (Pakistan), whereas others noted at least partial progress (Zambia), felt the Bank respected country circumstances (Rwanda), or stated that the Bank added value in defining policy priorities with appropriate flexibility in its DPOs (Vietnam). Stakeholders in Vietnam and Pakistan also argued for improving government capacity to take an unquestionable lead in prioritizing and sequencing policy actions. The case of Mali stood out for the strikingly different views of donors on one side and government and CSOs on the other side as to whether government had advanced quickly enough in reforming the cotton sector. Donor representatives in Zambia noted Tanzania as a model to follow in better customizing support. During the meetings in London and Oslo, some CSO representatives voiced concern that what they classify as economic policy conditions remained an important element of Bank-supported programs, and that the Bank's advice remained biased toward certain policies.[35] Others stated that they would like to see more monitoring of corruption and fraud through Bank operations.

48. ***Other Studies.*** The Norwegian study confirms the general trend toward less frequent use of conditionality related to privatization and liberalization, and notes a greater pragmatism and focus on complementary policy.[36] However, it raises the concern that advice by international financial institutions may not be even-handed, with a bias toward privatization and liberalization. This report's review of 57 operations yields a broader and more differentiated picture of policy formulation.[37] In many cases, the Bank's support is aligned with government's strategic decisions, and analytic work has been used to support both public enterprise reform (e.g., Bangladesh railway reform) and privatization (e.g., Benin and Mali). In complex cases of structural changes the Bank has no simple and single position, but enters into a complex policy dialogue, with review of multiple options, including by stakeholders. In some cases, this may result in criticism that the Bank changes its position too frequently.[38] As regards leveraging reforms in general, a recent study of multidonor budget support in Ghana by the Overseas Development Institute and the Ghana Center for Democratic Development singles out the Bank as disassociating itself from the objective of "creating incentives for accelerated implementation of reform by agreeing on demanding policy triggers and linking disbursement of the performance payment closely to their achievement." Instead, in line with the good practice principles, the Bank stressed the importance of its PRSC, which does not have a performance tranche, as predictable budget funding, and noted that a literal interpretation of triggers was counterproductive.[39]

---

35 See also *Untying the Knots: How the World Bank is Failing to Deliver Real Change on Conditionality*, *op. cit*.

36 Benedicte Bull, Alf Morten Jerve, and Erlend Sigvaldsen, *The World Bank's and the IMF's Use of Conditionality*, op cit.

37 The case studies related to the Bank are Mozambique, Bangladesh, and Uganda. The policy development on energy privatization in Mozambique (under an investment project) and energy reform Bangladesh dates to the 1990s. The study acknowledges that in Mozambique the Bank eventually adopted the government's viewpoint, and that in Bangladesh the current policies enjoy widespread agreement within government.

38 The recent Country Assistance Evaluation for Mali came to the conclusion that the Bank failed in not proposing a clear-cut and uniform reform strategy, and that the Bank's engagement lacked "firmness" on cotton conditionality. See *Mali Country Assistance Evaluation: 1995-2005* (CODE2007-0047), June 29, 2007.

39 See Andrew Lawson, et al., *Joint Evaluation of Multi-Donor Budget Support to Ghana*, Overseas Development Institute and Ghana Center for Democratic Development (London and Accra), 2007, para. 63, also available at http://www.dfid.gov.uk/pubs/files/joint-eval-mdbs.pdf. The evaluation was financed by DfID on behalf of the MDBS, which includes the African Development Bank, Canada, Denmark, the European Commission, Germany, France, Netherlands, Switzerland, the United Kingdom, and the World Bank.

D. Criticality

49. Criticality involves selecting from an agreed framework those policy and institutional actions that are critical for achieving the results of the program. Bank operational documents should rely to the extent possible on the government's existing presentation of programs and policies; and if the agreed policy matrix coherently sets out actions, outputs, and outcomes for the government program, there should be no need for the Bank's Board documentation to include more than a few conditions and results indicators.

50. ***Documentation of Conditionality.*** All operations reviewed for this report identified the program supported by the Bank, actions completed before Board approval, and, if applicable, tranche release conditions. Where Bank support is programmatic, policy matrices were used to identify the sequencing of policy actions over time.

51. ***Criticality of Conditions.*** The 2006 paper noted the frequent use of process conditions—particularly the "adoption of action plans"—as creating some doubt about the appropriate application of the criticality principle. Among the FY07 operations, the use of action plans as conditionality is relatively rare: seven operations (Benin PRSC-3, Bangladesh education, Georgia, Namibia, Niger, Lao PDR, and Rwanda) have such conditions, accounting for about 1.1 percent of all conditions. In some cases an effort has been made to underline the strategic importance of the action plan as a signal of commitment to adopt future policies, as in Namibia (where the Bank is supporting the first two years of a multidonor education sector support program). Overall, as Annex B outlines in more detail, the criticality of most prior actions and conditions has been well established in recent program documents.

52. ***Matrix Size.*** Efforts have been made in IDA countries to reverse the trend of increasing matrix sixes observed since the adoption of the programmatic approach. Policy matrices have tended to grow both because of their central role in defining implementation road maps for PRSPs and increasing sector coverage. Although the increase in matrix size did not increase formal conditionality—the benchmarks in policy matrices were normally not converted into prior actions but were intended to give an overall sense of the direction of the program—there was a perception that policy matrices had become overly complex and difficult to implement and monitor. The Bank has responded to these concerns by working with government counterparts and other financial partners in several countries to avoid overloading matrices, resulting in a reduction of benchmarks. Recent operations in Armenia, Benin, Burkina Faso, Cape Verde, Georgia, Madagascar, and Vietnam demonstrate this effort to reduce the number of policy measures associated with Bank support to a government program.[40]

53. ***Balancing Harmonization and Matrix Size.*** Recent country examples also demonstrate that the matrix size can be reduced at a later stage of the harmonization process. Where processes have matured (as in Mozambique, Tanzania, and Vietnam), governments take the lead not only in setting policy but also in summarizing their program; the need for detailed descriptions of government actions in Bank documents therefore declines. By contrast, in the early stages of harmonization, as in Sierra Leone, the policy matrix is still a tool to manage donor-government

[40] The operations in Burkina Faso, Madagascar, and Vietnam were highlighted in the 2006 paper as presenting an opportunity to reduce the number of benchmarks. The most recent operations for Burkina Faso and Madagascar were approved in FY08.

relations and often resembles an accumulation of individual donor conditions, rather than a focused set of jointly supported policy actions and results. In this regard, it may be necessary to adapt matrix sizes to country circumstances: policy matrices will likely continue to be larger where they are a tool to support prioritization of government programs and build capacity, or where harmonization processes are in an early stage.

54. ***Umbrella Actions.*** Some policy matrices rely on umbrella actions such as "satisfactory implementation of the education sector review." Such actions generally cover a host of activities in a sector, some of which may be critical, and others trivial. Experience shows that such umbrella actions can be useful in areas where the sector dialogue is mature, no major policy changes are envisaged, and the focus is on adequate and sustainable financing of sector activities, as in Uganda's education sector. However, where underlying actions are complex and the reform agenda is unfinished, such umbrella actions can result in arbitrariness and misunderstandings about what exactly is needed to evaluate progress.

55. ***Feedback from Consultations.*** Government representatives confirmed that Bank conditionality is drawn from an agreed policy matrix (Mozambique, Rwanda, Zambia), or noted progress in reducing conditions but suggested further reductions in the size of the policy matrix (Mali). Some participants argued that criticality is not identical to having few conditions (Pakistan) or noted that for multisector, multidonor operations, policy matrices would necessarily be larger (Vietnam). In Mozambique and Zambia, participants questioned how the Bank chose its prior actions from the joint donor matrix. Participants also asked for clarification of the distinction between triggers and benchmarks, argued for conditions more closely related to the livelihood of poor people, and said that more emphasis should be given to results and outcomes. The discussions in London and Oslo yielded a broad recognition that the use of benchmarks has been declining, but also that counting conditions and benchmarks is not necessarily a very effective way of monitoring conditionality in policy-based lending.

E. Transparency and Predictability

56. The 2005 review suggested that in the context of medium-term Bank support, progress should be reviewed regularly and in line with a country's monitoring and evaluation cycle, drawing to the extent possible on internal accountability processes. According to that review, any financial support decisions should be announced sufficiently early to be taken into account in the country's own decisionmaking and budget allocation processes, and performance reviews should actively promote a culture of results management and measurement.

57. ***Documentation of Programs.*** As Annex B details, Program Documents consistently present the actions taken before approval of an operation, and all programmatic operations lay out the next steps of the program and identify triggers. Although a few triggers are vague, generally the expectations for future support are transparently documented. Where support is not programmatic (e.g., Central African Republic), Program Documents describe a medium-term program of actions allowing an assessment of whether a program is proceeding on schedule even if the schedule of future support is not certain.

58. ***Results Measurement.*** As Annex B documents, the vast majority of results frameworks include measurable indicators and baseline values to measure changes in indicators. In some cases, such as Georgia's PRSCs, a results framework was retrofitted to better measure results of the program. The greater use of baseline values allows more rigorous tracking of progress, but

also contributes to statistical capacity by raising the demand for statistical indicators.[41] The latter is important to avoid parallel monitoring and evaluation systems for Bank operations. Many teams continue to struggle with the appropriate definition of outcomes for certain institutional changes, such as many actions in the public financial management area. However, with the increasing use of joint measurements—for example, the public expenditure and financial accountability (PEFA) assessments—the donor community is gaining access to measures that can be used to evaluate changes (albeit not necessarily in the ultimate outcomes).

59. ***Aligning Operations with the Budget Cycle.*** To provide predictable financing for the budget—when governments have such a preference—the Bank and other financial partners generally attempt to review performance at least annually, and announce resource volumes of programmatic support sufficiently early to avoid intrayear adjustments to budgets. The Bank has done this in many operations: e.g., Armenia, Mozambique, Pakistan (Punjab operations), Rwanda, Tanzania, Uganda, and Vietnam. In Tanzania, the Bank and other donors have moved to a timeline that allows progress reviews to take place early enough for budgets to be adjusted for volume changes—a particularly important aspect as PRSC volumes have been reduced slightly in past years. In Haiti, Bank support is in the form of a two-tranche operation; this operation and a predecessor disburse their tranches over two budget years. In Niger, the expectations were that annual two-tranche operations would disburse within the same calendar year, but in 2006 the second tranche disbursement was late.[42] In a few cases, DPOs were delayed compared to original plans for reasons related to electoral cycles and macroeconomic performance:

- In Benin, elections delayed Board presentation of PRSC-3 by several months. Eventually, the operation was delivered within the government's fiscal year and PRSC-4 (also approved within FY07) has again caught up with the previous approval cycle.

- In Nicaragua, the program supported under the first two-tranche PRSC stalled because of a stalemate between parliament and government. The second operation therefore followed with a considerable time lag; however, the financial implications were limited, given the relatively small volume of support.

- In Mali, with PRSC-1 approved early in the 2007 calendar year and the stepwise integration of PRSCs into joint donor frameworks, the intention is to maintain predictable support disbursed at the beginning of the year after difficulties in 2005-06.

- In Cape Verde, elections resulted in a delay of the PRSC and subsequent misalignment of PRSCs with the budget cycle that has not yet been corrected although operations continue on an annual cycle.

---

[41] As discussed in *Focus on Results: The IDA14 Results Measurement System and Directions for IDA15* (SecM2007-0612), November 2, 2007, there is a clear opportunity for greater Bank support for statistical capacity building. This is also borne out by the Bank's recent review of national development strategies, which found that only a handful of countries had developed a country-level results-based monitoring and evaluation system. See *Results-Based National Development Strategies: Assessment and Challenges Ahead*, *op.cit.*

[42] The second tranche of the 2007 operations has not been disbursed as of mid-October 2007.

- In Senegal, elections and fiscal policy slippages delayed the PRSC from 2006 to 2007. Given the relatively small size of the operation, implications for the budget were relatively minor, although the delay exacerbated fiscal pressures.

Countries with access to international capital markets (e.g., Colombia and Turkey) do not have a particularly strong interest in receiving annual financing and aligning their disbursements with the budget cycle. In these countries, the value of the Bank's interventions is to provide analytic support and recognize progress under the programs.

60. ***Predictability Record.*** Overall, the Bank's record of year-to-year predictability remains strong. The Bank is in most cases proceeding on a previously announced disbursement schedule with its DPOs, allowing for inclusion of Bank support in the government's budget.[43] Programmatic series in IDA countries—notably PRSCs—move forward on a roughly annual cycle; and with the increasing reliance on joint donor reviews, financing decisions are made early enough to avoid intrayear budget cuts. The overall positive assessment on predictability is consistent with the annual survey of budget support conducted in 15 countries by the Budget Support Working Group of the Strategic Partnership with Africa.[44] The latest edition of the survey, which covers 2005-06 and thus has a different reporting frame than this report, confirms the high degree of predictability by the World Bank, with disbursement shortfalls only in Ethiopia (where the PRSC was converted into investment lending support) and Uganda (where the credit amount was reduced somewhat in response to public spending overruns). Overall, these examples and delays of a few FY07 operations demonstrate that electoral cycles and performance issues can at times undermine keeping budget support operations on a regular cycle, and that teams can face trade-offs between predictability and performance. Medium-term predictability—such as the five-year rolling allocations some bilateral donors now use—remains more difficult to achieve, particularly since overall IDA financing is determined on a fixed three-year cycle, which does not allow more than indicative programming across replenishment periods.

61. ***Feedback from Consultations.*** During the consultations, government representatives felt that the predictability of Bank support had been good, although there were concerns about the predictability of cofinancing (Vietnam); that there had been much improvement in predictability, although questions remained about transparency in the choice of indicators from the performance assessment framework (Mozambique); that information sharing with the public had improved greatly (Pakistan); that predictability had been better under the most recent operation, with a call for clear identification of performance indicators in advance (Mali); that the announcement of support volumes was generally sufficiently early (Benin); that the Bank was reasonably well aligned with the budget cycle (Rwanda); and that while announcements were timely, disbursements were delayed because of Bank conditions (Zambia).[45] Both government representatives and donors generally agreed that formal and informal performance assessment

---

[43] The Bank will undertake further work on predictability in the context of IDA15, related to its performance against the predictability indicators of the Paris Declaration on Aid Effectiveness.

[44] See *Strategic Partnership with Africa: Survey of Budget Support, 2006*, draft, April 2007. The 15 countries are Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Tanzania, Uganda, and Zambia.

[45] The Bank's planned DPL for 2007 used a subset of indicators from the joint performance assessment framework, several of which were not fulfilled by the original time of appraisal. When the actions were fulfilled, the government decided not to proceed with negotiations.

frameworks have contributed to improved government reporting and focus on results (e.g., Pakistan, Rwanda, Zambia). CSOs noted that in their view current processes exclude them from setting benchmarks and conditions (Mozambique); insisted on more independent monitoring (Vietnam); and noted that reviews are not public and that the Bank is not accountable for results (Pakistan). In general they questioned whether domestic accountability has improved since performance evaluation reports are not shared with either parliaments or the broader public.

IV. CONDITIONALITY AND DEVELOPMENT OUTCOMES

62. This report discusses the application of conditionality in DPOs. However, even though it reviews all conditions for their criticality, it does not directly link conditions with development outputs and outcomes. The ultimate reason to highlight actions as conditions in a policy matrix is the understanding that they are critical—although not necessarily sufficient on their own—to change outputs and outcomes. In this report it is impossible to review this aspect of conditionality comprehensively. However, this section presents a few illustrative country examples, drawing on mature programmatic series with sustained implementation of policies over a medium-term horizon that show changes in outputs and outcomes. (A more detailed summary of a variety of reforms is also presented in Annex E.) These examples underline the value of DPL's programmatic approach: in many cases, only sustained medium-term implementation of reforms, backed by ownership and commitment, can bring about the institutional and policy changes required to change outcomes. It is also important to note that the direct attribution of outcomes to policy changes is difficult, and that any measurable improvements in the lives of the population resulting from government policies are "shared" results and depend on the country's ownership and implementation of its reform program, with external financial support playing a supporting role.

63. ***Ghana.*** In Ghana, a series of five PRSCs has supported policy and institutional changes across several sectors. In particular:

- ***Health.*** A series of prior actions under PRSCs helped introduce a national policy on community-based health; an exemption policy for maternal deliveries in deprived areas and increased funding for exemptions; a new allocation formula for health care expenditure protecting deprived areas; registration of indigents for mutual health insurance schemes; and scaling up of spending both through higher allocation and execution rates. In the period 2002-06 supervised deliveries increased from 49 percent to 55 percent, and during 2002-05 the ratio of population per nurse in the four most deprived regions fell from 2000 to 1,450.

- ***Education.*** Prior actions included the completion of school mapping; establishment of incentives for girls; elimination of all government-controlled fees and introduction of capitation grants for girls (first in deprived areas, and then in all public schools); and a reduction in teacher vacancies. Gross primary enrollment rates rose from 81 percent in 2002-03 to 92 percent in 2005-06, with rates for girls rising disproportionately (from 76 percent to 88.5 percent).

- ***Business Climate.*** A series of prior actions and benchmarks focused on the steps to register businesses and establish land deed registries under a broader private-sector development action plan. The time required to register a business fell from 85 to 44 days between 2004 and 2007.

64. ***Tanzania.*** Tanzania has also received Bank support under five PRSCs, inter alia with the following results:

- ***Public financial management.*** A series of prior actions over five operations represented key elements of public financial management reform, such as alignment of budgets with the poverty reduction strategy, revision of the procurement code, establishment of a regulatory authority for procurement, and staffing of the National Audit Office. Between 2001 and 2004, the number of Heavily Indebted Poor Country expenditure tracking benchmarks met increased from 8 to 11 out of 15.

- ***Business climate.*** Bank operations used as prior actions measures in the area of business licensing, from approval of the business plan to adoption of new laws. The cost of registering a business declined from 199 percent to 47 percent of per capita income.

65. ***Indonesia.*** Indonesia has been supported since 2004 under a series of four DPOs, and results have included the following:

- ***Subsidy reduction.*** The second DPO supported actions to replace untargeted petroleum subsidies with an unconditional cash transfer program. Follow-up actions were highlighted under the third DPO, and attention turned to improving service delivery programs in general under the third operation. Budgetary savings on the petroleum subsidy amount to 1.3 percent of GDP, which allowed reallocation of $10 billion to finance cash transfers to poor households and helped establish a modern social protection system.

- ***Public financial management reform.*** A series of actions supported by the Bank included steps to reorganize the Ministry of Finance; adoption of a timetable for moving to a Treasury single account; first piloting of the Treasury single account plan; and further consolidations of accounts. By end-2007, it is expected that 18,000 commercial bank accounts will have been integrated into a single treasury account.

66. ***Cape Verde.*** Cape Verde's economic program has received support under three PRSCs whose results include the following:

- ***Budget priorities.*** All three operations used prior actions to underscore the importance of alignment with the priorities of the PRSP, and the third operation specifically highlighted budget execution and the benchmarks for social sectors. Health sector spending as a share of the budget increased from 6.3 percent in 2004 to 7 percent in 2006.

- ***Teacher quality.*** Prior actions for the PRSCs included identification of training priorities and implementation of a training program. The share of primary education teachers without professional qualifications decreased from 27 percent in 2004 to 15 percent in 2007.

V. Conclusions and Next Steps

67. This report reviews the Bank's efforts to apply the good practice principles on conditionality during FY07 and summarizes additional feedback obtained from consultations in eight IDA-eligible countries. Drawing on a review of 57 operations approved during FY07, it confirms that Bank support remains broadly consistent with the good practice principles. In particular, both Bank documentation and consultation feedback from government officials confirm that the Bank is basing its support on policies with strong ownership and giving governments policy space for reform design. It also finds that progress has been made in several areas identified in the 2006 paper:

- Where sensitive reforms have likely and significant poverty and social impacts, analysis has been conducted—either upstream or downstream, depending on country circumstances—to gauge the impact on poor people and vulnerable groups. However, it is too early to observe any systematic change in the upstream inclusion of analytic work in general in country policymaking processes.
- Reforms in sensitive areas have been supported only when there is strong evidence of ownership, and they have largely been avoided in the most fragile environments.
- The use of process conditions has been discouraged, and only a few operations contain conditionality related to "action plans."
- Matrix sizes have been sharply reduced, particularly in countries with mature budget support frameworks. In less mature budget support groups, matrix sizes may need to remain larger to support the harmonization process.
- Where predictable budget support is a government priority, the Bank has mostly aligned its processes to announce support volumes in a timely manner. Delays in support have generally been confined to a few cases with elections and macroeconomic performance issues.
- The use of baseline for results indicators has increased, and most results frameworks have indicators with baseline values.

68. ***Key Messages.*** This report confirms that the Bank is broadly adhering to the good practice principles. It also identifies a few key messages for continuing work. When the Bank supports policy and institutional changes in sensitive areas, it is critical to ensure sufficient ownership. Where time considerations are not essential, giving space to develop the policy reform and build internal consensus can considerably strengthen the program. Finally, a strong message from the consultations, repeated consistently across countries and stakeholders, is that greater involvement of local counterparts in planning and execution of analytic work, as well as in building and reinforcing local capacity for policy formulation and analysis, should be an essential element of the Bank's support.

69. ***Next Steps.*** Corporate review processes for DPOs will remain the Bank's principal way of ensuring the consistent application of good practice. The following steps should further strengthen the implementation of the good practice principles:

- The issuance of a revised good practice note for poverty and social impact analysis, and related internal training.
- The revision of the Bank's disclosure policy, based on broad consultations, clarifying the disclosure of informal analytic work.
- As part of the planned review of analytic and advisory activities, a review of the extent to which local capacity is used in the Bank's analytic work.
- The next biennial development policy lending retrospective planned for FY09, which will again review the application of conditionality in development policy lending, will be the primary tool to continue monitoring the use of conditionality in the context of the overall operational policy for development policy lending.

ANNEX A. LIST OF OPERATIONS

	Country	Project ID	Operation	Appraisal	Approval	Commitments (US$ millions) IBRD	IDA
1	Afghanistan	P102709	PSIB-3	03/15/2007	05/29/2007	0	80
2	Albania	P096205	DPL-1	01/09/2007	03/29/2007	0	10
3	Armenia	P093460	PRSC-3	01/11/2007	03/08/2007	0	28
4	Bangladesh	P100330	Railway Reform	08/28/2006	10/19/2006	0	40
5	Bangladesh	P074801	DSC-4	04/02/2007	05/29/2007	0	200
6	Bangladesh	P102541	Education-3	05/09/2007	06/21/2007	0	100
7	Benin	P083313	PRSC-3	07/28/2006	11/02/2006	0	30
8	Benin	P096928	PRSC -4	04/30/2007	06/28/2007	0	40
9	Bhutan	P104931	DPG-2	03/22/2007	06/20/2007	0	12
10	Bulgaria	P094967	SIR DPL-1	10/05/2006	03/21/2007	150	0
11	Burundi	P091475	Economic Reform	03/23/2006	08/01/2006	0	60
12	Cape Verde	P100807	PRSC-3	02/01/2007	03/27/2007	0	10
13	Central African Rep	P102576	DPG	10/12/2006	11/28/2006	0	82
14	Chile	P100854	Planning Ministry DPL-1	04/09/2007	06/14/2007	30	0
15	Colombia	P094097	Labor-3	04/17/2006	07/25/2006	200	0
16	Colombia	P095213	Business Productivity-2	10/05/2006	12/05/2006	300	0
17	Colombia	P095877	Sustainable Dev-2	03/22/2007	06/07/2007	200	0
18	Croatia	P094341	PAL-2	11/21/2006	05/30/2007	197.4	0
19	Georgia	P093245	PRSO-2	07/27/2006	10/12/2006	0	20
20	Georgia	P099882	PRSO-3	03/21/2007	06/14/2007	0	20
21	Ghana	P099287	PRSC-5	02/21/2007	05/24/2007	0	110
22	Guatemala	P094897	DPL-2	07/18/2006	08/29/2006	100	0
23	Haiti	P100564	Economic Governance-2	11/28/2006	01/30/2007	0	23
24	India	P097036	Orissa Social-2	01/23/2006	08/01/2006	150	75
25	India	P075174	AP DPL-3	09/14/2006	01/11/2007	150	75
26	Indonesia	P100327	DPL-3	11/11/2006	12/19/2006	530	70
27	Lao PDR	P096710	PRSO-3	03/26/2007	06/05/2007	0	10
28	Macedonia FYR	P098548	PDPL-2	01/25/2007	03/27/2007	30	0
29	Madagascar	P096102	PRSC-3	05/10/2006	07/13/2006	0	40
30	Mali	P083803	PRSC-1	12/06/2006	03/06/2007	0	45
31	Mauritius	P101570	DPL-1	10/18/2006	12/12/2006	30	0
32	Moldova	P099166	PRSC-1	07/13/2006	10/19/2006	0	10
33	Morocco	P095840	Water Sector-1	10/05/2006	05/01/2007	100	0
34	Morocco	P099618	Energy-1	01/03/2007	05/29/2007	100	0
35	Mozambique	P083459	PRSC-3	11/20/2006	01/25/2007	0	70
36	Namibia	P086875	Education	02/27/2007	05/24/2007	7.5	0

	Country	Project ID	Operation	Appraisal	Approval	Commitments (US$ millions) IBRD	IDA
37	Nicaragua	P089816	PRSC-2	08/28/2006	11/07/2006	0	25
38	Niger	P098963	RSRC-2	03/20/2007	06/19/2007	0	50
39	Pakistan	P090690	PRSC-2	03/15/2006	05/22/2007	0	350
40	Pakistan	P097471	NWFP DPL-2	03/21/2007	06/07/2007	0	130
41	Pakistan	P100846	Sindh Education DPC-1	03/28/2007	06/07/2007	0	100
42	Pakistan	P101243	Punjab EDPC-IV	03/20/2007	06/07/2007	0	100
43	Pakistan	P102333	Punjab Irrig DPL-2	03/14/2007	06/07/2007	100	0
44	Panama	P098376	DPL	07/19/2006	10/05/2006	60	0
45	Peru	P101335	Progr Fiscal & Comp	10/30/2006	12/19/2006	200	0
46	Peru	P101086	REACT-1	04/10/2007	06/05/2007	150	0
47	Philippines	P100706	DPL-1	10/31/2006	12/21/2006	250	0
48	Rwanda	P098129	PRSG-3	10/27/2006	12/07/2006	0	50
49	Senegal	P098964	PRSC-3	07/17/2006	06/20/2007	0	20
50	Sierra Leone	P095575	GRGG-1	06/26/2006	12/14/2006	0	10
51	Tajikistan	P074889	Programmatic DPG-1	04/10/2006	07/06/2006	0	10
52	Tanzania	P095657	PRSC-5	02/19/2007	04/24/2007	0	190
53	Turkey	P074181	CEDPL	05/23/2007	06/28/2007	500	0
54	Uganda	P090219	PRSC-6	02/07/2007	04/26/2007	0	125
55	Uruguay	P083927	Reform DPL-1	03/12/2007	05/30/2007	100	0
56	Vietnam	P104097	Program 135/2	11/21/2006	03/21/2007	0	50
57	Vietnam	P101724	PRSC-6	04/24/2007	06/20/2007	0	175
	Total					3635	2527

ANNEX B. REVIEW OF IMPLEMENTATION OF THE FIVE GOOD PRACTICE PRINCIPLES

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Tajikistan	Program-matic DPG-1	The government's program supported by the operation has been laid out in the PRSP. Its main areas are (i) encouraging equitable labor-intensive economic growth, including in key export sectors; (ii) supporting an efficient and fair provision of basic social services; (iii) targeting support to the poorest groups of the population; (iv) improving governance and security. Analytic underpinnings include a public expenditure and institutional review, CPAR, CFAA, a public and civil service note, a remittances note, a trade diagnostic, an investment climate assessment, an aviation sector note, an energy utility reform review, an electricity export potential study, an agricultural development strategy, and a PSIA on cotton reforms.	A policy matrix describes the understanding with the government as regards the actions that have and will be taken under the government's program. The content of the operation is closely aligned with support by other donors (EC, ADB, DfID, EBRD) which provide technical support for the implementation of certain policy areas. Switzerland and JBIC are partners in monitoring the prior actions with a view to possible parallel financing of the operation.	The operation contains actions under two broad areas (i) promoting private sector development and (ii) public sector reform and improving public service delivery. Prior actions include revisions to the licensing law, legal changes to reduce the scope of tax inspections and reduce inspectors' accountability, removing of policy-making functions from the civil aviation department, decision on separating airline, airport, and air traffic control management, opening air travel to a new carrier, introduce a new cotton grading system, adoption of a public sector reform strategy, civil service wage reform and wage decompression, reallocation of spending to primary health care. As the program advances, it will be informed by additional PSIA on planned energy tariff adjustments, new cotton pricing, primary education, and primary health care.	The operation has 10 prior actions and 15 benchmarks. Most of the prior actions represent early steps in the implementation of reforms. A few—such as adoption of government decisions—need to be followed by actual legal and regulatory changes under follow-on operations to have a full impact.	The policy matrix lays out the actions taken and future actions in a transparent manner. The matrix also identifies indicators, most of which are measurable and contain baselines values or indicate where baseline values can be found. The review of progress under the operation notifies the government of the likely volume and timing of future support based on accomplishment and planned actions. However, the current Bank appraisal and Board approval timing in mid-year (that is within the government's budget year) does not protect the government from unanticipated changes in case the program deviates in a major way from expectations. This fact is mitigated by the relatively small support volume.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Madagascar	PRSC-3	The government's program supported by the operation has been articulated in a PRSP and updated in 2005 to incorporate a longer-term vision called Madagascar Naturellement. The PRSP contains three strategic axes (i) good governance; (ii) broad-based growth; and (iii) human and material security. The PRS was developed through a participatory process. The Bank has supported the implementation of the PRS through analytic work in all of the pillars, e.g. though poverty work and growth analysis, investment climate assessment, land tenure study, education and training reports, health sector notes, sectoral public expenditure reviews, and social protection review.	A policy matrix included in the Bank's program document lays out the common expectations of government and the Bank as regard actions as well as results under the program. However, the matrix itself is primarily a vehicle to gauge progress under for the PRSC-supported elements program. Other donors some of which also offer budget support, closely coordinate sectoral review processes and technical assistance, but make independent assessment for the purposes of their own support.	The operation selectively supports the implementation of the government's PRS under the pillars of (i) ensuring good governance, (ii) fostering and promoting systems for ensuring human and material security and enlarged social protection. It does not directly support the broad-based growth aspects of the PRS. The program focuses on (i) budget formulation and execution; (ii) public financial management & customs; (iii) procurement; (iv) resources for communes; (v) education; and (vi) water.	The operation's 11 prior actions are fairly heavily concentrated on the side of public financial management and budget management. Although clearly critical overall for the results targeted under the program, the presentation of criticality of prior actions in the matrix is hampered by the vague formulation of prior actions ("satisfactory progress, "begin implementation of ..."). The matrix contains an additional set of 64 benchmarks, some of which in fact have not been met or only partially met, as explained in annex 3 of the program document. This number of benchmarks far exceeds the Bank's average. In several areas of the program matrix no critical actions for the Bank's support have been identified. The follow-on operation (PRSC-4) in early FY08 reflected lessons learned and used a more concise program matrix.	The policy matrix lays out a series of actions and associated results indicators. The transparency of the policy matrix is somewhat jeopardized by the relatively vague formulation of some triggers, which could reduce the coherence of government and Bank expectations. However, the predictability of support was not affected as disbursements followed an originally anticipated annual cycle under the first three PRSCs.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Colombia	Labor-3	The government's program supported by the operation is articulated in the National Development Plan for 2002-06. The National Planning Department launched a participatory process in 2004 to refine the plan and generate national ownership. One of the pillars and objectives of the strategy—a more egalitarian society—in particular relates to labor and social sectors and seeks to (i) raise efficiently in social spending; (ii) improved expenditure targeting; (iii) better information for monitoring; and (iv) development of prevention systems and social assistance. The Bank and other development partners have participated in the process and supported it through technical and financial support to the consultation process.	A policy matrix of the operations defines an accountability framework laying out actions and expected results of Bank support. The Bank support is closely coordinated with IADB, Andean Development Cooperation and the UN system. However, the policy matrix serves primarily as reference points for the Bank's fast-disbursing support as other partners' interventions were complementary (investment operations or technical support). A first policy-based operation of the IADB follows on the Bank's support.	The operation supports priority actions of the government under the "more egalitarian society" pillars. Measures include (i) broader access to social security benefits; (ii) improved targeting of nutrition programs; (iii) improved health insurance coverage; (iv) expansion of training opportunities; (v) increased education coverage for vulnerable students; (vi) better public information access to oversee social programs.	The operation focused on select prior actions across the different program areas covering social security/social protection, health, education, and monitoring. With six prior actions and nine other actions to describe government core activities, the use of conditionality is disciplined and focused.	The operation transparently sets out the actions taken prior to loan approval, their link with past activities. The program document also reports on the increasing results focus of the program as monitoring systems are strengthened and the program matrix results expected by the end of the program against 2002 benchmarks. The operation follows on two previous operations but was not originally anticipated as part of the programmatic series. It reflects a flexible response to government request for further report of the ongoing program.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Burundi	Economic Reform	The government's program is laid out in the 2004 interim PRSP, which highlights (i) peace and democratic governance; (ii) reintegration of conflict victims and disadvantaged groups; (iii) private sector development; (iv) human capital development; (v) fighting AIDS; and (vi) advancing the role of women in development as its strategic themes. The government's programs have further benefited since 2004 from work undertaken to support the development of the full PRS on growth, sector strategies, prioritization of interventions and defining of targets/monitoring indicators. The changes in government and fragile circumstances resulted in some weaker links between PRS processes and government policy intentions. The program document explains very well the views of the incoming government (e.g., on privatization) and how they overlap with the program.	The policy matrix laid out in a policy matrix in the program defines actions taken before grant approval, second tranche conditionality, and expected actions over the medium-term that could serve to review progress in for future support. Coordination of budget support operations has been formalized with six donors (AfDB, France, Belgium, EC, UNDP and the Bank), with others expected to join. The harmonization framework defines a coordination framework for the macroeconomic framework, PRSP monitoring, and public financial management. However, the policy matrix itself appears to be used largely for Bank purposes.	The policy matrix lays out support to the government's program under two broad components (i) improve public expenditure management and its impact on the poor; and (ii) accelerate sustainable economic growth. Prior actions and conditions include establishment of an electronic financial management system and issuing report; (ii) plan for improving procurement and adoption of a new law; (iii) identification of pro-poor spending; (iv) liberalization of coffee producer prices and marketing and adoption of detailed plan for further restructuring (including privatization of washing stations); (v) new insolvency bill; (vi) settling of domestic arrears; (vii) bringing to the point of sale two state companies; (viii) relaunching of the bidding for sale of non-coffee related assets of coffee board. A variety of benchmarks also call for adopting a privatization strategy, and privatization-related activities.	The two-tranche operation makes fairly disciplined use of conditionality with 12 prior actions. The criticality for the reform progress of most actions is easily established, such as the setting up of an interim financial management system. However, the ultimate importance of the bringing to sale of two government enterprises for the growth agenda is less clear, as is the importance of the liberalization in the coffee sector (under IMF PRGF-supported programs) that preceded further work on a sector reform strategy (now supported by the Bank) or the urgency of relaunching bids for other public enterprises. The number of benchmarks, with 27 alone before adoption of the grant, is also high.	The operation was developed under difficult circumstances. Both governance issues but also Bank-internal staffing and processing issues led to delays in its Board presentation, undermining to some extent the 2005 budget and threatening the viability of the PRGF-supported macroeconomic program. The operation attempts through the use of triggers to set the stage for a more predictable future engagement, albeit there are risks that the second tranche may not be disbursed as planned in 2006, delaying prospects and predictability for any follow-up support as well.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
India	Orissa Social-2	The government's program supported by the operation is articulated in its Tenth Five-Year Plan and a long-term strategy (Vision 2020). The strategy, on which basis the state government was re-elected in 2004, relies on private sector activity and community groups as engines of growth and job creation and targets improvements in financial and public sector management to enhance quality of public spending in human and physical infrastructure. The government's strategic vision is to (i) improve agricultural productivity, business environment and public enterprise management; (ii) tackle fiscal imbalances and improve fiscal accountability; (iii) improve public service delivery. Bank analytic work on poverty, growth, investment climate, financial accountability, education and health issues has supported the implementation of the strategy.	The policy matrix attached to the government's letter of development policy lays out a sequencing of reform actions and expected results permitting to evaluate progress under the program. The policy framework has been harmonized with DfID, for which Orissa is a focus state. Although DfID does not provide budget support under the same umbrella, it offers critical technical assistance for business regulation, public enterprise reform, electricity regulation, public administration reform, and may offer policy-based support for health.	The operation supports the government across the pillars of the reform program. The prior actions identified in the program include activities to (i) remove state monopoly in agricultural marketing, (ii) simplify business processes; (iii) sell assets of closed public enterprises, initiate an environmental audit of 20 enterprises, and privatize two viable public enterprises; (iv) resolution of different service payments and quality issues with private power distributors; (v) further budget consolidation and improved fiscal accountability and transparency; (vi) civil service reform, elimination of redundant post, and redeployment of education and health workers.	The operation contains on a few prior actions in critical areas across the different elements of the government's program. It includes 12 prior actions and 1 additional benchmark action. However, several of the prior actions, when fully unbundled, amount to several activities. Thus, possibly additional choices among these different actions could have been made to further focus conditionality on critical elements of these bundled actions.	The program matrix transparently lays out commitments and expected results (including baselines and targets) under the program identified by the subnational government. The sequencing of Bank support, in line with the intentions of the central government of India, is typically not on an annual basis, which explains the unusual two-tranche structure of this programmatic operation. Support to Orissa has been roughly bi-annual, and the focus of the Bank's engagement and the joint reviews/supervision with government has therefore been less on predictable annual financial support but rather on demonstrating performance under the program to obtain resources at better financial terms.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Guatemala	DPL-2	The government's program supported by the operation is articulated in its "Vamos Guatemala" program of 2004 on the basis of which the current administration was elected into office. The program aims at (i) promoting social solidarity; (ii) accelerating growth and (iii) promoting sustainable development. Analytic support includes poverty work, investment climate assessment, growth studies, and fiduciary assessments.	A program matrix lays out key steps in the government reform program that are used to measure progress in moving from one to the next operation. These performance milestones are also close interlinked with the CAS framework. The matrix serves for evaluating progress under the Bank's program given the absence other partners who offer policy-based loans—but it has been discussed and coordinated with other financial partners present in Guatemala who support the government's program.	The program matrix laying out the area of Bank support is focused on select elements of the government reform program under three pillars: (i) promoting growth and the investment climate; (ii) enhancing capacity for public spending in priority sectors; (iii) transparency and public sector management. Prior actions focus on adoption of CAFTA-DR; improving customs processing; creating better land registration; improving the framework for public-private partnerships; better financial supervision and payment systems, improved tax administration and collection; improved quality of expenditure and progress in public financial management and procurement.	The criticality of the measures in the program matrix are underscored by the focus of the matrix on 13 prior actions and the absence of benchmarks as the Bank in this case is relying on a broader government's program spelled out in a variety of strategy documents—but without repeating these details in the program matrix. This clear focus on critical actions under the different branches of the reform program notwithstanding, the total number of prior actions exceeds the Bank's average, and the stacking of several "sub"actions into the customs and tax administration reforms further increased the number of actual conditions.	The policy matrix sets out transparently how progress under the program will be assessed against actions and results indicators. All indicators agreed with the government contain both baseline and target values. In the conduct of the program, this second operation followed the first after roughly 12 months, in line with the request of the government for predictable support based on its performance under the program.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Panama	DPL	The government's program supported by the operation derives from the strategic vision developed by the Torrijos government. The vision rests on (i) poverty reduction and improved income distribution; (ii) faster economic growth and employment creation; (iii) the reorganization of public finances; (iv) human capital development; and (v) modernization of the state. Analytic underpinnings include a PER, and a CFAA/CPAR, a poverty assessment.	The program document describes the actions accomplished and a medium-term context of this single-tranche stand-alone operation. The content of the program and underpinnings have been coordinated and with IDB and UNDP. IDB is supporting trade adjustment through a policy-based loan.	The operation entails actions in two broad areas: (i) restoring fiscal sustainability; and (ii) improving fiscal transparency and public expenditure management. Prior action include a fiscal equity law, a pension reform law, publication of fiscal balance reports, reduction of end-of-year fiscal accruals, introduction of a medium-term budget framework, launch of e-procurement, new procurement law. The program document discusses that the likely poverty and social impact of fiscal and pension reforms is positive.	The policy matrix contains seven prior actions and no benchmarks. All actions are clearly critical steps within a medium-term reform effort.	This is a single-tranche stand-alone operation and thus does not presume future support. As future support materializes with the progression of the program, it is expected that discussions will allow government to adjust its fiscal financing plans in accordance with the progression of preparation of any future operation.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Georgia	PRSO-2	The government's program supported by the operations is laid out in its economic development and poverty reduction program. The latter identifies six main areas for action: strengthening governance, improving macro-financial performance, improving the investment climate and enhancing productivity and employment growth; building human capital, reducing the vulnerability of the poor, and protecting the environment. Analytic work in support of the strategy includes a PER (2003), CFAA and CPAR with updates, TA for public sector management and electricity market support, integrated trade study, FSAP update, poverty policy notes, pension policy note, doing business assessment of administrative procedures.	The program document sets out a sequence of actions over four operations. The matrix serves as general coordination tool for interventions by other donors (Netherlands, Japan, EC, IMF, DfID, USAID, SIDA, KfW, GTZ, EBRD) most of which are not providing budget support. The EC provides parallel financing under a program identical to pillar 1 of the policy matrix. The Netherlands are co-financing PRSO-2.	The operation includes policy actions under the pillars of (i) strengthening public sector accountability, efficiency, and transparency, (ii) improving electricity and gas sector services, (iii) improving the environment for private sector development, (iv) improving social protection of the vulnerable and poor. Prior actions include budget preparation, publication of procurement processes and amendments to the procurement law, law on the chamber of control, implementation of the single treasury account, local self government law, strategy for civil service reform, anti-corruption strategy and survey on corruption in education, implementation of energy sector action plan, debt management law for the electricity sector, power sector collection rates, organization model for gas supply that maximizes competition, simplification of permits and licensing, revised customs code and customs reorganization, standardization, implementation of a social assistance program, quality assurance for secondary education, piloting of health basic benefit package. A PSIA was undertaken on the energy tariff policy aiming at cost recovery for earlier phases of the program, and its findings and government's mitigation strategy described in the program document.	The policy matrix contains 22 prior actions and 20 benchmarks. This puts the operation at the high end for Bank operations, with efforts having been made in the follow-on operation (see below) to refocus the policy matrix. The actions are clearly critical steps within the reform program to move the policy agenda ahead and focus on legal and regulatory changes and their implementation.	The program matrix transparently lays out the prior actions. However, many triggers for future support are relatively vague (satisfactory implementation of an action plan etc.). Progress under the program is reviewed regularly, and the timing of proposed financing is announced based on progress made. The policy matrix does include outcomes, but these are often not measurable, an issue that has been addressed with the third operation's separate monitoring framework.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bangladesh	Railway Reform	The government program supported by the operation is set out in the 2004 National Land Transport Policy, which derives from the infrastructure objectives of the PRSP. The strategy includes for railways (i) greater private sector participation in service provision, (ii) enhancement of operational capacity; (iii) greater rail market share for fright; (iv) more efficient management of assets; (v) better financial efficiency; (vi) more effective social services; (vii) fostering of inter-regional links; (viii) reduction of non-core activities; (ix) improved safety; (x) conversion into a government-owned corporate entity. Analytic underpinnings include a rapid assessment on rail, ports, and IWT; a comparative study on road and rail transport, and a study on political economy and evolution of governance reform in Bangladesh railway. Moreover, extensive stakeholder consultations took place on the proposed reforms, and the Bank undertook a stakeholder analysis that is informing the communication strategy for the reform process.	The policy matrix lays out actions taken before credit approval and expected policy actions to be taken during the next phase. The operation is part of a multi-donor support effort with ADB, JBIC, and DfID combining technical assistance, policy reforms, and investments. Interventions are timed for greatest degree of complementarity of financing. ADB, JBIC, and the Bank have signed an MOU.	The policy matrix describes the actions taken and anticipated for three phases of the reform program. It is organized into four areas (i) restructure Bangladesh railway by line of business; (ii) transform BR into a government-owned corporate entity; (iii) transparent cost accounting and financial reporting; (iv) human resources management; (v) improve operations, maintenance practice, and performance; (vi) improve procurement practices; (vii) improve environment and social impact management. Prior actions include the operationalization of the line-of-business structure, development of a three-year maintenance plan. The program document discusses that worker retrenchment has already taken place on a voluntary basis, with no further departures expected as a result of this engagement. Other poverty and social aspects of the reform program are being evaluated in a forthcoming study that will inform the 2007-09 reform steps and identify any mitigating policies.	The operation has four prior actions and 2 additional benchmarks. The prior actions largely focus on two of the seven reform areas, with the majority of reforms expected to be phased in over the next two years. The prior actions represent critical, albeit relatively narrow, areas of the reform program. Given the substantial remaining agenda in other areas, the Bank's choice to proceed with a first single-tranche operation leaves the space for the government to move ahead without facing any legally binding conditions in addressing these areas.	The policy matrix lays out transparently past actions and expectations. It also identifies key monitoring indicators, and their end-of-program targets and current baselines. All donors involved in the MOU will conduct joint missions to evaluate progress under the reform program, with understanding that DPL resources of the Bank would not be timed to the budget cycle but to overall progression of the reform program. The expectation is therefore that the follow-on DPL would be up to 2 years after the first operation.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Moldova	PRSC-1	The government program supported by the operation was laid out in the government's 2004 PRSP. It contains three pillars: (i) promotion of sustainable and inclusive economic growth; (ii) improved human development; (iii) strengthened social protection of the most vulnerable groups. Analytic underpinnings for the program include an investment climate assessment, a trade diagnostic study, a CEM and policy notes on land, markets, and public expenditure in agriculture, a PSIA on energy prices, public expenditure management report, public finance review, PEFA, education policy note, health policy note, CPAR, social assistance policy note.	The accountability framework is laid out in form of a medium-term matrix of policy actions. The policy framework for the PRSC has been prepared jointly with DfID, SIDA, and the Netherlands, who carried out joint missions in consultation with the EC. A Development Partnership Framework has been agreed by these parties, the UN, and the IMF, committing members to joint reviews, harmonized indicators and prior actions, and synchronization with the budget cycle.	The policy matrix describes the government's actions under the areas of (i) improving the investment climate; (ii) improving the efficiency and management of public sector resources; (iii) strengthening the social protection system. Prior actions include a government decision on establishing a registry of official regulatory acts, law on basic principles for regulating business activity, risk-based customs processes, liberalization of agricultural exports, competitive merit-based recruitment of civil servants, pay reform for civil servants involving base salary increase, level playing field for access to agricultural subsidies, more competitive public procurement, ensuring of integrity of pension data for individual account system. One benchmark also referred to the adjustment of gas tariffs by the regulator in response to increases in gas import prices. PSIA showed that the utility price had a significant impact on the poor since the social assistance system is poorly targeted, and that the government has the fiscal space to protect current energy consumption levels of the poor. To this end, a pilot program for means-testing is underway, and the poverty impact is being monitored through quarterly household budget surveys.	The policy matrix has 9 prior actions and 6 additional benchmarks. Prior actions reflect critical aspects in different reform areas of the government's program.	The policy matrix sets out a three-year reform program to be supported by a series of operations. In line with the donor agreements, the review cycle has been set as to allow predictable financing for the budget in future years if the program is implemented satisfactorily. The matrix also identifies outcome indicators and baselines, which allows a results-focused review of progress in program implementation and gives scope for adjusting policies in response to outcomes.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Benin	PRSC 3	The government program supported by the operation builds on the 2002 PRSP. The second PRSP contains a strategy for accelerated growth. The government strategy is articulated under the pillars of (i) strengthening the medium-term macroeconomic framework, (ii) strengthening human development and environmental management, (iii) improving governance and institutional reforms; and (iv) improving employment or income-generating opportunities for the poor. Analytic underpinnings include an investment climate assessment, doing business indicators, a land market study, a diagnostic trade study, a financial sector review, a study on port operations, a country health status report, a governance and anti-corruption survey, and action plan for decentralization, and a public expenditure review.	The Bank uses a government policy matrix supported by the donor support group (called ABC under its French acronym). The accountability framework/policy matrix is agreed with government by budget support donors (AfDB, EC, Denmark, the Netherlands, Switzerland) with association of other donors (France, Germany, Belgium, Canada, UN agencies) and monitored regularly under joint missions.	The policy matrix is aligned with the PRSP and constitutes and important detailed implementation roadmap for government. Prior actions include a strategy for private sector development, institutional framework for the cotton interprofession, study on cotton inputs supply and marketing arrangements and implementation of its recommendations, study of a private-based cotton price stabilization mechanism, strategic note on professionalization of village-level water systems management and for PPPs for water system management, sliding scale and exemption mechanism to make health care more affordable to the poor, redeployment of teachers, budget law submitted to Parliament, creation of internal controls unit within ministries, submission of draft budget execution law, examination of candidates to hire 40 additional judges, and adoption of a reform action plan for civil service. A cotton privatization action was dropped from this operation as the privatization process was terminated (see follow-up operation below for follow-up actions taken under the program).	The Bank has identified 12 prior actions and the policy matrix contains another 72 benchmarks. The large size of the policy matrix reflects the original outcome of the donor harmonization process (with lessons learned reflected in the follow-on operation). The prior actions were selected among the broader set of actions for criticality and focus on implementation of strategies and financing of poverty-reduction priorities (possibly with the exception of the action plan for civil service reform).	The government policy matrix lays out a broader reform program and targeted results. The program document identifies clearly the Bank's prior actions and any triggers for future support, as well as a set of focused results indicators associated with these actions. However, most indicators do not identify baselines but discuss relative changes or target values only. A focused results monitoring matrix (with a careful review of sources and availability of data) has been provided to monitor the impact of the program in education, health, water, environment, and justice, but the link with the actions is not completely evident. The operation was delayed by about six months due to the electoral process, but was ultimately still disbursed in the same calendar year as anticipated. Timely performance reviews by the donor group should allow re-alignment with the budget cycle for the series of PRSC 4-6.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Nicaragua	PRSC-2	The government program supported by the operation is laid out in the 2005-09 National Development Plan, Nicaragua's second generation PRSP. Its five strategic areas are (i) economic growth for poverty reduction; (ii) human capital development and social protection; (iii) productive and social public infrastructure; (iv) governance and state reforms; (v) macroeconomic stability. The second PRS emerged from a broad participatory process at the local level with departmental development councils and sectoral consultations. Analytic underpinnings (whose links with the policies are explicitly noted) are a poverty assessment, a PER, a development policy review, a CFAA, a PFM performance report, and a CPAR.	The policy matrix describes actions taken under the two operations that form a series. Both operations have been co-financed by KfW, and KfW took responsibility for supervising part of the policy matrix. In addition, PRSCs have been coordinated with the budget support group (of which the Bank is a member) and the related performance assessment matrix, which the group uses for monitoring and evaluation purposes.	The policy matrix describing the actions taken under the two PRSCs is organized along the pillars of the PRS (see column 1). Prior actions include adoption of CAFTA, registration of the title of an indigenous territory in the Bosawas biosphere, revision to the general education law, funding of road maintenance, implementation of the civil service law with integration of public employees into career streams, approval of financial administration law, budget execution of poverty-reducing spending. Measures highlighted in the program built on PSIA for DR-CAFTA which found the vast majority of the population would benefit, even in the short run, with possible need to mitigate impact on farmers of sensitive agricultural crops. PSIA was also undertaken as part of the second PRS on tax reform, education, and water reform with suggestions for concrete follow-up policy measures.	The policy matrix contains 8 prior actions and 28 benchmarks. It has benefited from considerable refocusing since PRSC I, and has been adapted to changing circumstances and lessons learned. Prior actions focus on critical activities, predominantly on resourcing implementation of government strategies and implementation of laws.	The program matrix transparently lays out actions taken under the program, and the program document identifies areas that would be reviewed with government for progress to move toward a follow-on operation. The policy matrix also lays out expected results of the program. Whereas the overall outcomes for each pillar are clearly specified and underpinned with measurable indicators against clear baselines, individual outcomes for program areas at times are broad and qualitative. This operation was the second and last in the series. Its financing was dependent on the release of the second tranche of the prior PRSC and was processed so as to provide budget financing on an agreed timeline in 2006—but this timing of financing was not easily predictable at the outset of budget preparation in 2005. Future support will be subject of discussion with the new government and its timing would then be geared toward predictable financing within the budget cycle under the joint donor framework.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Central African	DPG	The government program supported by the operation is set out in the 2006 Economic and Social Policy Framework accompanied by a transitional results matrix. The ESPF itself draws on the draft PRSP and its four pillars: (i) reinforcement of security and consolidation of peace; (ii) improvement of governance and public sector institutional capacity; (iii) promotion of macroeconomic stability and economic growth through structural reforms; (iv) improvement of the population's access to essential social services and rehabilitated infrastructure. Analytic underpinnings include policy notes on economic developments, public finance management, private sector development, natural resource management, and a conflict prevention analysis. Additional work includes a procurement review, a business environment assessment, a CFAA under preparation, and technical assistance financed with LICUS grant resources.	The accountability framework is set out in a policy matrix that describes key recent achievements and next steps. The major coordinating framework for donor interventions has been the transitional results matrix, of which the policy matrix for this operation picks up key areas. Key other donors are the AfDB, France, the EC, US and the UN system.	The policy matrix focuses on two main areas: (i) restoring the key functions of state planning, execution, and control; (ii) improving governance. Prior actions include adoption and publication of a transitional policy framework, increased transparency of treasury committee meetings and auditing of government accounts and treasury operations, better monitoring of cash advances, integration of all public revenues into state accounts, begin audit of the Douala customs office, merging of payroll and personnel databases, establishment of financial branch of the judiciary, independent review of proposed mining agreements, publication of existing mining agreements, declaration of intention to adhere to EITI, prohibition of special forest harvesting permits.	The policy matrix contains 13 prior actions and no benchmarks. Prior actions are formulated in an often detailed way to exactly spell out the common understanding. Actions represent in most cases critical first steps to advance transparency and sound management of public finances. Many of the actions introduce concrete steps to disseminate information to a broader range of stakeholders.	The policy matrix lays out actions taken and a transparent roadmap for any follow-on support by the Bank. Triggers for future support are often formulated in some detail to convey a clear understanding how progress will be measured. The expectation is for frequent exchanges with the government on program implementation, allowing decisions to be made on possible additional budget financing in late 2007, in time for the 2008 budget approval. The matrix contains outcomes, but these are largely defined in qualitative rather than quantitative terms given weak statistics and a focus on institutional changes.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Colombia	Business Productivity -2	The government program supported by the operation was laid out in the 2002-06 National Development Plan. It has pillars to (i) address the security situation of the population; (ii) support sustainable growth and employment-generating activities; (iii) alleviate income inequalities through promotion of growth, efficient social expenditures and better safety nets; (iv) increase transparency and efficiency of the state. This operation supports in particular the objectives of the second and third pillar. Analytic underpinnings include a CEM, a REDI, a study on quality and logistics infrastructure for competitiveness, an FSAP update, a study on labor market adjustment, reform, and productivity, financial sector non-lending TA, TA roadmap for anti-money laundering, Colombia policy notes.	A policy matrix describes the actions taken and anticipated under the program and serves as primary tool to gauge progress for government and the Bank. The matrix is being used to avoid duplication by the IDB, which is also supporting business productivity reforms. The Bank also coordinated its support with the Andean Development Corporation and USAID, who are active in improving business productivity.	The policy matrix summarizes the government program actions supported by a series of Bank operations under the areas of (i) business environment; (ii) strengthening competitiveness; (iii) strengthen the financial system and capital markets; (iv) improve quality standards and foster technological innovation; (v) strengthening infrastructure and logistics. Prior actions included decrees to define the role of government agencies in setting competitiveness policies, policy directives on banking supervision, road map for reform of the financial sector, legal framework for the supply of credit, securities law regulation, legal characteristics of buy-backs and repos, criminalization of the financing of terrorism, policy for the system of sanitary and phytosanitary measures increased resources devoted to metrology infrastructure.	The policy matrix contains 9 prior actions and no benchmarks. Given the at times multitude of legal changes stacked into a single prior action, the true number of activities completed is higher. Practically all prior actions concern changes in laws and regulations of detailed areas of economic management. They are part of a broader reform strategy and derive from detailed studies on the legal framework for competitiveness and financial sector regulation.	The policy matrix lays out the next steps under the different pillars. Some of the next steps are defined relatively broadly ("continue implementation") with others referring to concrete further changes or implementation steps. The policy matrix identifies outcome indicators, most of which are measurable and have baseline values. Progress reviews against the program are expected to take place regularly and will allow incorporating any future lending volume into the government's budget financing decisions in a timely manner.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Rwanda	PRSG-3	The government program supported by the operation builds on the 2002 PRSP and subsequent 4 progress reports. The PRSP spelled out the vision for halving poverty and achieving the other MDGs by 2015 and identified private sector as main engine of growth. Its building blocks are (i) macroeconomic stability, human development, good governance, partnership, and the prioritization of public actions. Six priority action areas are rural development and agricultural transformation, human development, economic infrastructure, good governance, private sector development, and institutional capacity building. Analytic work includes a country status report on education (update), a report on planning for nine-year basic education, a labor market health survey, country status report on health, impact evaluation on community based health schemes, legal and institutional framework study for water, market study on urban energy and water usage, a CEM, an investment climate assessment, agricultural policy note, PSIA for the tea sector, a diagnostic trade study, CFAA, FSAP, country procurement issues paper, transport sector policy assessment, assessment of road fund performance.	The policy matrix serving as accountability framework has been directly drawn from PRSP documentation. Budget support is provided by the Bank, AfDB, DfID, EC, and SIDA under a partnership framework, using the same PRSP-based matrix, and conducting government-led joint public financial management reviews, joint budget execution reviews, and sector reviews. Although all donors use the same (large) matrix, only the Bank and the AfDB use the same performance assessment framework. With the follow-on operation, it is expected that a joint PAF will be agreed among all donors	The policy matrix summarizes activities under the PRS along the pillars of (i) building an enabling environment for private sector development; (ii) human resource development and improving the quality of life; (iii) economic infrastructure; and (iv) governance. Prior actions include an adoption of a micro-finance action plan, staffing and operationalization of rural development offices, budget financing consistent with education sector strategy, scale-up of performance-based payment schemes in health, 10 percent of rural water supply systems managed by private operators, adoption of revised electricity tariff replacing a flat tariff with a structured tariff, budget consistent with output-oriented sectoral MTEFs, submission of 2005 budget execution report to auditor general, publication of manuals of financial management procedures, adoption of public procurement code, budget financing of a citizen report card. In addition a benchmark refers to the privatization of two tea plantations.	The policy matrix accompanying the operation identifies 13 prior actions and has 101 benchmarks. The unusually large number of benchmarks derives from the fact that the Bank's documentation reproduces large parts of the PRS implementation matrix provided by the government. Prior actions are largely chosen for the strategic impact on financing of line ministries, adoption of legal changes, and implementation, possibly with the exception of the micro-finance action plan.	The policy matrix for this lat operation in the series contains a clear and transparent description of actions taken under the program. Program reviews (with a fourth operation anticipated) take place on a regular government-determined cycle to allow approval of operations on time for the budget year—all three PRSCs for Rwanda were approved shortly before the end of the calendar year to finance the following year's budget. The matrix contains a host of outcome indicators, most of them measurable, and with baselines (or at least changes in values for indicators).

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Mauritius	DPL-1	The government program supported by the operation was presented by the Minister of Finance in the budget speech in July 2006. It builds on (i) consolidating fiscal performance and improving public sector efficiency; (ii) improving trade competitiveness; (iii) improving the investment climate; (iv) democratizing the economy through participation, social inclusion, and sustainability. Analytic support for the strategy was provided by a CEM, the IMF's fiscal affairs department technical assistance, an aid for trade report, a report on unemployment in Mauritius, and an investment climate assessment. Additional analysis was provided in policy notes and aide-memoire.	The policy matrix for the Bank's support is a subset of the government's own policy reform matrix, which serves as overarching accountability framework. The operation has been prepared in close collaboration and coordination with support by the EC, the AfDB, and AFD, with donors supporting complementary elements of the agenda. Analytic activities are closely coordinated under the umbrella of the government reform matrix.	The policy matrix summarizing the Bank's support to the government program is organized along the same pillars as the government's program described in column 1. Prior actions include the reduction of tax expenditures, use of fiscal rules for determining the budget envelope, abolishing of ministerial discretion over tax and duty exemptions, operationalization of the revenue authority, reduction of tariffs by 2 percent on average, unification of regulatory regimes for firms inside and outside the export processing zones, reduction of telecommunication costs, streamlining of business registration, ease entry of foreign workers, spend resources on social protection, retraining and SME support, replace customer subsidies with targeted cash transfers. The program document and prior analytic work have analyzed social impact of trade reform and concluded that it will reduce prices of consumer goods and reduce poverty, but with concentrated burden of job losses among a few employment groups, who should benefit from the empowerment program. The government is stepping up the frequency of poverty measurement to ensure timely mitigation measures are being taken. The program document also acknowledges problems with the cash transfer problem, having likely caused hardships for families no longer benefiting from price subsidies on key staples.	The policy matrix summarizing the Bank's support areas has 14 prior actions and 1 benchmark. With a higher-than-average number of prior actions, overall the matrix is tightly focused on critical actions across the range of government activities. The effective targeting of spending on the empowerment program to those affected by the fallout of reforms is at this stage difficult to judge.	The policy matrix contains a transparent set of sequenced policy reforms to judge how progress is being made. A focused set of outcome indicators has also been included, albeit without providing the numerical values for a number of the 2005/06 baselines mentioned in the results column. Progress will be assessed semiannually, which should allow sufficiently timely announcement and decisions on financing volumes for the government's July-June fiscal year going forward.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Sierra Leone	GRGG-1	The government program supported by the operation is laid out in the 2005 PRSP. The latter is founded on a series of extensive consultations throughout the country. Its three pillars are (i) good governance, security, and peace building, (ii) pro-poor sustainable growth for food security and job creation, and (iii) human development. Analytic underpinnings include technical notes on poverty, a mineral sector review, a doing business report, a administrative barriers for investment study, a report on unemployment, a study on the impact of the common tariff, a CFAA, a PER, corruption surveys, a CPAR, and an accounting and auditing ROSC.	A policy matrix that covers past and future actions and anticipated outcomes has been agreed by government with the key budget support donors (AfDB, DfID, EC, and Bank) and a multi-donor budget support arrangement. The matrix is at an early stage of developing a coordinated approach and largely collates different donor priorities, with each using at least partially different elements of the matrix to justify disbursements.	The policy matrix is organized under the areas of (i) macroeconomic framework, (ii) good governance, (iii) pro-poor growth and job creation and (iv) human resource development, with areas (ii) -(iv) containing several sub-areas. Prior actions included the adoption of an implementation plan for revision of budget regulations, hiring of procurement staff, adoption of procurement plans by key line ministries, publication of procurement guidelines, appointment of an accountant general, rules for protecting priority spending in case of revenue shortfalls, adoption and publication of local government transfer formulas, publication of procedures for the sale, transfer and disposal of government equity and assets, satisfactory implementation of cadastre and extension services for mining. One benchmark also calls for the continued implementation of the phased transition to the ECOWAS common external tariff. Privatization transactions, which are not part of the MDBS matrix, are conducted by a national commission, which is proceeding with extensive technical support from DfID.	The policy matrix excluding the conditions of other donors lists seven prior actions for Bank support and nine additional benchmarks. Conditions are focused mostly on incremental steps in improving public financial management regulation and processes, with a few key actions regarding the business climate and mining sector. The harmonization has not yet yielded a reduction in total donor conditions as the joint policy matrix remains large with diverse conditionality.	The first operation in the series lays out transparently a broad program covered by several donors. Triggers for follow-on support are clearly identified. The policy matrix also identifies a set of outcome indicators against clear benchmarks. The Bank uses a focused subset of indicators of the MDBS linked to its own interventions. Progress reviews are intended to be time to allow predictable financing decisions by government. However, recent implementation delays have made the 2007 donor support less rather than more predictable.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Indonesia	DPL-3	The government program supported by the operation derives from the government's medium-term strategy, or RPJM. Its three overarching goals are (i) a safe and peaceful Indonesia; (ii) a just and democratic Indonesia, and (iii) a prosperous Indonesia. The RPJM embeds the Millennium Development Goals, including reduction in the poverty rate by half over five years (2004-09).Implementation of the RPJM is operationalized through the annual work plan, with seven priorities in 2006 and nine priorities in 2007, all of which are linked to the state budget and include quantitative targets and policy direction. Broad strategy and work plans are complemented by policy packages in different areas (in 2006 infrastructure, investment climate, financial sector and anti-corruption). The Bank's operation draws on these expressed priorities and policy intentions. The government's program has benefited from a variety of analysis, including a PER, a development policy review, an investment climate survey, a CFAA, and a CPAR. These were complemented by the Bank-sponsored investment climate report, policy notes, and technical assistance. A PSIA on fuel subsidies was undertaken in 2005, and an evaluation of the compensation program took place in 2006.	The policy matrix describes the accomplished and future actions supported by the Bank under the program. DPL-3 was prepared in close collaboration with the Asian Development Bank and the government of Japan. Both are using the same policy matrix to determine progress for the purpose of co-financing of the operation, and the policy stance and evaluation of the program was closely harmonized among the Bank and these two co-financiers.	The policy matrix draws directly on a variety of policy priorities and packages expressed by the government across the pillars of (i) macroeconomic stability and creditworthiness; (ii) improved investment climate and (iii) improved public financial management and (iv) making services work for the poor. Prior actions include measures to revise tax laws on disputed audits, reduction in the deposit guarantee level, a warehouse receipts law, improved financial reporting, monitoring of the fiduciary aspects of the new compensation program. There are no prior actions in sensitive areas. The program document also makes the case for a careful debate with government based on analytic work on areas with heightened political sensitivities (rice imports, labor market reforms), respecting the need for policy space.	The policy matrix is focused and contains 12 prior actions and 29 benchmarks across the different pillars. Most actions, as part of a medium-term institutional reform program, are focused on smaller legislative changes and processes, whose immediate impact is difficult to gauge outside a longer-term vision of reforms. Generally, the broader context of these reforms steps as part of government policy packages and strategies is explained carefully in the program document.	This third operation in the series transparently sets out the originally anticipated actions, the final actions, and triggers for future support by the Bank. A focused results matrix is also included, and the latter has been extended to take account of a proposed fourth operation. Most results do have a clear baseline and target defined, but especially for public services the results indicator is rather vague. The central placement of the results matrix and discussion in the program document indicates that outcomes are being monitored regularly as part of the program. In terms of predictability, the third operation, as its predecessors, was processed on time, but close to the end of the fiscal year. As a result, little slippages in the timing would delay expected budgetary financing, and a review schedule more conducive to disbursing the operation earlier in the fiscal year could be considered for future support.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Peru	Progr Fiscal & Comp	The government program supported by the operation intends to accelerate growth and ensure a more equitable distribution of growth. It includes the pillars aiming at accelerating and broadening economic growth, improving social development, and modernizing public sector institutions. The government has made efforts to ensure broad consensus of its program with the outgoing administration, legislature, and society at large, a process supported by the Bank and others. Analytic underpinnings include policy notes prepared at the transition in administration, a PER, CFFA, CPAR, investment climate assessment, poverty assessment, CEM, and sector studies on municipal debt, micro-constraints to growth, and environmental and social impact of mining.	The program matrix lays out and agreed framework for assessing progress in implementing the government program with a second operation anticipated to follow on the first. The operation is co-financed by KfW with KfW participation in all critical processing steps. Coordination with other donors, notably IDB, has served to minimize duplication. USAID is implementing related technical assistance and grant programs in coordination with the Bank.	The program supported by the Bank is summarized under the areas of: (i) efficiency and quality of fiscal management; (ii) competitiveness. Prior actions focus on legislation to monitor fiscal rules, publication of a public debt management strategy, implementation of cost-benefit analysis of eliminating regional and sectoral tax exemptions, enabling of internet registration for the single taxpayer identification, first steps to implement a treasury single account, alignment of budget classification to international standards and with chart of accounts, approved treasury system and accounting law, enactment of regulatory framework for budget performance measurement and its implementation, ratification of free-trade agreement with US, reduction of tariffs on capital goods from 7 to 4 percent, creation of one-stop shop for uniform authorization for import and export subject to non-tariff measures, launch an e-government strategy. The Bank has undertaken prior analytic work on the likely effects of trade liberalization that found possible negative effects on agricultural populations. The government has prepared a policy package to mitigate such impacts through modernization of agriculture and promotion of exports from the Sierra.	The operation has 9 prior actions and no benchmarks. Many of the prior actions, however, contain a series of activities that are stacked into a single action. The policy matrix focuses on critical actions across a relatively broad range of government activities.	The policy matrix identifies transparently actions taken prior to the loan and future actions that will serve to assess progress. It also contains a set of outcome indicators with baselines against with progress will be assessed. Progress reviews are expected to take place semiannual and would permit to integrate any follow-on support into government financing decisions for the budget in a timely manner.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Philippines	DPL-1	The government program supported by the operation is part of the 2004-2010 medium-term Philippine development plan (MTPDP), with the objective to create employment and reduce poverty at a faster rate. Key elements of the program are (i) fiscal consolidation, (ii) strengthening public sector governance, (iii) improving the investment climate, and (iv) improving delivery of social services. Analytic underpinnings for the program include Bank involvement and analytic work for the Philippine development forum, a public expenditure, procurement, and financial management report, a macro policy note, a poverty assessment, an education sector policy note and a variety of other studies, including PSIA of recent reforms.	The agreed framework for the operation is laid out in a policy matrix that allows assessing progress against the program. The program has been coordinated with the ADB and JBIC, who provided parallel support and participated in the discussions for the operation. Other donors are considering aligning additional assistance with the agreed program matrix.	The program supported by the Bank is laid out under the areas of (i) macroeconomic and fiscal stability; (ii) governance and anti-corruption; (iii) investment climate and infrastructure; and (iv) social inclusion. Prior actions include reduction in the fiscal deficit, the increase in VAT rates and broadening of the tax base, establishment of a tax reform commission, increase in power tariffs, publication of guidelines for stranded costs and debts of the power sector, increase in bid opportunities for public contracts posted on PhilGEPS, beginning of commercial operations of the wholesale electricity spot market. The program document contains a detailed review of the social and poverty impact of the VAT increases and electricity tariff increases, and describes mitigating measures such as reduction of fuel excises. It also describes the public consultation process on these measures.	The operation has 10 prior actions and 31 benchmarks. The unusually high number of benchmarks is explained by the broad program and the need to shift attention subsequently from immediate fiscal consolidation measures to more medium-term institutional changes over the course of the program. Most actions are clearly highly critical steps in consolidating public finances. These are combined with early steps (as benchmarks) to improve public financial management and medium-term budgeting in particular.	The policy matrix lays out expectations for a follow-on operation in a clear and transparent manner, and places particular weight on improved public financial management in addition to continued fiscal consolidation. The intention is to supervise progress closely so as to provide early indications of financing volumes, allowing the government to adjust its own budget financing plans accordingly. The policy matrix identifies measurable indicators, mostly against baseline values, allowing outcome-focused monitoring of implementation.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
India	AP DPL-3	The AP government program supported by the operation originates with the Vision 2020 document of 1999, which was followed up by a number of additional strategic documents in 2005-06 covering MDGs, financial management, agriculture, power sector performance, health care and governance. All documents were prepared in consultations with stakeholders. Analytic underpinnings include reports and policy notes on economic growth, fiscal policy, public enterprise reform, financial management, and power sector reform.	The reform program is summarized in a government policy matrix of policy actions taken and anticipated under the government program and serves as basic accountability framework. Earlier operations were cofinanced and closely coordinated with DfID, which also provided a range of technical assistance in business regulation, public enterprise reform public administration reform, health sector reform in close consultation with the Bank. Exchanges on lessons learned, and initiatives also took place with other donors present in AP.	The Bank support for the program spans the themes of (i) pro-poor policy formulation and implementation; (ii) structural measures to facilitate economic growth; (iii) public enterprise reform; (iv) improving the aggregate fiscal situation, public expenditure management and financial accountability; (v) governance reforms; and (vi) power sector reform. Prior actions include an MDG report, amendments to the livestock act, facilitating dispute resolution and removal of labor rigidities in the Special Economic Zones Act, approve budget consistent with fiscal responsibility and budget management act, improved responses to audit queries by the Accountant General, maintenance of timely budget resource releases, establishment of internal audit unit, implementation of the public enterprise reform program (restructuring and privatization), financing of anti-corruption agencies, increase in school transition rates. Second tranche conditions include measurement of agricultural electricity consumption at the feeder level. A social-safety net program has been used to address the social impact of the public enterprise reforms to ensure interest of workers and consumers are protected. The latter includes a voluntary retirement scheme, counseling and retraining.	The operation has 11 conditions and the matrix contains 56 actions in total, exceeding typical Bank practice. The matrix describes the broader program of the government and covers a wide range of activities. The presentation in the policy matrix as regards concrete policy actions is clear, and these have a strong justification in terms of their criticality. However, the formulation of prior actions in the text, which often are set up to cover a number of separate actions described in the matrix, is less transparent.	The policy matrix lays out transparently and clearly the sequencing of reform actions under the program, including next steps. (However, it does not clearly separate second-tranche conditionality from triggers for possible future support.) The matrix contains a set of outcome indicators and baselines, a significant strengthening of this aspect since inception of the program. Monitoring takes place regularly, but the anticipated financing is not annually but dependent on both progress made and decisions by the government of India regarding state financing needs. Nonetheless, financing volumes are incorporated in the state budget financing decisions in a timely manner once the program has progressed and preparation of an operation begins.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Mozambique	PRSC-3	The government program supported by the operation has been laid out in the second action plan for the reduction of absolute poverty (PARPA II). It is structured around three pillars of (i) governance; (ii) human capital; and (iii) economic development. The government has a strong track record of successful policy implementation since the recovery from civil conflict. Analytic underpinnings include PERs, CEMs,a CFAA, a CPAR, a public financial management and fiduciary risk assessment by several donors, and a PEFA assessment.	The performance assessment framework (PAF) agreed by government with all 18 budget support donors constitutes the single accountability framework. It contains both policy actions and indicators to assess progress under the program. Sector working groups and a budget working groups are mechanisms fostering harmonized reviews of policy implementation.	The Bank's support for the government's program focuses on a subset of actions under the three PARPA pillars that also define the framework of the PAF. In particular, prior actions include budget execution, further rollout of budget management system, creation of central revenue authority, increase of budget of own revenues for key ministries, implementation of new procurement system up to district level, definition of criteria for allocation investment budget, definition of business start-up procedures.	The operation has seven prior actions selected from the PAF, and no benchmarks. These actions have been selected for their critical contribution to moving the influence the targeted results and focus on areas of close Bank involvement in the policy dialogue.	The policy matrix, drawn from the PAF, describes current and future anticipated actions. It also includes a set of outcome indicators drawn from the PAF. Progress reviews take place as part of the biannual supervision of PAF implementation by the 18 budget support donors and focus on achieving the targeted results of the PARPA/PAF. The review process is explicitly designed to allow for an early announcement of planned support volumes in order to permit the government to include these into the budget early during the budget preparation process (in April-May for a January-December budget). PRSC-3 was approved and disbursed early in the budget year, assuring early availability of funds in the budget year.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Haiti	Economic Governance Reform -2	The government program supported by the operation builds on the interim PRSP and the Extended Interim Cooperation Framework prepared by the government in 2006. It benefits from strong endorsement by representatives of Haitian society, Parliament, and donors. Following the successful transition to elected representation, a track record of policy implementation is emerging and previous Bank support has seen steady policy implementation. The Bank jointly with IDB has prepared analytical work (a Public Expenditure Management and Financial Accountability Review, PEMFAR), which will inform the design of governance reform and the content of the full PRSP. The PEMFAR action plan will be the unique policy matrix for public finance reforms in Haiti over the next 3-5 years.	The Bank's support is summarized in a brief and focused policy matrix. The matrix draws on the IPRSP and the Extended Interim Coordination Framework of the government, which have been the government's main strategy documents, and therefore the basis around which donor interventions have been planned. The Bank closely coordinates with the IDB on governance matters, and cooperates with the EU, Canada, and France, on governance reforms and conditionality for budget support	The government, based on the experience with EGRO I explicitly requested a two-tranche operation. Bank support does not include any sensitive policy reforms but instead draws on core fiduciary and governance analysis to promote efficiency, transparency and accountability in the management of public finances and public enterprises. Prior actions include budget preparation and submission to parliament on time, preparation of budget execution reports and publication of audits of treasury accounts, compliance with the procurement decree, adoption of standard bidding documents, improvements in human resource management, completion of audits of key public enterprises, monitoring of public resources allocated to the electricity sector, competitive procurement of power, and publication of CSO monitoring reports of reforms..	The Bank's policy matrix uses a limited set of conditions (15 in total, of which 9 for the second tranche). It does not contain benchmarks. Conditionality is focused on critical steps, including adoption of laws, for the governance agenda. Conditions also address issues of transparency and accountability..	As agreed with the government, the two-tranche operation was timed to the country's budget cycle (October-September fiscal year) with fulfillment of second-tranche conditions expected at the beginning of Haitian FY08. While slow implementation of some reforms has delayed this by a few months, the second tranche is still expected to disburse in Haitian FY08. Financing will therefore have been spread over two fiscal years. The policy matrix contains a limited number of outcome indicators, which will be assessed as part of the operation implementation and are closely linked to the supported policy actions.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Mali	PRSC-1	The government program supported by the operation is spelled out in the Growth and Poverty Reduction Strategy for 2007-11. It articulates (i) promotion of rapid growth through wealth and employment creation in a stable macroeconomic framework through key activities in the rural sector, mining, infrastructure, and services; (ii) strengthening public sector performance through deepening of ongoing reforms in the institutional, governance, economic and social areas. Analytic underpinnings include an education country status report, gender assessment, poverty assessment, cotton PSIA, oil price impact study, health country status report and services utilization study, PEFA, technical assistance for MTEF preparation, a CEM, investment climate assessment, integrated trade diagnostic study, transport study, irrigation study, an integrated value-chain analysis.	The policy matrix serves as key accountability framework for the PRSC series. The policy agenda agreed with government has also been endorsed by other donors. In the health, education, and water sectors donors have agreed to collaborate under sectorwide approaches. A budget support group has been created in Mali and the matrix will be aligned with a joint donor matrix going forward.	The policy matrix summarizes the areas of Bank support under the components of (i) strengthening public financial management, (ii) support to growth; (iii) access to basic social services. Prior actions include implementation of the public financial management action plan, adoption of the recommendation of the revised CPAR, agreement between government and commercial banks to improve loan procedures and strategy for portfolio clean-up, adoption of a law to use a unique ID number for businesses, inclusion of road use fee in petrol import price structure, continued implementation of the cotton price mechanism, definition of cotton zones to privatize validated by stakeholders, adoption of operational scheme for cotton company privatization, study to improve financing aspects of private irrigation, confirmation of additional resource transfer to health and social development ministries. The program document contains a detailed annex on cotton sector issues as well as a summary of the findings of PSIA on cotton prices.	The operation has 10 prior actions and 15 benchmarks. The actions have been selected from a broad range of policies under implementation in different sectors. The majority focus either on implementation of strategies or on legal changes. Three actions are related to government interactions with commercial banks, studies irrigation, and adoptions of CPAR, which appear necessary for the targeted results, but with focus on process.	The policy matrix lays out transparently prior actions and expectations for future support. It also contains a set of clearly defined and measurable indicators, with baselines for the beginning of the program, facilitating results-focused progress reviews. Based on lessons learned from previous operations, the progress reviews are being aligned with government and donor review cycles to announce and confirm Bank financing decisions before the beginning of the fiscal year in January. The volume of this operation was included in the budget for 2007.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Armenia	PRSC-3	The government program supported by the operation was laid out in the 2003 poverty reduction strategy paper (PRSP). It was prepared through a broad consultative process and emphasizes (i) promoting sustainable growth through macroeconomic stability and private sector development; (ii) enhancing human development and improving social safety nets; (iii) implementing prudent fiscal policies and reforming the tax system; (iv) improving public infrastructure; and (v) improving core public sector functions. Analytic support for the strategy included an economic report on sustaining growth, a note on customs administration, programmatic PERs on current budget, health, infrastructure, and integrated budget management, a programmatic poverty assessment, annual business surveys, a corporate governance ROSC, and FSAP update, a civil aviation study, a study on labor dynamics, a country environmental analysis, rural economy and infrastructure studies.	The policy matrix summarizes a sequencing of actions over three operations, and the program document also defines actions agreed with the government to evaluate progress for follow-on support. Under different components of the program, close coordination takes place with donors present in those areas (e.g., with DfID and the EC on governance and PFM management; with UN agencies and DfID on social sectors; and with USAID and MCC on financial sector reform). Some donors are co-financing the PRSC.	The policy matrix is organized along the themes of (i) consolidating macroeconomic discipline and strengthening governance; (ii) sharpening competition and entrenching poverty rights; (iii) mitigating social and environmental risks; (iv) modernizing the rural economy. The mapping from PRSP into these themes is provided in the program document. Prior actions include the introduction of taxpayer self assessment, implementation of direct trade input at major customs houses, liberalization of civil aviation, development of telecommunication regulatory policy to enhance competition under current commercial arrangements, improvements in secured property transactions, design reform of pension system as multi-pillar framework, implement rationalization program in hospital sector, implement plan for agricultural extension, research, and education, implement rural infrastructure action plan. Mitigating social risks is an explicit part of the supported program, including through social protection measures.	The operation has nine prior actions and 24 benchmarks across a large number of policy areas. The majority of actions have been picked as critical activities implementing strategies and action plans developed over the series of operations. The matrix size has been refocused since PRSC-2.	The policy matrix (developed by government) lays out a transparent sequence of actions and expected results. The government and the Bank are engaged in quarterly reviews aligned with the PRS, and the third PRSC followed the second after 14 months. The results focus of reviews is fostered through a detailed monitoring framework that includes baselines, intermediated targets, and program targets with annual updates of indicators. Support volumes are announced well in advance and are included in the budget.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bulgaria	SIR DPL-1	The government program supported by the operation is laid out in comprehensive health and education strategies prepared by the government in 2006-07. The health strategy includes a mix of short-term actions to stabilize the sector and medium- to long-term structural reforms to respond to demand in a cost-effective manner. In the education sector, the government's objective is to improve education quality and increase access to education for all children. In addition the government intends to improve labor market outcomes and social protection. In all areas, analytic work has been undertaken in the form of policy notes and technical notes, technical assistance in compiling and analyzing data. Poverty and living standards will be monitored through programmatic work on poverty to set baselines and measure the impact of reforms over time.	The policy matrix describes actions in three phases through 2009 as agreed framework for measuring progress under the program. The government has taken the leadership in ensuring effectiveness of different interventions through its own council for economic policy, and the Bank also has maintained close cooperation with the open society institute and the EC, which are active in the education, health and social protection areas.	The policy matrix covers two broad objectives: (i) increase employment and lay the foundations for long-term productivity growth by providing incentives for job creation and improving quality of education; and (ii) promote fiscal sustainability through efficiency gains in social sectors and improve access to basic social services. Prior actions include revisions to the labor code (increasing flexibility of working time), lowering of social insurance contributions, introduction of a bonus for the unemployed who find employment, promotion of labor market integration of people with disabilities, student performance assessment pilot, begin implementation of strategy to introduce information technologies in schools, increase health insurance premium revenue, unify payment mechanisms for hospitals, limit insurance payments to hospitals, enact changes to improve pharmaceutical approval, pricing and reimbursement policies, new financing formula for allocation of funds to municipalities for schools, unified standards for schools and school consolidation. There is a careful review of poverty and social impacts as well as a close monitoring under programmatic poverty assessments.	The operation has only 10 prior actions and no benchmarks. The actions are strategically focused on key actions across the different reform areas of education, health and social protection.	The policy matrix lays out the program transparently and sets clear expectation for implementation through the three-phases of the program. Progress reviews take place through quarterly government reports. Close dialogue will allow the government to reflect Bank financing in its financial planning. The policy matrix identifies results anticipated through the program in form of indicators. Government agencies are collecting baseline data as well as follow-up information, including through a multi-topic household survey to measure the impact of reforms along these indicators.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Vietnam	Program 135/2	The government program supported by the operation is a subset of the program laid out in the five-year socio-economic development plan (SEDP) for 2006-10. Program 135-2 is a second phase of a program for socio-economic development in commune facing extreme hardship in ethnic minority and mountainous areas. Its objectives are to (i) facilitate significant improvements in the production of knowledge and to accelerate a shift toward higher value-added commodities; (ii) to sustainably improve socio-cultural life of people living in communes facing extreme hardship;(iii) by 2010 eradicate hunger in the targeted areas and reduce poverty below 30 percent. Analytic underpinnings include poverty mapping, household surveys, the government's evaluation of the first phase of the program, DFID-supported studies of the impacts of sedentary activities and on the environment, PER, study on lessons of CDD programs in Vietnam, study on commune budgeting, study on local governance, social assessment, assessment of pro-poor agricultural extension services by an NGO working group.	The policy matrix lays out the program over a period of 2006-2010, describing activities against which government and the donor community agreed to measure progress. Five other donors have joined the Bank in providing coordinated budget support using the same policy matrix and results framework. Others are considering aligning their support with this explicit accountability framework.	The policy matrix is organized under the areas of (i) poverty targeting; (ii) decentralization, participation, and empowerment; (iii) fiduciary transparency and accountability; and (iv) mentoring and evaluation. Prior actions focus on selection and allocation criteria for beneficiary communes, provision of production/livelihood support, communication strategy, commune readiness to assume investment responsibility, resources for capacity building, public financial management processes, audit, exemption of the poor from cash contributions and use of paid local labor, indicators to be used for M&E.	The policy matrix is focused and has only 11 prior actions. The first operation is centered on adoption of key guidelines and policies to implement the second phase of program 135 across range of policy areas.	In a transparent manner, the policy matrix presents actions taken and expected next steps under the program. The program matrix also provides outcome indicators, but these indicators are often defined as findings of future surveys or verification (as part of an M&E process), thus making it more difficult to understand the exact link with the actions. The operation incorporates support for M&E as an integral part of the program, and thus fosters results-focus through the operation itself. Progress review take place twice a year, and reviews will be time so as to permit inclusion of financing volumes into the budget in a predictable manner.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Cape Verde	PRSC-3	The government program supported by the operation is based on the growth and poverty reduction strategy paper (GPRS). Government priorities under five pillars are (i) good governance and reform of the state; (ii) private sector development; (iii) human development; (iv) infrastructure development; (v) social security and solidarity. Key analytic underpinning include an MDG report, a poverty assessment, a governance report, an education and training sturdy, a social protection strategy, environmental policies, a public expenditure review, a CFAA, and a CPAR.	The policy matrix covers three years of implementation, with the third PRSC being the last in the series. The policy matrix for this operation is part of a joint policy matrix agreed by government with six budget support donors (IDA, Netherlands, EC, AfDB, Austria, Spain). All donors use a single matrix and the results of biannual reviews to justify their disbursements.	The policy matrix contains measures under the first, third, fourth and fifth pillar of the GPRS. Prior actions focus on budget execution, arrears clearance to state utility and tariff adjustment to compensate for elimination of fuel subsidies, submission of accounts to parliament, reorganization of state auditor, approved draft of national procurement code, integration of human resources database with framework civil service law, expansion of social protection coverage, functionality of national pension center, monitoring and evaluation action plan implemented. A PSIA on the elimination of fuel subsidies was undertaken to inform the program.	The policy matrix contains 10 prior actions and 11 benchmarks. They focus on activities critical to achieve the targeted results, and represent an effort to reduce the size of the policy matrix compared to earlier operations.	The policy matrix transparently sets out the sequencing of reforms under the program supported by the Bank. Results indicators for each of the policy areas are clearly identified and measured against baselines for the beginning of the program. Joint donor reviews take place twice a year at times mutually agreed with government, and review progress against actions and results. The operation has also a strong focus on improving M&E, fostering results-focus into the government's internal review mechanisms. The PRSC disbursement cycle remains misaligned with the budget cycle, being unable to catch up in 2006-07 due to elections. However, as PRSC amounts were announced early on, at the beginning of the series, and provided without unchanged amount, the government fully included the PRSC in its budget.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Macedonia FYR	PDPL-2	The government program supported by the operation is based on its election manifesto (rebirth in 100 steps). Its key elements include fiscal policy reform, infrastructure development, overhaul of market institutions, and improving governance. Analytic support includes a CEM (2003), an FSAP, a CFAA and CPAR (2003), a judicial reform assessment (2005), a ROSC on corporate governance, a study on bank governance.	The policy matrix lays out a sequenced three-year program as agreed accountability framework. The framework has been coordinated with other donors (EC, USAID, European Agency for Reconstruction, Netherlands), all of which support some of the components of the DPL in a parallel fashion, often through technical assistance.	The policy matrix lays out reform actions under the pillars of improving the investment climate and strengthening public sector governance. Prior actions include a new court law, a law on misdemeanors, a new bankruptcy law, an administrative dispute law, implementation of a regulatory “guillotine,” revised civil service salary structure, amendments to the health insurance law, regulation on contracting and management of the health insurance fund. There are no reforms in sensitive areas.	The policy matrix has nine prior actions and 20 benchmarks. Policy actions selected as conditionality focus on legislative changes and regulations across a range of policy areas that underpin the targeted results.	The policy matrix transparently describes the actions taken and anticipated next steps. The program document also describes carefully how the program has been adapted to priorities of the newly elected government. Progress reviews take place regularly and allowed to anticipate the volume of support of this second operation in the series in the 2007 budget. The policy matrix identifies a set of overarching results for each policy area and related monitoring indicators against baselines, orienting the review processes on the ultimate objectives.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Albania	DPL-1	The government program supported by the operation is described in the 2001 National Strategy for Social and Economic Development (NSSED), with a recent progress report in 2006. Analytic work includes the CEM (2004), a poverty assessment update (2006), a FSAP (2005), a public expenditure and institutional review (2006), a health policy note (2006), a social insurance review (2007), a CFA (2006), and a PEFA assessment (2006).	The policy matrix summarizes the government program over a three-year time horizon. Under the leadership of government, the Bank works with other donors, and the policy matrix serves as coordinating tool, although not as a joint disbursement framework. Across the different sectors donors include the EC, DfID, SIDA, Netherlands, USAID, UNDP, Japan, MCC, Swiss Development Cooperation, WHO, KfW, EIB, IsDB, Austria, Italy, Luxembourg and Norway.	The policy matrix describes the Bank's support under the areas of (i) improving the investment climate for private sector-led growth; (ii) improving fiscal sustainability and effectiveness of public service delivery; and (iii) improving government effectiveness. Prior actions focus on removing superfluous licensing arrangements, new concessions law embedding transparent bidding system, establishment of non-banking financial regulator, reduction of health insurance expenditure through (a) new positive list of drugs, (b) co-payments, and (c) use of cheapest drug with therapeutic value, improved public investment management, new procurement law, compliance with civil service law. The health reform measures have been identified as having a possible impact on the poor, and the Bank recommended reviewing adjustments to the cash transfer program to compensate for its impact. PSIA is also being conducted for planned water tariff adjustment. Tracking of poverty impacts will take place through a 2008 household survey to make adjustments to the cash transfer program.	The policy matrix contains seven prior actions and 12 benchmarks. Prior actions are focused on critical steps across several sectors.	The policy matrix lays out actions taken before the operation and transparently describes next steps to set expectations for future support. It is expected that regular reviews will foster agreement on processing follow-on support in time to be included in budgetary financing decisions, as was the case for the 2007 support. The matrix contains a set of outcome indicators. The measurement of these indicators is specified in a separate results matrix that provides baseline values and targets for outcomes. The results matrix also identifies government agencies responsible for implementation.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Tanzania	PRSC-5	The government's program is laid out in the 2005-10 PRSP, known as MKUKUTA. It is informed by "Tanzania's Vision 2025" and has an increased focus on growth and governance compared to the first PRSP. The MKUKUTA benefited from broad-based consultations of Parliament, civil society, faith-based groups, private sector, districts and villages, and donors. It is based on targeted outcomes for (i) growth and income poverty; (ii) improvement of quality of life and social well-being, (iii) good governance. Actions and interventions to achieve targets are identified in the MKUKUTA. Analytic work includes fiduciary work (annual public expenditure and public accountability report), political economy of reform, sector work in education, health, water, and agriculture (based on preferences of government expressed during annual sector reviews), a study on sustaining and sharing growth, investment climate assessment, trade integration study, and PSIA work.	The program document includes a performance assessment framework of outcome indicators, underlying processes for progress reviews, and actions agreed among all budget support donors as the central accountability framework for assessing progress. The performance assessment framework (PAF) also contains actions related to "satisfactory progress review" in sectors, the meaning of which has been agreed and defined between donors and government. Including the Bank, 14 donors are part of the PAF review.	The PAF is organized in six themes representing the three MKUKUTA clusters with additional details presented regarding (i) resource allocation and budget consistency; (ii) public financial management; and (iii) macroeconomic stability. The PAF identifies underlying review processes and contains policy actions. For PRSC-5, the Bank's prior actions were necessarily derived from the accountability framework established prior to the PAF. Prior actions included consultations for crop board reform, business registration and licensing reform, draft roads bill, budget allocations in line with the PRS, expenditure outturns consistent with budget allocations, national audit report issues, satisfactory review of health sector, education sector, and water sector. Crop board reforms and business licensing were subject to PSIAs. There are no conditions in sensitive areas.	The list of prior actions is short with nine actions. The operation does not use benchmarks. Actions represent a core element of the policy dialogue across several sectors, and in harmonization with all other budget support donors.	The operation sets out transparently prior actions and expectations for future engagement as part of the agreement between donors and government. Some of the prior actions and triggers use umbrella formulations ("satisfactory review") and thus are less transparent as regards underlying expectations, but at the same time they reflect understandings between government and donors and avoid parallel reviews and reduce duplication by donors, and allow focusing sector work on results rather than individual actions. Harmonized reviews take place in October and information about future financing volumes is made available by January, in time to include the ultimate support volume, which reflects performance under the program, in the budget for the following year (running from July through June). The new PAF also centers on measurement of results and thus the joint framework fosters results-focused interventions by all budget-support donors.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Uganda	PRSC-6	The government program supported by the operation has been set out in the third poverty eradication action plan approved in November 2004. The PEAP has five pillars— (i) economic management; (ii) enhance production, competitiveness, and incomes; (iii) security; (iv) good governance; (v) human development. Analytic underpinnings include PER (2005), a recently completed CEM, a diagnostic trade integration study (2005/06), an investment climate assessment (2004), a gender and growth assessment (2006), a public financial management performance report (2006), as well as several studies covering health and education.	The policy matrix is a subset of actions of the government's own PEAP implementation matrix. All budget support donors use the government's matrix and are in the process of formalizing a joint budget support mechanism enhancing the existing collaborative arrangement.	The policy matrix as a subset of the PEAP implementation plan is fully aligned with the government's expressed program. The Bank's support focuses on (i) macroeconomic stability and private-sector led growth; (ii) competitiveness, agricultural production, (iii) public financial management, corruption, public sector performance, local government service delivery; and (iv) education, health, and water services. Prior actions include agreement on budget priorities, investment climate program, accountant general office, audit bill, public procurement, anti-corruption actions, asset verification of public officials, study on public service, and satisfactory progress against sector review undertakings in agriculture, decentralization, health, education, and water. There are no prior actions in sensitive policy areas.	The policy matrix has 11 conditions and no benchmarks. Many actions are "umbrella" undertakings for sectors and thus underlying activities can only be gauged by looking at the detailed recommendations of sector reviews. Details on sector review undertakings are provided in the annexes for the program document that largely confirm the critical aspects of the supported areas. At the same time, they indicate the possibly wide range of activities that underneath satisfactory sector reviews.	The matrix lays out the actions completed under previous operations and actions anticipated for future support. Although, as mentioned in the previous column, some of the prior actions and triggers appear less transparent by using umbrella formulations, at the same time they avoid parallel reviews and reduce duplication by donors, and allow focusing sector work on results rather than individual actions. The PEAP matrix, reflecting lessons learned over the past two PEAPs, includes a transparent and clear set of results that are the subject of annual reviews, demonstrating strong results focus of the PEAP and PRSC (using a subset of indicators). The entire PEAP policy matrix is now being used for annual reviews under the program, intended to create an improved setting for predictable support. The Bank's support, which in 2005-06 and 2006-07 was delayed and reduced in volume as implementation speed slowed over the electoral period, is now being aligned with the reviews to strengthen predictability.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Morocco	Water Sector-1	The government program supported by the operation responds to the priorities identified by the interministerial water commission in 2005. It reflects a sum of the agendas of several ministries along four reform tracks (i) strengthened sector governance and leadership; (ii) completion and enactment of integrated water resources management reform; (iii) improved service, sustainability of assets, and productivity of applications in irrigation; (iv) better access to water and sanitation services and increased wastewater treatment capacity. Consultations took place in the form of the national debate on water. Analytic underpinnings include a sector policy note (2004), water supply and sanitation REDI (2004), a sector financing study (2006), a CEM (2006), environmental work and a PSIA of select reforms (2006).	The policy matrix lays out the reform program in a sequenced manner over a three-year period. The policy matrix was designed to expand on results of prior operations by the EC and AfDB in close collaboration with these institutions. Other donors—AFD, JBIC, KfW, EIB, and MCC were kept closely appraised of the contents of Bank support, and several (Belgian cooperation, AFD, KfW) are supporting technical assistance work.	The policy matrix which is a subset of the government's own reform matrix lays out the government's own program along the same pillars described in column 1. Prior actions include functioning of the water committee, TOR or water organization study, establishment of river basin committees, publication of by-laws for municipal and industrial pollution charges, subsidy for irrigation conversion, increase in maintenance budgets, adoption of national sanitation program, adoption of water service delegation law. As part of the reform program water tariff adjustments to better target subsidies, promote connection, and reduce waste were studied in a PSIA as was the adjustment of tariffs and subsidies to promote efficient irrigation technologies. A follow-up PSIA is under way to guide further tariff reform design.	The sub-matrix defining the Bank's support framework contains 9 prior actions and 9 benchmarks. (The government itself provides a broader matrix of reforms as a coordination tool among ministries). Prior actions have been selected for the critical and strategic aspects.	The policy matrix lays out a clearly sequenced program with transparent indicators to measure progress. Output and outcome indicators are specified with a heavy focus on processes and outputs, somewhat diminishing the ability to gauge the ultimately targeted impacts. As the program progresses, the government and the Bank will agree on follow-on support volumes, in time to incorporate them into the government's management of its budget financing needs.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Pakistan	PRSC-2	The government program supported by the operation is spelled out in its PRSP of December 2003. The strategy contains the pillars (i) accelerating economic growth while maintaining macroeconomic stability; (ii) improving governance and devolution; (iii) investing in human capital; (iv) targeting the poor and the vulnerable. A second PRSP is under preparation. PRSP monitoring is facilitated through annual and quarterly progress reports tracking pro-poor spending and intermediate indicators. Twenty-one different pieces of analytic work, often prepared with other donors (ADB, DfID, USAID, Japan) underpin the policymaking process since 1999, including a growth and export competitiveness report (2005/06), an investment climate assessment (2002/03), a labor market study (2006/07, public expenditure and financial management reviews on the national and provincial level, tax policy program, social protection work, and a gender assessment.	The policy matrix describes past and future actions under the government's program. The government has indicated that the PRSC matrix should serve as the basis to coordinate and harmonize budget support from DfID and potential other program support from the EC, the US. The Bank actively promotes further harmonization at national and provincial levels with other providers of budget support.	The policy matrix—laid out as implementation program for the PRSP—is organized along the pillars of the PRS described in column 1. Prior actions cover tax administration reform, new labor laws (including enhancing female labor supply), privatization of (i) national refinery, (ii) Karachi electricity supply, and (iii) Pakistan telecommunications corporation, gas pricing reform to better target subsidized prices to low-income households, issuance of distribution company-specific electricity tariffs, budget preparation, financial management, teacher qualifications, education expenditure, conditional cash-transfer program pilots in education and health, disease surveillance, and funding for the food support program. The program document does not detail the distributional effects of the privatization, labor market, and gas pricing reform. However, for the given poverty profile, allowing better to access to labor markets for women likely has a positive effect. Also, the explicit rationale for the change in the gas pricing structure is to improve the distributional aspects of the implicit subsidy for low-income households.	The policy matrix contains 14 prior actions and 30 benchmarks. Both are on the high side for recent Bank operations and explained by the use of the PRSC matrix as a PRSP implementation matrix by government. The prior actions selected are strategic and of high impact.	The second operation follows on the first PRSC after only 2.5 years. Based on regular progress reviews and joint assessments by government and the Bank, the operation was timed to the progression of PRSP implementation rather than kept on the annual cycle typical for other PRSCs. Given the variety of financing sources, the timing did not cause financial shortfalls for the budget, and instead the ultimate timing allowed for its approval 2 month before the 2007-08 budget. The PRSC matrix—as PRSP implementation instrument—includes a set of well defined outcome indicators, many of which have baselines or are defined in terms of annual percentage changes. The review of outcomes (and not only actions) over the PRSC approval cycles reinforces the results focus of the program, and indeed several originally anticipated actions were adapted to take account of new information.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Ghana	PRSC-5	The government program supported by PRSC-5 is based on the second Ghana Poverty Reduction Strategy, which was developed through a broad consultative process including at regional and district levels, with budget departments of government agencies, and at a national stakeholder conference. GPRS II has three strategic pillars—private-sector led growth and poverty reduction, investing in vigorous human resource development, and encouraging good governance and civic responsibility. Analytic underpinnings include poverty update, and work on natural resource management, electricity, petroleum sectors, youth employment, investment climate, urban development and a country economic memorandum, as well as external reviews of public financial management. Needs for poverty and social impact analysis continue to be identified by government with donors annually, and have, inter alia, looked at the impact of power reform.	The policy matrix describes a set of past and future reform actions, as well as anticipated outcomes. The PRSC is part of a concerted effort with other development partners under the Multi-donor budgetary support framework. With the government in the lead, MDBS donors define annually a joint matrix of policy actions and outputs or outcomes, quantified wherever possible. In this particular case, the Bank defined its budget support separately as other donors were realigning their decision-making and disbursement cycles to improve predictability.	The joint MDBS matrix reflects and closely corresponds to government priorities across the pillars of (i) promoting growth, income, and employment, (ii) improving service delivery for human development and (iii) improving governance and public sector management. Prior actions included improved management of pension assets, earmarking of budget resources for compensation to the power company, survey of plantation forests, reduction of teacher vacancies, scale-up of health spending, improved payroll management, budget, and procurement reform. There were no conditions in sensitive areas.	The policy matrix contains eight prior actions and 18 benchmarks for this operation, and these reflect the government's own policy documents. The prior actions are identified and discussed for their criticality in an explicit manner in Table 7 of the program document. An effort has been made to reduce the size of the policy matrix from the size originally anticipated in PRSC-4.	This is the second operation in a new series, showing prior and future actions. It is being delivered as a transitional operation in an effort of achieving full alignment of the budget cycle and MDBS processes in 2008 (as part of the transition other donors made disbursement on the basis of an assessment in the prior year). The new schedule allows informing the government about resource envelopes before the submission of the budget to parliament. The timing of reviews is set as to coincide with the completion of annual progress reports of the GPRS. The annual reviews promote results focus though the link with outcomes of the policy actions in the MDBS matrix. The latter implicitly reinforces the results aspect of the GPRS reviews.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Namibia	Education	The government program supported by the operations was adopted as a 15-year strategic plan for the education and training sector improvement program (ETSIP) in 2005. The five strategic objectives of the plan are to (i) equitably expand post-basic education and training, (ii) improve education quality and effectiveness, (iii) improve equity in the distribution of education inputs and learning, (iv) more effectively mobilize resources required to finance the sector and use these resources; (v) strengthen capacity and respond to adverse affects of HIV-AIDS. ETSIP was developed on the basis of a Bank-supported study launched in 2003, whose recommendations were adopted in 2004	The policy matrix sets out the prior actions for the operation and triggers for follow-on support. A joint operation policy matrix for the initial five years of the program was endorsed by development partners that may provide direct budget support. Overall the program is supported by 13 development partners, who endorsed a memorandum of understanding and an internal coordination framework. The Bank serves as the lead technical agency, the European Commission as lead coordinating agency.	The operation is the first lending operation for the Bank in Namibia. The government's strong interest in the overall program and the Bank's support are reflected in the willingness to access resources at IBRD terms while grant resources from other donors were available. The Bank's program is formulated along the five elements of ETSIP. Conditions are formulated in all areas and are mostly concerned with policy formulation and enhancement. There are no policy reforms in sensitive areas.	The operation contains 10 prior actions and 25 benchmarks. These are already extracted subsets of actions under the program. A number of prior actions involve adoption of action plans, and thus their criticality for the results targeted by the operation over the cycle of two DPLs is not immediately apparent. However, the Bank financially supports the critical initial phase of the program, with other donor support being phased in over time, and thus is more focused on "paper" actions.	The matrix transparently lays out the first sequence of reforms, criteria for moving to a second operation, and anticipated early results of the program. Given the shifting from financial to only analytic support for the Bank after two operations, the Bank's support is geared to be predictable over that period based on a one-year joint donor review cycle, with the needs for such predictability continuing under annual donor reviews. The joint donor framework agreed with government focuses on the anticipated results and promotes an adaptation of policy actions over time to readjust the program during the annual reviews.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Afghanistan	PSIB-3	The government program supported by the operation is laid out in the interim Afghanistan National Development Strategy (I-ANDS) around five areas (i) promoting security and rule of law; (ii) maintaining macroeconomic stability; (iii) strengthening public administration and fiscal management;; (iv) enhancing human development and (v) promoting private sector development. The strategy was adopted after wide-ranging consultations. Analytic support for the strategy was provided in the form of a 2004 economic report, 2006 poverty analysis, fiduciary and expenditure analysis in a public finance management review (2006), analysis of sub-national administration (2003), public administration reform (2006), anti-corruption (2006), financial sector reform (2003), investment climate assessment (2005), and a note on privatization strategy (2007). The text mentions that the public administration reform encountered some resistance internally, but the government remains strongly committed to pursuing it. The document also notes that electricity tariff increases were only included in the reform package when their necessity had been reviewed and ownership ensured. The Bank has supported restructuring of SOEs and better regulation rather than outright privatization.	The policy matrix agreed with the government serves primarily to monitor progress under the series of PSIB operations, and is tightly linked to government strategy documents as well as donor support and the performance assessment framework under the Afghanistan Reconstruction Trust Fund. Overall aid coordination under a budget support umbrella remains constrained by the preference of most donors to disburse through the Bank-administered ARTF with separate fiduciary requirements. The program document gives a detailed list of involvement of donors in different areas.	The Bank's support to the government program is organized under the areas of (i) development a development strategy; (ii) maintaining macroeconomic stability; (iii) strengthening public administration and fiscal management; (iv) state-owned enterprise restructuring. Prior actions relate to approval of a budget consistent with medium-term planning, approval of a civil service reform plan, merit-based recruitments, payroll reform, improved eligibility of ARTF, new PFM regulations, submission of budget accounts, improved procurement procedures, corporation and partnership law, amendments to insurance law, SOE restructuring policy, and electricity tariff increase. In addition, benchmarks refer to the liquidation of illiquid commercial banks. The poverty and social impact of SOE reform and restructuring were reviewed with a view to the government's severance pay package and safety net policy, which were found to be adequate. The impact of electricity tariff increases was also reviewed carefully in PSIA, which found limited negative impact on the poor in the short term, and possibly positive effects in the medium-term. Finally, the Bank will monitor any potential impact from public administration reform.	The operation contains 12 prior actions and 22 benchmarks. Prior actions are generally focused on legal and institutional actions that are part of a medium-term institution-building strategy. Other actions represent concrete implementation steps of laws or agreed processes (i.e., on recruitment). Overall the document makes a clear case for the criticality of the actions within the medium-term setting of the program.	The program matrix lays out actions taken under the program as well as expected next steps. Over the course of the first three PSIB operations, expectations for next steps were laid out clearly in the policy matrix, but applied with sufficient flexibility given the difficult country context. Progress reviews against the program are conducted every 4-6 months. As regards the timing of disbursement, the operations were timed to allow balancing performance and predictability in a fragile environment with difficult political circumstances and weak capacity. The operations were therefore not timed directly with the budget cycle, and thus did not cause disruptions as the government received resources for the bulk of its spending through ARTF.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bangladesh	DSC-4	The government program supported by DSC-4 has been detailed in the poverty reduction strategy paper, released in November 2005. This strategy was also endorsed by the current caretaker government, which reinforced the focus on good governance and anti-corruption measures included in the original program. The PRS focuses on (i) employment generation, (ii) nutrition; (iii) maternal health; (iv) quality of education; (v) sanitation and safe water; (vi) the criminal justice system; and (vii) local governance. Other priorities are access by the poor and good governance. The different policies benefited from a variety of analytic underpinnings, such as fiduciary work and economic work on trade, as well as sector work on energy reform. The program document acknowledges strong ownership of the governance reform agenda of the caretaker government, but also notes some opposition by vested interests on trade reform and energy reform.	The policy matrix lays out past reforms and the actions taken in support of the current operation, which is the last in a series. Although the policy matrix serves primarily as the justification for the Bank's operation, it is consistent with the medium-term reform matrix developed as part of the CAS jointly with ADB, DfID, and Japan.	The policy matrix organizes the supported actions under the pillars of (i) strengthening core governance and (ii) strengthening the investment climate. These represent two of the PRS pillars. Prior actions were included in areas of public financial management and procurement, revenue collection, trade liberalization (reduction in the average nominal protection by 2 percentage points), restructuring of public banks, good governance in energy sector procurement, energy tariff increases to put the energy sector on a financially sustainable basis. Trade liberalization and its impact have been reviewed in a Bank study in 2005, and PSIA work on energy prices has been conducted by the Bank in 2007.	The operation contains a total of 11 conditions and 14 benchmarks. It has been streamlined from prior DSCs and been refocused on a core agenda supported by the Bank. The criticality of most actions is easily established and a strong weight is placed on good governance through the policy matrix—including procurement of new power generation. The plan for the financial viability of the power sector with a combination of subsidies and tariff increases, as well as reduction of arrears by SOEs to the power sector, are also well defined. By contrast, the importance of the definition of the organigram of the anti-corruption committee is not immediately apparent.	The program document transparently lays out a sequence of actions under the program as well as expectations for any follow-on support. The timing of the operation was delayed beyond the point originally requested by the government because of the approaching electoral process and slower-than-anticipated implementation of key actions. The operation was still delivered within the government's fiscal year for which it was originally intended. The policy matrix lays out anticipated results of the program that are closely linked to the reform program. Relatively few of the indicators are measured against benchmarks.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Morocco	Energy-1	The government program supported by the operation was developed in response to growing concerns about the dependency on energy imports and price risks. The government's energy program includes four strategic areas (i) energy security and sustainable development; (ii) energy sector productivity; (iii) government budgetary exposure in the energy sector; and (iv) energy policy monitoring, evaluation, and communication. Analytic work, mostly funded by the energy sector management assistance program, have been conducted (including based on household survey data) to assess social, environmental, economic, fiscal, and budgetary impact of government policies.	The policy matrix lays out the reform program in a sequenced manner over a three-year period. The EC is also actively supporting the agenda through a technical assistance program. The operation discusses the risks associated with the fuel price adjustments and potential future butane price adjustments under the supported program, as well as the government's communication strategy on these matters	The government of Morocco sees the energy area as one of the key issues to enhance the country's development prospects and has actively sought technical and financial support for implementing an ambitious medium-term program defined on the basis of a variety of technical studies. The policy matrix is organized along the pillars of (i) reinforcing sustainable energy security; (ii) increase competitiveness of the Moroccan economy and of the energy sector; (iii) facilitation of energy policy follow-up and evaluation and communication. Prior actions focus on legal and administrative actions including notification for the elimination of leaded gasoline and high-sulfur diesel, a new law for energy efficiency and renewable energy, and the adjustment of consumer price in line with international price fluctuations (except for periods with exceptional price movements with important social concerns). The operation contains a detailed impact analysis of the different reform measures on the economy as well as social and poverty aspects, and the sequencing explicitly incorporates reform measures to mitigate social impacts (i.e., on butane consumers)	The operation has five prior actions and 15 benchmarks. Most legislative actions or administrative actions are first steps in a reform process, with two actions clearly linked to the environmental/fiscal impact of the reforms. There is also an administrative step regarding the creation of an interministerial steering committee.	The policy matrix lays out a the sequence of policy actions with the three-year horizon, with triggers identified for follow-on support. The policy matrix also contains outcome indicators to measures success at the end of the series. For some of the expected results, it is difficult to define a result indicator which is easily measurable, making tracking of progress difficult. The anticipated impact and results come through more strongly in the economic and social analysis than in the results matrix. The operations in the series are intended to be delivered on an annual cycle, but will closely follow the reform process rather than budgetary concerns given Morocco's access to capital markets for budget financing.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Croatia	PAL-2	The government program supported by the operation has been articulated in 2006 in a strategic development framework for 2006-2013. The main objectives are to (i) complete the unfinished transition process, including redefining the role of the state, privatization, and improving the investment climate; (ii) develop infrastructure, improve education outcomes, R&D linkages to the business sector, increasing labor market flexibility, and strengthening social cohesion; and (iii) sustain and promote macroeconomic stability, environment, regional development, and integrated financial services. Analytic underpinnings for the operation derive from a country economic memorandum in 2003, a 2001 public expenditure and institutional review as well as a CFAA and CPAR in 2004-05, business climate studies, health financing study, informal pension work, a PSIA on shipyard restructuring, inventory of subsidies, a framework paper and study on railways. Many of these and other areas of interest to the government were presented in workshops. The delays in implementation of parts of the Bank-supported program resulted in a decision to restructure this second operation into a two-tranche operation spanning an election in November 2007.	The policy matrix lays out the roadmap for reform of the program, including past and future actions. Policies are coordinated with the IMF's advice on macroeconomic concerns, the European Commission on the EU accession agenda (including identification of grants for technical assistance and studies), as well as financial and technical assistance from the UNDP (social impact assessment), EBRD (business climate), USAID (privatization), SIDA, DfID (public administration reform), and the Netherlands. However, given the different modalities of support by different donors, the policy matrix serves to identify the roadmap for reforms for purposes of Bank support.	The government of Croatia sees the operation as a vehicle for supporting the implementation of its policy agenda, including EU accession. Building on a broader government strategy, the policy matrix lays out policy actions under two pillars: (i) improving the investment climate and (ii) strengthening governance, and (iii) enhancing the fiscal sustainability of sector programs. The conditions for the operation include the sale or liquidation of 45 companies, and the sale of majority share in at least one shipyard, reduction in enterprise subsidies, simplification of commercial registration and change in role of judiciary, civil service pay reform and retrenchment, new health insurance law, new strategy for social spending, and railroad reform (including privatization). The operation has a heavy focus on privatization transactions, civil service reform, and social spending reform. Due to delays in certain sensitive reform, privatization transactions for a shipyard and railroad subsidiaries, as well as public sector pay reform were shifted to a second tranche. The PSIA for the operation refers to shipyard privatization, lists the consultations undertaken by government for some other reforms, and new regulation for future actions.	The operation contains a total of 11 conditions (for two tranches), and a limited set of 15 benchmarks. The prior actions and second tranche release actions are clearly wide-ranging and linked to achieve the objective of reduced public sector share in the economy and reduction in government spending on public subsidies.	The operation matrix lays out well the sequencing of reforms and the intended outcomes and objectives, including baselines for the beginning of the series. Given Croatia's access to capital markets, the review cycle is timed more to progress than to regular budgetary financing needs. The matrix is broadly disseminated among government agencies and the criteria for gauging progress are transparently laid out as triggers for follow-on support.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Uruguay	Reform DPL-1	The government program supported by the operation derives from the "responsible transition" electoral program. It contains six themes: enhancing productivity, fostering social development, promoting innovation, strengthening democracy, enhancing regional and global integration, and promoting policies which consolidate and foster Uruguayan culture. Analytic underpinning for the program includes several studies and policy notes covering tax reform, business climate (including FSSA and several ROSCs), social protection (including income transfer policies), and PSIAs on tax reform and social program monitoring. The program document also mentions the consensus-driven and thereby often slow process of decisionmaking that, at the same time, ensures sustainability of reforms.	The sequencing of reforms under the government's program is laid out in the policy matrix. The matrix serves mainly to describe areas of the program supported by the Bank and used by the government and Bank to review progress. The matrix also serves to delineate support by the Bank from support provided by the IDB in the tax reform area.	The policy matrix summarizes the areas of Bank support under the areas of (i) reforming the tax system; (ii) business climate and capital market reform; (iii) information transparency and disclosure; and (iv) strengthening social protection. Prior actions include a tax reform law, strategy for capital markets reform, bankruptcy law, implementation plan for information transparency, increased coverage of non-contributory family allowances program, increase of coverage and collection of formal social security system. The program document contains a detailed discussion of PSIA on the tax reform concluding that the likely impact will be moderately progressive. Follow-up work by the Bank is underway to review the poverty impact of the reform.	The policy matrix contains six prior actions and three benchmarks. The prior actions contain key legal changes as well as strategic planning steps and implementation of legislation. Two of the prior actions appear to be strategic with respect to the overall program, but remain at the level of defining strategies or plans.	The program matrix transparently lays out a sequence of reform actions over two operations, shifting from new laws and strategies to implementation. The matrix has a focused set of measurable outcome indicators and identifies baselines for 2006. The planning is for the second operation to proceed based on progress made against program objectives, and based on joint review of progress with the government. The timing of the operation is expected to be announced early enough for the government to make appropriate financing arrangements for the budget.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Lao PDR	PRSO-3	The government's program is laid out in the 2004 National Growth and Poverty Eradication Strategy. The NGPES was developed through a participatory process and seeks to (i) maintain macroeconomic stability; (ii) deepen structural reforms, including public financial management and state-owned enterprises; (iii) invest in social sectors; (iv) invest in infrastructure; (v) invest in rural development and natural resource management; (v) improve capacity. The Bank offered analytic support, often in collaboration with other donors, in form of work on public financial management, poverty, and economic management, trade integration, investment climate, poverty and social impact analysis, and expenditure tracking.	The program document lays out the sequence of policy actions used to assess performance under the program, in correspondence with the government's letter of development policy. The policy framework set out in the matrix serves primarily as tool for the Bank's dialogue in coordination with co-financiers JBIC (PRSO-2) and EC (PRSO-3). Under the umbrella of the PRS and the Bank's operation, donors (such as EC, JICA, JBIC, SIDA, and ADB) are providing technical assistance for related policy reforms and capacity building, assuring closely coordinated and harmonized support. Several donors are considering co-financing of future operations and are participating in missions and reviews.	The policy matrix summarizes focal areas of Bank support under three components: (i) public resource management; (ii) public expenditure policies; and (iii) sustainable growth, indicating the direct link of the activities in the policy matrix with the NGPES. Prior actions aimed at improvements in budget planning, budget classification, legislative framework for the budget, improvements in supervision of state-owned banks, SOE restructuring, electricity tariff adjustments and efficiency measures for EDL, timely salary payments to teachers and health workers, implementation of a new enterprise law, and forest industry restructuring plan. Among benchmarks are also actions to review water tariffs and proceed with WTO accession. Utility and trade reform are seen has having broad and strong ownership, with more opposition on SOE and state-bank restructuring and oversight.	The policy matrix identifies 11 prior actions for this operation, and contains an additional 25 actions under the different components. Prior actions are mostly cover legal, administrative and monitoring activities, and the document identifies the criticality of most of them for the longer-term program, possibly with the exception of the adoption of forestry restructuring action plan. As noted in the documentation as feedback from government, the move to a new series of PRSCs will allow refocusing the reform program on the areas of intense dialogue and reduce the spread of the policy areas.	The matrix lays out the expected sequence of actions and expected results in a transparent manner. The document does not include a new policy matrix for the future series but leaves this area open for discussion with government and other donors to incorporate lessons learned. The results focus of the operation is helped through the formulation of targeted results and the inclusion of baselines, but the documentations notes, could be improved during actual review discussions. The PRSCs in Lao PDR have been approved on a roughly annual cycle and review processes take place with a view to allow predictable financing.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Peru	REACT-1	The government program supported by the operation originated in analytical work (the Recurso study) that was translated into actions by government to foster its objective to accelerate economic growth and poverty reduction, and improve social outcomes. The program supports actions in primary education, health and nutrition to define standards and set goals. The program benefited from and was influenced by wide ranging consultations, including a wide dissemination of the Recurso study, a national even chaired by the President, and two workshops. The program gained support from civil society, media, and political actors and originally opposed teacher unions dropped their opposition. Poverty, social, and environmental analysis generated to significant areas of concern.	The policy matrix summarizes the sequencing of policy actions under the program for a series of three DPLs. It is consistent with interventions the social sectors by other financial institutions and donors and signals the areas covered by Bank support.	The operation responds to a request by government for Bank support in improving results and accountability in the social sectors. The policy matrix is organized along the areas listed in column 1. Prior actions include the universal use of a unique personal identification code, results-based budget management, reading comprehension tests and their dissemination, institutional birth has been introduced as operational standard, norms changed to include child growth and development protocol. These areas are reinforced through measures included in benchmarks. There are no actions in sensitive areas.	The operation is focused, despite a wide-ranging and ambitious coverage, and has five prior actions and 15 benchmarks. Prior actions have been chosen to be the most critical among the government's actions to raise standards and improve the result-focus of interventions.	The matrix transparently conveys actions taken and the expectations of the government for future activities that could be used to evaluate progress. The matrix specifies key outcomes of the program, indicators for which are being generated by the government's statistical systems. Most indicators are being produced through national surveys and through at times newly designed questions (which may make measurement of baselines more difficult). A general monitoring of outcomes in the education and health areas is also included, albeit targets and baselines are not specified in the matrix but listed in the program document. The timing of future support will be based on discussion with government as the program progresses, and is expected to remain on an annual basis, allowing for adequate lead time in making budget financing decisions.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Colombia	Sustainable Dev-2	The government program supported by the operation is outlined in a chapter of the national development plan and intends to (i) ensure that integrated water management takes into account the country's ecosystem, (ii) reduce vulnerability among the poor and create opportunities to improve quality of life and public health; (iii) take advantage of economic opportunities while protecting and conserving natural resources, and (iv) promote conservation and sustainable development. The development strategy benefited from wide in-country consultations. The environmental program benefited from consultations with stakeholders around the main analytic underpinning, a country environmental analysis. A public expenditure review on the environment was also carried out.	The policy matrix summarizes the sequencing of reforms under three operations. Although other agencies are active in the sector, the Bank is currently the only development institution providing budget support in the sector and thus the policy matrix does not serve as a harmonization tool.	The operations responds to a strong interest by the government to reflect and address sustainable development objectives in its national development plan. Bank support is structured under support for (i) improving effectiveness and efficiency of the national environment system, and (ii) integrating sustainable development objectives into key sectors. Prior actions include the establishment of development baseline monitoring indicators in regional autonomous corporations and departments, a set of key reforms in administration, planning, and management of water; water quality monitoring, assistance to close open dumps, air quality monitoring, and establishment of a protocol for emissions inventory. There are no reforms in sensitive areas.	The operation has six prior actions and 11 benchmarks. The actions are focused largely on institutional changes related to better monitoring of the sustainable development indicators. Identified conditions are first steps in an institutional reform program to mainstream sustainable development issues.	The sequencing of reforms is transparently laid out in the policy matrix, including expected actions that would help evaluate the progress under the reform program for follow-on support. The matrix also contains a limited set of outcome indicators. About half of the latter are qualitative and simply record the institutional change, whereas the other half records changes in measurable indicators related to air and water quality. The timing of the operation was agreed with government and integrated in the budget cycle. Timing of the future operation will be determined with government based on overall progress made without the firm anticipation of an annual disbursement cycle.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Pakistan	NWFP DPL-2	The government program supported by the operation is laid out in the Provincial Reform Program for the North-West Frontier Province (NWFP) and the concomitant provincial PRSP. It has been designed on the basis of consultations with primary stakeholders and the involvement of district governments. The commitment to the reform program has been strong even through changes in government, indicating broad ownership of its contents. A strong platform of analytic work supports the operation, including an economic report, public financial accountability assessment, public expenditure review, gender assessment, and work on risk an vulnerability, with additional work on education, health, and social protection under way or planned.	The program document sets out a sequence of actions agreed with the government that will be used to discuss program performance against actions and indicators for future support beyond this operation. The policy matrix serves to determine progress for the purposes of Bank disbursements as other donors do not provide budget support. At the same time, the program relies on technical support from bilateral donors (EC, DfID, NORAD, GTZ), and the matrix serves as a harmonization tool to ensure that support is aligned with program objectives and actions laid out in the policy matrix.	The Bank support to the program laid out in the policy matrix reflects the priorities of the provincial government with a strong focus on human development and with a strong set of actions to enhance access and improve quality of education and health services. The three pillars are (i) accelerating human development; (ii) improving fiscal stability and public expenditure management; (iii) strengthening governance; (iv) promoting growth. Conditions relate to school stipends for girls, teacher training, education budget reform and sector management, health care partnership agreements with NGOs, quality of health care assessments, provincial budget spending, computerization of finance and district accounts offices, procurement reform, investment licensing. There are no actions in sensitive areas, although one benchmark refers to drawing up a list of government assets and indicate those that could possibly be privatized.	The policy matrix presents a very broad and detailed multisectoral program the government is implementing and is a key management tool for the government in piloting the program. The size of the matrix has been considerably reduced from the previous operation, and now has 11 prior actions and 20 benchmarks. The criticality of most prior actions has been well established in the text.	The policy matrix sets out transparently how progress under the program will be assessed against actions and results indicators. Most indicators contain both baseline and target values. The Bank has progressed to this second operation within 12 months of the previous operation, and in close notification of volumes and timing under regular reviews (including third party monitoring) The provincial government was easily able to include the anticipated volumes in the budget running from July through June.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Pakistan	Sindh Education DPC-1	The government program supported by the operation was articulated in 2007 in a medium-term education sector reform program (SERP), aiming at improving participation, retention, and transition, reducing gender and regional disparities, and improving quality of primary and secondary education. Ownership is embodied in partnership agreements between provincial and district governments, with the latter agreeing to carry out most of the actions. Analytic support for the strategy comes from a Sindh economic report (2006), a country gender assessment (2205), a report on devolution in Pakistan (2004), and a Pakistan expenditure management report (2004).	The program matrix lays out a medium-term reform program for Sindh. The matrix is harmonized with the EC, which providing parallel financing and technical assistance based on the same policy matrix. In addition, the matrix serves as tool to harmonize broader donor interventions in Sindh's education sector.	The operation responds to the priority of the provincial government given to improving education outcomes. The policy matrix is organized along the pillars of SERP to (i) improve fiscal sustainability and effectiveness of public expenditures; (ii) improve education sector management; (iii) improve access to quality schooling particularly in rural areas and for girls; (iv) improve the quality of teaching and learning. Prior actions focused on appropriate budget financing, financial control, education sector management, school census, partnership agreements with districts, textbook delivery, and teacher recruitment. There were no actions in sensitive policy areas.	The operation has eight prior actions and 12 benchmarks. The actions are focused on critical steps in education finance, control, and management. The policy matrix is a condensed and focused, clearly structured, sequence of actions drawn from a broader government program.	The operation is expected to be followed by two additional operations. An annual review cycle has been set up, with the expectation to provide annual financial support. Reviews will focus on actions and results, which have been specified against the policy matrix. A more complete use of baselines and targets for a number of measurable indicators (i.e., for share of text books, stipend beneficiaries etc) into the matrix would have been useful. (Annex 2 provides separate baselines and targets for enrollment, transition, and completion.)

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Pakistan	Punjab EDPC-IV	The government program supported by the operation is aligned with the provincial PRSP, the medium-term development and budget frameworks, drawing on stakeholder consultations. The second series of operations, builds on a strong track record of reform and is organized under the areas of (i) enhancing fiscal sustainability and the fiduciary environment; (ii) increasing equitable access to education as well as quality and relevance of education; and (iii) improving education sector governance and management. Analytic underpinnings include a higher education note, a study on conditional cash transfers and female enrollment, learning and achievement study, country gender assessment, review of grade V and VIII examinations, teacher training review, and community consultations.	The policy matrix summarizes the sequencing of policy actions under three operations. The matrix serves as tool to determine progress against agreed policy reforms for purposes of Bank support. At the same time it serves as harmonization tool for other sector support, such as technical and financial support from CIDA, GTZ, UNICEF, and DfID.	The operation covers an area identified as priority by the provincial government. The policy matrix is organized along the pillars mentioned in the first column. Prior actions cover the education budget, performance agreements with districts, accounting reviews, procurement reform, private school financing, textbook provision, examination commission reform, capacity building programs, and teacher performance monitoring. There are no reforms in sensitive areas.	The policy matrix contains 10 prior actions and 21 benchmarks. The program document makes a special effort to identify the particular constraint each of the prior action is addressing.	The operation transparently sets out the reform program and its sequencing for series of three operations. Triggers for the follow-on operation have been spelled out clearly. The series benefits from a set of measurable outcome indicators. In the area of education baseline values have been carefully established, in other areas progress is defined more against the targets alone, e.g. compliance ratio with new processes. The number of outcome indicators is large. Monitoring takes place by government (including third party evaluation) and regular Bank supervision, with a focus on both inputs and outcomes. Ongoing dialogue on progress is expected to allow communication of timing and funding levels for the budget in a predictable manner.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Pakistan	Punjab Irrig DPL-2	The government program supported by the operation, the Irrigation Sector Reform Program, is one of the building blocks of the Punjab PRSP and also reflects policy priorities of the federal government. The ISRP addresses long-term physical and financial sustainability of the irrigation system, transparency of water allocations and distributions, irrigation service delivery, and water use efficiency and productivity. The strategy benefited from a host of analytical work by federal and provincial governments, including a ten-year perspective plan (2001), a water resources strategy (2002), and national water policy draft (2005). Environmental aspects have been reviewed under a strategic country environmental assessment.	The policy matrix summarizes the sequencing of policy actions under three operations. The matrix serves primary as tool to determine progress against agreed policy reforms for purposes of Bank support. However, the overall sector strategies are closely coordinated with the ADB, JICA, and the Netherlands. ADB and JICA have co-financed or parallel financed other operations in the water sector in the past, and investment financing is complementing policy-based support by the Bank. The Netherlands are financing support for technical assistance and advisory services.	The operation has been designed to address a particular development challenge for Punjab. The policy matrix is organized under the pillars of (i) ensuring integrity and sustainability of the irrigation system; (ii) making water allocation and distribution more transparent; (iii) improving irrigation services delivery; and (iv) encouraging new technology to increase productivity. Prior actions cover appropriate budgetary allocations, tube well management, financial management of departments, improved revenue collection in areas without farmer organizations, publication of water accounts, water flow control measures, establishment of farmer organizations, environmental guidelines. There are no actions in sensitive areas. The operation carefully screens activities for poverty and social aspects that could arise from redirecting water and increased efficiency of the irrigation department.	The policy matrix contains 10 prior actions and 19 benchmarks. The criticality of the actions is discussed and established in the context of their contribution to government objectives under the ISRP. Most actions are practical and hands-on measures that represent important steps in the policy reform process.	The operation transparently sets out the reform program and its sequencing. Triggers for the follow-on operation have been spelled out in reasonable detail, and the series benefits from a set of outcome indicators with baselines covering the beginning of the series, fostering a discussion of the results of the policy actions and reinforcing the M&E aspects of the program. Reviews of program implementation take place every two months, with monitoring by external parties focused on key outcomes. The preparation of the DPLs and their volumes are announced early enough to feed into the budget preparation cycle, and fits with government preferences to receive confirmation of budget support prior to the beginning of the fiscal year (which runs from July through June).

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Chile	Planning Ministry DPL-1	The government program supported by the operation is a part of the broad objective to boost job creation and growth. The government announced an important increase in public spending on infrastructure and in this regard is interested in improving the execution and quality of public investments, including planning coordination, oversight, and competitive bidding. Analytical work underpinning the program include work on contingent liabilities from concessions, the ministry of public works restructuring plan, studies on regulatory arrangements using comparisons with other OECD countries, performance-based contracting and road maintenance concessioning, integrated planning, environmental risks.	The policy matrix agreed with the Ministries of Finance and Public Works is for a single-tranche stand-alone operation and identifies the measures taken before loan approval by government. It also has been harmonized with technical support on regulation by IADB and a technical assistance loan by the Bank.	The operation includes policy actions in the areas of (i) integrated planning, (ii) standards, contracts, and competition; (iii) integrated project management; (iv) regulatory strengthening; (v) organizational reform. Prior actions relate to agreements with regional government, a sample set of standards for road conservation concessioning, naming of project managers for an integrated project management, unit to develop new regulatory framework for public works, and draft law for new oversight mechanism of contracts and concessions as well as new criteria for the approval of concessions. There are no conditions in sensitive areas.	The operation has six prior actions and no benchmarks. In most areas, actions are first steps to institute changes in the management of public works and investments. The prior action regarding creation of a unit to develop regulatory and oversight framework is more of an administrative preparatory step than a critical action.	The operation is designed as a stand-alone single-tranche operation. Its resources are incorporated in the 2007 budget and were full predictable for the government. Future reviews of progress would take place outside a DPL framework but given the long-term vision for the sector are likely to strongly focus on anticipated outcomes. Outcomes and measurable indicators have been identified for each area of intervention, however generally without identification of baselines.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Georgia	PRSO-3	The government's program supported by the operations is laid out in its economic development and poverty reduction program. The latter identifies six main areas for action: strengthening governance, improving macro-financial performance, improving the investment climate and enhancing productivity and employment growth; building human capital, reducing the vulnerability of the poor, and protecting the environment. Analytic work in support of the strategy includes a PER (2003), CPAR (updated in 2007), TA for public sector management and electricity market support, integrated trade study, FSAP update, poverty policy notes, pension policy note, doing business assessment of administrative procedures.	The program document sets out a sequence of actions over four operations, which has been adapted over time to emerging priorities and implementation speed, which was faster in some areas than anticipated. The matrix serves as general coordination tool for interventions by other donors (Netherlands, Japan, EC, IMF, DfID, USAID, SIDA, KfW, GTZ, EBRD) most of which are not providing budget support. The EC provides parallel financing under a program identical to pillar 1 of the policy matrix.	The operation includes policy actions under the pillars of (i) strengthening public sector accountability, efficiency, and transparency, (ii) improving electricity and gas sector services, (iii) improving the environment for private sector development, (iv) improving social protection of the vulnerable and poor. Prior actions cover budget preparation, accounting reform, local government budgetary rules, anti-corruption action plan, implementation of an action plan in the power sector, reduction in commercial debt of power sector enterprises, new customs code, financing formula for schools, primary health care reform. The impact of recent tariff adjustments (which were not included as part of the policy matrix) together with the impact of recent improvements of social protection measures, are being evaluated for their impact on poverty.	The policy matrix contains 10 prior actions and 10 benchmarks. This greatly reduced size reflects a streamlining over the prior operation (see above), reflecting efforts to improve and focus the presentation of the Bank's support. There remains one action (action plan for anti-corruption) that appears less of critical nature for the results. In addition, the measure on the action plan for the electricity sector bundles several activities as laid out in the letter of development policy	The operation has been prepared on an accelerated basis reflecting faster-than-anticipated progress under the program. The program matrix transparently lays out the prior actions and expected next actions for a fourth operation. Progress under the program is reviewed regularly, and the timing of proposed financing is announced based on progress made, with the third operation moving ahead earlier than expected. The policy matrix does include outcomes, but these are often not measurable. Instead, to improve monitoring and results focus, a separate results matrix has been developed over the course of the program that includes concrete measurable indicators against baseline values and thus improves results focus and monitoring.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Niger	RSRC-2	The government program supported by the operation is laid out in the second PRSP, which was the result of broad-based consultations with all stakeholders, and continues broadly the actions initiated under the 2002-05 PRSP; the program is underpinned by a set of sectoral strategies; and analytic underpinnings by government, Bank, and third parties, such as CPAR, PEMFAR, education study, study on schooling dynamics, nutrition, education and health study, food security assessment, CEM, poverty update, and investment climate assessment.	The program document sets out a sequence of actions agreed with the government; key analytic work, notably the PEMFAR, has been coordinated with the donor community, and the matrix is coordinated with interventions by EU, France, AfDB, Norway, the Netherlands, and Belgium. However, in terms of disbursement decisions, the accountability framework is used at this stage only by the Bank.	The 2006-08 Bank support responds to lessons learned from previous DPOs in (i) moving to a more programmatic medium-term engagement to support reforms processes; (ii) broadening the policy areas from PFM reform to rural and social issues of key concern for poverty reduction. Support is organized into (i) public sector management; (ii) rural development; (iii) basic education, health, and population; (iv) private sector development. Conditionality is focused largely on core institutional and administrative reforms in public financial management and procurement, statistics, rural development management, food security, irrigation performance, teacher allocation, post-primary education, school grants, financing of subsidized health interventions, and gender issues.	The policy matrix contains a set of 17 conditions and 30 benchmarks for the two tranches, reflecting the approach to use a fairly detailed set of actions in the policy matrix to overcome capacity constraints and lack of specificity in the PRSP and other government documents. Most conditions are linked to defining and implementing critical activities. There are a small number of actions, however, which appear less critical and process focused, such as the "submission of a report with recommendations on implementation of an action plan" in the education sector.	The preparation of the operation took into account the need to balance predictability and performance, allowing the two-tranche design to proceed to provide financing by mid-year for achieved reforms with additional resources available after reforms in those areas have caught up. However, some predictability risks exists with the two-tranche design, as signified by the delay in the tranche release of the prior RSRC-1 operation. The operation transparently lays out triggers for any follow-on operation. The well-established results framework with baseline values and targets for monitoring indicators reinforces the results focus of performance reviews, which to date follow the needs of government related to timely financing but are not closely aligned with internal processes.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bhutan	DPG-2	The government program supported by the operation is defined by the 1999 strategy document *Bhutan 2020: A Vision for Peace, Prosperity, and Happiness*, prepared with a broad consultative process. The government's strategy document spells out the distinct vision of Gross National Happiness and is implemented under the Ninth Five-Year Plan, extended to June 2008. The Bank provided technical assistance, including under an institutional development fund grant for public expenditure management, country economic update, youth and employment study, a private sector survey, the doing business report, a ROSC, a state-owned enterprise study, as well as analytic work on education.	The policy matrix lays out a medium-term reform program that identifies actions taken under DPG-1 and DPG-2 as well as a broad set of future actions. Given the limited number of donors that provide budget support, the matrix is coordinated with other interventions by donors but does not serve as a joint donor matrix.	The operation corresponds directly to a request for support by the government and has been developed around the government's own priorities under the national plan. The government's letter of development policy includes a policy matrix that presents the government's broader program under the themes of (i) macroeconomic and fiscal management; (ii) fiduciary systems; (iii) private sector development; (iv) education; and (v) health sector reform. The poverty and social impact discussion could have discussed the potential distributional effect of labor market reforms and the Bank's analytic knowledge in this regard.	The operation matrix contains a total of nine prior actions focusing on core activities to ensure improvements in fiscal management and budget allocation, fiduciary and procurement, labor reform, business climate, education supply and management, and health. All measures have been selected from a much broader program to highlight critical steps of the government's broader program. The operation matrix contains no benchmarks.	This is the last operation in a series of two and shows the reforms undertaken under the program. The operation matrix also lays out transparently and concisely how the government's program is expected to evolve over time that would underpin any future review of progress made. The timing of the operation and the review cycle under which it was prepared corresponds to the preferences of the government which were driven by the financing needs arising from a delay in hydro-power production. The operation has a focused set of outcomes and related indicators, most of which include baselines.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Senegal	PRSC-3	The government program is articulated in its second PRSP covering 2006-2010. It is based on a number of guiding principles to (i) preserve macroeconomic stability and reduce vulnerability; (ii) promote equity and protect vulnerable groups; (iii) balance growth between rural and urban areas; and (iv) promote the private sector as an engine of growth. As the program document notes, these priorities need to be translated into actions and budget priorities. The long delay in the signing of the public procurement regulation highlights the at times difficult circumstances/political economy in achieving broad consensus and ownership of the central fiduciary reform agenda. The Bank has provided a range of analytic support across all pillars of the PRSP over the past 4-5 years, including a country economic memorandum, public expenditure reviews, rural social protection study, groundnut social impact study, and fiduciary analysis.	Under the PRSP umbrella, the Bank has harmonized its support with other bilateral donors and ensured consistency of its approach with their support. Sectoral collaboration if organized in sectoral working groups. The matrix is primarily an instrument agreed with government to gauge progress for the Bank's PRSC series and a formal budget support arrangement is planned for the future.	The policy matrix focuses on subsets of the PRSP program in (i) budgetary and administrative reforms of the state; (ii) decentralization; (iii) health service delivery; (iv) wealth creation; and (v) protecting vulnerable groups. Given the origin of the program from PRSC-1, the direct link with the PRSP pillars is not obvious, but clarified in the documentation as deriving from the PRS and national sector strategies. As the focus of the matrix is on fiduciary measures, service delivery, equity, and social protection, there are no conditions or benchmarks in sensitive policy areas. Prior actions include improvements to expenditure planning, procurement reform, health outcomes, implementation of labor laws, anti-corruption, and protection of disabled and children (child labor).	The program matrix serves as broad implementation road map for the PRSC-supported areas of the PRS and draws also on sector programs. It is therefore more detailed and elaborates on measures highlighted in summary fashion in the PRSP document. For PRSC-3, there are 10 prior actions—after a streamlining of the original number of triggers—and 89 benchmarks. The prior actions are generally critical for achieving the results, although the scale of the activities in the social protection area (two prior actions) seems rather small. The large number of benchmarks is far above Bank averages and raises the question whether the Bank and government can find alternative ways in identifying and describing the program it is supporting (i.e., by moving the preparation of implementation roadmaps into the government domain in a more explicit manner).	The sequencing of reforms and anticipated results are transparently described in the policy matrix. The timing of PRSC-3, the last in the series, was originally for late 2006 but was delayed to mid-2007 because of delays in certain fiduciary reforms. However, given the relatively small size of the operation compared to overall revenue and expenditure, the delay did not negatively affect budget implementation in 2006. Future PRSCs are intended to be timed to the annual budget cycle. The PRSC uses a common set of output and outcome indicators with the PRS and sector strategies (schedule 4 of the program document). Reviews take place in alignment with the sector reviews. A future series could further enhance the link between the focused set of outputs/outcomes in schedule 4 and the results described in the policy matrix.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Vietnam	PRSC-6	The government program supported by the operation is derived from the 2006-2010 five-year plan. The preparation of the plan drew on lessons learned with the Comprehensive Poverty Reduction and Growth Strategy. The five-year plan contains actions to (a) promote growth and transition to a market economy; (b) reduce poverty and ensure social inclusion; (c) manage the environment and natural resources in a sustainable manner; and (d) build institutions that can support the strategy. The main analytic work supporting the five-year plan's implementation is the 2007 Vietnam Development Report, following three earlier development reports, and co-signed by 16 donors.	An accountability framework for the operation is laid out in form of actions taken, future actions/triggers, and a separate set of monitoring indicators. The Bank and 11 other bilateral and multilateral donors are providing financing under a jointly agreed and single accountability framework.	The policy matrix covers and is closely aligned with the four pillars of the 2006-2011 plan. Prior actions cover diverse areas of state sector reform, financial sector reform, infrastructure, education, health gender, land and forests, planning processes, public financial management, legal development and anti-corruption. In terms of sensitive reform areas, one benchmark records the increase in wastewater charges while providing adequate protection for poor people, and this reform could have received additional attention under the PSIA discussion. Other prior actions include the reduction of sectors where 100 percent state ownership is required (with an explicit discussion of protections for SOE workers under the PSIA section), better teacher assessments, disclosure of financial statements of state-owned banks, disclosure of state audits, and transparency in budget allocations.	Although the policy matrix continues to span a range of sectors and interventions across the economy, it has been considerably reduced in size compared to previous operations. twelve prior actions and 28 other actions have been retained in the operations matrix, which represents a small subset of a broad reform program. The text supports the criticality of the chosen reform measures for the reform path.	The policy matrix transparently lays out actions completed before the approval of the credit as well as expected next steps under the program, including actions considered critical for evaluating progress for the next operation. Since PRSC-2, the operations have moved ahead in a predictable manner at about the same time of the year, and credit amounts have been announced early enough, in June, for government to take them into account for budget preparation. The timing of progress reviews under the program is aligned with the production of an annual report to the national assembly. The PRSC keeps a focused (separate) set of results indicators that are deployed to monitor program implementation. These are a subset of indicators for the national plan, and ensure broad outcome-based monitoring and evaluation of program implementation.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Bangladesh	Education-3	The government program builds on the 2005 PRSP. Education plays and important role in the PRSP, and the medium-term strategies for the primary (PEDP II) and secondary education sector underpin the PRS and its objectives. The sectoral strategies were developed by line ministries, with input from experts outside government, consultations/workshops with stakeholders, and development partners. The strategy enjoys universal support across the political spectrum. The program includes reforms in the management of the education system, targets improvements in teacher effectiveness, and includes curriculum and textbook reform. The program formulation benefited from support by JICA, DfID, EC, and ADB analytic work such as an expenditure tracking survey financed by DfID.	The program document summarizes the previous actions, anticipated reforms steps, and targeted results of the supported reform program in a policy matrix. Bank support is harmonized with other donor agencies' financial support and technical assistance in select areas of the program—ADB and CIDA are providing investment support, EU is supporting teacher training, and NORAD a secondary stipend program. The matrix is a coordinating tool but does not serve for other donors, none of which provide budget support to the sector, to determine disbursements.	The policy matrix of the operation presents the supported areas of the reform program under four pillars: (i) overall program; (ii) system management; (iii) teacher quality; and (iv) curriculum and textbooks, in alignment with the government's program. Prior actions are related to (i) external evaluation of schools, evaluation of means-tested programs, environmental guidelines for schools, improved financial management, reform of teacher accreditation and training, as well as curriculum and textbook reform.	The program matrix succinctly summarizes a broad reform program succinctly. The 12 prior actions are mostly focused on critical steps to implement the government's program across three different areas, although possibly one prior action related to an action plan would be more critical in its implementation phase. The general focus of the operation is aided by the existence of comprehensive sectoral strategy documents. As a result, the use of other benchmarks in the policy matrix is limited to 5.	The policy matrix lays out the core actions of the program in a transparent manner, and informs about prior actions taken under the three operations. The matrix includes a series of outcome indicators, many of which contain baseline and are measurable, but a number remain vague and difficult to evaluate (such as "effective system of teacher recruitment"). The reviews of the program benefited from independent evaluations of various reform measures and are part of an agreed monitoring progress over the year. The operation was processed within 15 months of its predecessor, supporting the 2007 budget.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Benin	PRSC -4	The government program supported by the operation builds on the draft of the second PRSP and the progress achieved under the first PRSP. The second PRSP contains a strategy for accelerated growth. The government strategy is articulated under the pillars of (a) accelerate sustainable economic growth; (b) improve basic services; and (c) promote good governance. The strategy is accompanied by a detailed implementation plan. Analytic underpinnings include an investment climate assessment, doing business indicators, a land market study, a diagnostic trade study, a financial sector review, a study on port operations, a country health status report, a governance and anti-corruption survey, and action plan for decentralization, and a public expenditure review.	The government takes the lead in formulating a policy matrix supported by the donor support group (called ABC under its French abbreviation). The accountability framework, a government implementation plan of actions and outcomes, is supported by the entire budget support group.	The policy matrix is fully aligned with the second PRSP. Prior actions for the Bank's support are drawn from the government's matrix and cover implementation of core areas of the private sector development strategy; cotton sector regulation and reform, rural road management, water supply system improvements, inventory for health, teacher redeployment, budget management and procurement reform, auditing, expansion of the number of justices. No prior actions or benchmarks involve any privatization transactions, but several actions prepare stronger private sector involvement. Potentially sensitive reform areas include the private participation in utility services and the cotton sector reform, with planned privatization of the industrial base of the cotton parastatal SONAPRA. In telecommunication, the program includes the creation of a regulatory body and the restructuring of the company. In the energy sector, the current reform program emerged from a consultative process in early 2007 and involves creation of regulation, restructuring of the state-owned enterprise against financial performance criteria, and eventually private-sector participation in generation. In cotton, the program includes the consolidation of past reforms (including study of the results of the current regulatory arrangements), the termination of the past privatization process of SONAPRA, and the decision on a new roadmap, which would lead to the privatization of industrial assets of SONAPRA but retain state, producer, and workers' union partial ownership in the new company. This model is based on a consultative approach by government and based on examining approaches by neighboring countries.	The Bank identifies 10 prior actions out of the broader government policy matrix across the three pillars of the PRS. The criticality of most actions is explained in the text in relation to program objectives. One prior action (implementation of private sector development strategy) appears rather broad and difficult to evaluate, the others are clearly linked to critical program activities. As there is no Bank matrix but only the government matrix annexed to the letter of development policy, there are no benchmarks for the Bank's operation. The operation thereby addresses the lessons learned in the support to the PRSP under PRSCs 1-3, which centered on an exceptionally large policy matrix (see above).	The government policy matrix lays out a broader reform program and targeted results. The program document identifies clearly the Bank's prior actions and any triggers for future support, as well as a set of focused results indicators associated with these actions, promoting the results focus of the support in line with the government's own program matrix. Indicators have baselines and target values. Progress reviews take place annually and efforts have been made to conduct the reviews as part of the PRS process. As a result the latest PRS progress report review coincided with the budget preparation timetable and with budget support decisions.

Country	Operation	Principle 1: Ownership	Principle 2: Harmonization	Principle 3: Customization	Principle 4: Criticality	Principle 5: Transparency and Predictability
Turkey	CEDPL	The government program supported by the operation derives from several internally consistent policy statements. Near-term priorities spelled out in the 2003 government program. Further background is in EU Pre-accession program and the ninth development strategy for 2007-13. The latter lays out most the program supported by the loan under five axes: (i) increasing competitiveness, (ii) increasing employment; (iii) strengthening human development; (iv) ensuring regional development, (v) increasing quality and efficiency of public services. Analytic work supporting the strategy are a labor market study (2006), a CEM (2006), a 2007 CEM, an investment climate assessment, an FSAP, education sector study (2006), and a higher education study.	The program document defines the actions the government is taking under the program in a sequential manner. Actions have been harmonized with the stand-by program supported by the IMF. The matrix serves largely to define the parameters for the Bank's support.	The program matrix lays out the actions the government has taken before loan approval under the areas of (i) macroeconomic management, (ii) investment climate, (iii) labor markets, (iv) credit and capital markets, (v) innovation, knowledge, technology adoption, and labor force skills. Prior actions are in the area of execution of the privatization program, income tax reform, tax administration reform, public offering of a minority share in Halk bank, mortgage law, patent convention amendment, and quality standards. The privatization program covers a set of public enterprises the government decided to put up for sale, and program document describes the due diligence undertaken with respect to the process (including environmental concerns) as well as the government's mechanism to address labor displacement and lay-offs, which is being supported by two World Bank investment loans.	The operation has seven prior actions and 16 benchmarks across the five different areas. The actions—either implementation of changes or legal changes—have been chosen for their respective critical impact on the results among a larger set of activities the government undertook in 2007.	The policy matrix lays out transparently the prior actions taken. Given the single-tranche stand-alone nature of the operation, actions that would help evaluate overall progression of the program have been identified as indicative policy direction. Outcomes have been defined for the operation, but most are missing measurable baselines and targets. The lending volumes are aligned with the general progress under the program and discussed in line with Turkey's planning of budgetary financing, with exact timing being of lesser concern given Turkey's market access.

ANNEX C. SUMMARY OF FEEDBACK FROM CONSULTATIONS ON GOOD PRACTICE PRINCIPLES FOR THE APPLICATION OF CONDITIONALITY JULY-SEPTEMBER 2007

A. Background, Objective, and Methodology

1. In 2005 The World Bank undertook a review of conditionality in its policy-based lending, which included a set of wide-ranging consultations with borrowers, donors, and other stakeholders. The resulting conditionality review paper proposed a set of good practice principles for the application of conditionality, which were endorsed by the Development Committee in September 2005. A first progress report on the application of these good practice principles was discussed by the Board of Executive Directors in December 2006.[1] During this discussion, several Board members requested that another progress report be prepared within 12 months and include substantive engagement with borrowing countries. This note summarizes the ensuing consultation process and the main messages and recommendations that emerged. Summary reports of the consultations have also been posted on the World Bank's external website at www.worldbank.org/conditionality.

1. Objective and Methodology

2. The main objective of the consultations was to obtain substantive feedback on the recent application of good practice principles on the use of conditionality in Bank policy-based lending. The consultations were also meant to solicit input from a broad range of stakeholders on the good practice principles themselves, possibly resulting in changes to the principles:

- ***Ownership:*** Reinforce ownership by relying on clear evidence of ownership informed by analytic work.
- ***Harmonization:*** Agree up front with the government and other financial partners on a coordinated accountability framework.
- ***Customization:*** Customize the accountability framework and modalities of Bank support to country circumstances.
- ***Criticality:*** Choose only actions critical for achieving results as conditions for disbursement.
- ***Transparency and Predictability:*** Conduct transparent progress reviews conducive to predictable and performance-based financial support.

3. Consultations were held from July to September 2007 in eight World Bank country offices (Benin, Haiti, Mali, Mozambique, Pakistan, Rwanda, Vietnam, Zambia). Written feedback was also solicited through the external website. Based on guidelines provided by OPCS, each office decided on the structure and format of the consultations, with most holding separate consultations with different stakeholders. Vietnam, for example, held consultations over a week-long period, including separate consultations with local and international civil society organizations (CSOs), government officials and elected representatives, the private sector, and other development partners. Mali, on the other hand, opted for a one-day joint

[1] World Bank (2006), *Good Practice Principles for the Application of Conditionality: A Progress Report,* Washington, D.C., November, 2006.

consultation with all stakeholders. In all cases, it was expected that the consultation would give balanced representation of the different stakeholders and allow a focused discussion on recent application of Bank conditionality. World Bank staff provided logistical support in organizing the consultations, as well as setting the context for discussion by circulating background documents and giving an introductory presentation on recent development policy operations (DPOs) and the use of conditionality. However, the consultations themselves were led by non-Bank staff, including representatives of bilateral development partners, CSOs, or, in the case of Pakistan, a respected national facilitator. Non-Bank staff rapporteurs were also tasked to summarize the key points of the consultations, typically in coordination with the facilitator/chair. Overall, the discussion sessions were interactive and provided a good opportunity for the World Bank to listen to stakeholders' comments and advice and answer questions.

B. Summary Findings and Recommendations

4. In general, all of the stakeholder groups expressed appreciation for the opportunity to discuss and exchange viewpoints on policy-based lending and specifically on conditionality. Many also appreciated the World Bank's willingness to listen and the overall level of transparency of the consultation process, although some would have wished for more time to prepare for the consultations. There was broad agreement that the World Bank is now perceived as being more flexible and consultative in dealing with client countries, and having improved its approach to conditionality. All stakeholders strongly felt that consultations of this type build local ownership, and thus they should take place more regularly and involve a broad range of interlocutors. The consultations also raised expectations that there will be greater space for stakeholders to participate in and influence the design and content of development policies in client countries. In all countries, stakeholders acknowledged the importance, and supported the consistent application, of the five good practice principles on conditionality.

Principle 1: Reinforce Ownership

5. Most participants agreed that Bank DPOs supported programs with strong government ownership. To a large extent, this is due to the fact that DPOs are now well aligned with the government's PRSP, or medium-term development strategy (Benin, Mali, Mozambique, Rwanda, Zambia, and Vietnam), although for some government ownership varies depending on different tiers of government (Pakistan). Stakeholders, especially from governments and the donor community, highlighted an overall positive trend and notable shift in attitude and behavior on the part of Bank staff, evident in how the Bank provides greater space for governments to formulate policy and priorities (e.g., Mozambique). CSOs were generally more critical and felt that there was a need to broaden local ownership beyond government to include CSOs, the poor, and other marginalized groups. These comments typically referred to concerns that the choice of conditionalities is based on diagnostic analysis that is not prepared in a broadly participatory way (Haiti) or that the PRSP process was not sufficiently participatory, inclusive, and transparent (Mozambique, Pakistan, Vietnam). In this context, some stakeholders also commented on the need for the Bank to undertake consultations as part of the Country Assistance Strategy process, which is perceived by some to be primarily Washington-driven with insufficient input by local stakeholders (Zambia).

6. There was also general agreement that country ownership could be enhanced by strengthening local capacity. Although the Bank was seen as provider of high-quality analytic

work that could underpin policy formulation, there was a general feeling that Bank analysis could involve the participation of government counterparts or local experts (Rwanda, Vietnam), and be more demand-driven (Zambia). Collaborative analysis with local counterparts was seen as a good way to build local capacity to articulate policy priorities. Outside the immediate scope of the consultations, some participants (Mozambique, Zambia) also raised the issue that the Bank should use country systems for its investment projects since separate procedures would run counter to country ownership and aid effectiveness.

7. One of the constraints (perceived particularly by other donors) to the Bank's ability to respond more effectively to the needs of government was seen to be the Bank's centralized and Washington-based staffing. Stakeholders recommended that the Bank further pursue decentralization, to build in-country presence and capacity, particularly in sectors where it has taken a lead among other development partners. Decentralization would avoid large missions of relatively short duration that can impose heavy transaction costs on governments.

Principle 2: Harmonization

8. There was general sentiment that while the World Bank has made good progress on harmonization, there was still room for improvement. Development partners in most countries highlighted the mechanisms under existing frameworks or recent progress in establishing them. They noted in particular the efforts to establish a streamlined common monitoring and assessment framework derived from the government's medium-term strategy, which would be manageable and enforceable and would provide the sole source of all indicators or policy triggers (though specific "rules" differ from country to country). By contrast, in Haiti, where few donors provide budget support, the different procedures followed by the different cooperation agencies were seen as an important source of coordination failure. In Pakistan, CSOs commented that the "fundamental divide" between bilateral agencies, with political agendas, and multilateral development agencies limited the scope of harmonization. Some CSOs (e.g., Vietnam) also commented that harmonization may actually give the government less policy space and allow less room for CSOs to monitor and implement the medium-term strategy and to express their viewpoints.

9. In cases with relatively advanced harmonization of accountability frameworks, stakeholders made various comments about possibilities to improve harmonization efforts. Some even saw greater scope for the Bank to take a more proactive role vis-à-vis other donors to better streamline conditionality and to encourage greater donor cofinancing of the PRSC. In other cases participants noted remaining procedural issues—as in Mozambique, where the Bank's formal Board decision on commitment of resources takes place later than those of other donors. In Vietnam, stakeholders noted continuing differences between the PRSC and the government's strategy and said that there were temptations for donors to use independent monitoring mechanisms. Participants in both Rwanda and Benin saw the need for an accountability framework based solely on the government's program and focused on key and clear indicators that would avoid past problems of differing assessments under very large policy matrices. Participants also encouraged the Bank to work more closely with the IMF to align missions and processing steps with those agreed to by the joint donor group. Development partners in Zambia noted that the Bank continued to proceed independently of existing frameworks and recommended that, to foster a single system of accountability, it adopts the same set of indicators

(or triggers) as other development partners in order instead of focusing on a subset and undertaking assessments independent of the established reviews.

Principle 3: Customization

10. There was considerable overlap in the discussion on customization and country ownership, with a stronger focus on country-specific issues. There was general agreement that conditionality in Bank DPOs is now better customized to country circumstances, and this was largely attributed to the improved alignment of Bank DPOs with the country's own reform program. For example, stakeholders in Rwanda and Mozambique affirmed that triggers were derived from the government's strategy and were made in consultation with the government. In Rwanda, they noted that the quality of the policy dialogue with the Bank typically led to common solutions even when positions initially differed. Stakeholders in Vietnam and Pakistan also commented on the need to further build the government's capacity to prioritize and sequence policy actions, and CSOs in Vietnam noted that the Bank's added value has been to help government define policy priorities.

11. The consultations pointed to the individual background of country consultations, with different historical engagement of the Bank. In Zambia, government and CSO participants were of the opinion that while the Bank has improved customization of its policy triggers, there is still a tendency to base policy prescriptions on a market-oriented philosophy. Development partners pointed to the Bank's approach in Tanzania, where support has been well-customized to country circumstances and should be emulated. In Haiti, stakeholders agreed that both the Bank and the government have deepened their dialogue with a view to adapting their practices so that Bank assistance can be more effective in the country's rapidly changing circumstances. In Mali, government and CSOs were of the view that Bank positions on cotton reform in the past had not sufficiently respected to government views. At the same time, donors in Mali were concerned about lagging progress in this sector. In Benin, CSOs and donors pointed to cotton reform as an area in which customization is weak, since Bank triggers or benchmarks are rarely met. Government officials, however, pointed to the sector as an area where the Bank had respected ownership by accepting changes to the government's program.[2] Stakeholders from CSOs in Benin recommended that the Bank assess different options in coordination with government.

Principle 4: Criticality

12. The discussion of the criticality of policy actions frequently involved the ongoing debate on streamlining the number of conditions, the role of the policy matrix, the Bank's categorization of reform measures, and the appropriate use of results indicators in assessing performance. There was general agreement that the number of "binding" actions had fallen to more manageable levels, although some stakeholders believed further reductions are needed (Mali) while at least one government participant indicated that criticality does not necessarily imply fewer conditions (Pakistan). In some cases, there was still some confusion among stakeholders over the Bank's use of different categories of reform measures (e.g., prior actions, triggers, and benchmarks), with some participants suggesting that the Bank clarify and simplify the use of

---

[2] In Benin, different working groups examined different principles. Government officials did not participate in the session on customization but commented on cotton as regards the ownership principle.

benchmarks (Vietnam), take care not to treat benchmarks as additional conditionality (Rwanda), or elucidate why the chosen triggers are more critical than others (Pakistan, Zambia). At least one CSO criticized the large number of nonbinding benchmarks (Vietnam), while others commented on the need for more conditions directly aimed at improving the livelihood of poor and vulnerable populations (Haiti, Vietnam, Zambia).

13. Process was also an issue in regards to the criticality of conditions. Some stakeholders pointed to the improved substance and technical content of the policy dialogue compared to the earlier approach of measuring quantitative indicators, such as counting the number of divested state owned enterprises (Vietnam). Others felt more emphasis should be given to results and outcomes and less to specific actions (Pakistan, Zambia), while another argument was made to move away from single-year measures to a multiyear program of performance indicators, in line with the government's medium-term expenditure framework (Rwanda). Among private sector participants, a comment was made that the Bank should treat critical reforms as rigid conditionality, instead of flexible triggers (Vietnam). It was also felt that in some cases, the Bank's focus on certain areas takes away the focus on other areas that are nonetheless critical to the broader accountability matrix (Mozambique, Rwanda).

Principle 5: Transparency and Predictability

14. There was general consensus that both transparency and predictability have improved. Development partners and government felt that formal and informal performance assessment frameworks have contributed to improved government reporting and focus on results (Pakistan, Rwanda, Zambia), with some calls for additional statistical capacity building (Benin). There were questions, nevertheless, over whether domestic accountability has improved since CSOs were left out of the process of identifying and assessing conditionality, and the performance evaluation report was not shared with either parliament or the broader public (Mozambique, Pakistan, Zambia, ,).

15. Regarding predictability, governments except Zambia confirmed the predictability of the Bank in most recent operations. Some noted the improved identification of conditionality far in advance of their assessment phase and in coordination with government officials (e.g., Benin), a message reinforced by others who contrasted it with what they perceived as poor performance in this regard in the past (Mali). Different participants also saw room for improvement in terms of the within-year timing of disbursements (Zambia), the early identification of cofinancier resources that would be available (Vietnam), and the ability to commit finances for several years (Vietnam). In one case, it was also noted that formal decisions are made too late to be incorporated in the budget (Haiti).

C. Conclusions

16. The consultations on conditionality succeeded in eliciting feedback from a broad range of stakeholders. They generally confirmed that in the views of in-country stakeholders over the past two or three years the Bank has made progress against the five good practice principles. The views of government officials and donors were generally more positive in this regard than those of CSOs, who said especially that areas of participation, inclusion, and domestic accountability deserved additional attention. Key messages for the Bank's future work:

- ***Ownership:*** Review opportunities to better involve government counterparts and local experts in conducting analytic work. Use decentralization of Bank staff to build local capacity and better respond to local circumstances.

- ***Harmonization:*** Work closely within existing harmonization arrangements and make further progress in enhancing harmonized frameworks where they are under development.

- ***Customization:*** Keep listening carefully to government counterparts and stakeholders, and respect disagreements and different views as part of a serious exchange of policy views. Be open to consider different options in conducting the policy dialogue.

- ***Criticality:*** Continue working on focused accountability frameworks derived from government programs. Maintain the inherent flexibility of the programmatic approach, giving due regard to explaining the criticality of triggers and their relevance for development outcomes.

- ***Transparency and predictability:*** Continue supporting a results focus in reviews. Keep on announcing—transparently and sufficiently early—the criteria for evaluating Bank support, and confirm support volumes in time for governments to set budgetary spending levels.

ANNEX D. DETAILED REVIEW OF SENSITIVE REFORMS AND OTHER POLICY REFORMS

Privatization

- In *Benin,* in 2006 the incoming government decided to review the privatization process for the cotton ginning parastatal SONAPRA, begun under the previous government (but not used as trigger or condition under previous PRSCs). After broad-based consultations, the government decided to follow a new privatization roadmap under which the industrial assets of the cotton ginning company would be privatized, but SONAPRA would remain under partial ownership of the state (35 percent of shares), cotton producers, and workers' unions (together 20 percent of shares) a model that draws on lessons in neighboring countries. The new privatization plan was supported under a Bank operation. The sale of industrial assets has been successfully concluded (after approval of PRSC-4), and the agreed package includes not only a sales price exceeding the previously estimated value but also a social plan to mitigate any effects on the company's workforce, which was approved by the Council of Ministers.[1] Under Bank support, the regulatory framework for the cotton sector will be reviewed to ensure its robustness, and poverty and social impacts will be monitored. In energy and telecommunications where private sector involvement is being considered, after consultations, the government decided to restructure these enterprises first, with the Bank's continued support. The regulatory framework for telecommunications is also being strengthened as part of the reform program.

- In *Croatia,* the government is implementing a broad privatization program that includes both small and large public enterprises and has been supported under the Bank's second programmatic structural adjustment loan. Before approval of the operation, 45 companies including the majority share in at least one shipyard were sold or liquidated. However, since the government operates with a narrow parliamentary majority, particularly sensitive parts of the privatization program were delayed, notably privatization of shipyards and of subsidiary companies at the railway. Although the program was conceived and owned by government, which sees the program as cornerstone of its policy agenda (including accession to the European Union), and several consultations were conducted with key stakeholders such as trade unions, the government may have underestimated the internal opposition and political economy of the reform process. The Bank responded by increasing the loan amount and attaching the controversial transactions to a second tranche.[2] The Bank further leveraged the structural reform agenda by including a provision to trigger the low case of the Country Assistance Strategy if the reform agenda was reversed.

- In *Turkey*, the Bank supported implementation of an umbrella privatization program rather than specific privatization transactions. The government, which strongly backs this program, identifies those public enterprises it considers ready for divestiture.

---

1 Para 98 of The Benin Growth Strategy for Poverty Reduction, adopted in April 2007, also reaffirms the government's intention to proceed with privatization of the cotton ginning company. During consultations on conditionality, some members of civil society explicitly mentioned cotton reform as an example of how the Bank had followed the government's lead. A main dissenting voice in this regard came from a donor representative who claimed that privatization conditions were imposed.

2 Croatia's PAL-2 has not been declared effective and disbursed as of mid-October 2007.

State-owned manufacturing still accounts for 5 percent of GDP (15 percent of value-added in manufacturing) and has slowed growth in labor productivity. In 2005-06, 58 enterprises were privatized by the Privatization Administration under transparent procedures, with the largest transactions representing Turk Telecom, the TÜPRAŞ oil refineries, the EREDEMIR steel plant, and the Mersin Port. The poverty and social consequences of divestiture are monitored and addressed through accompanying investment loans. The Bank also undertook due diligence on environmental aspects of the privatization program.

- In *Afghanistan,* the government is setting up a regulatory framework for the restructuring of public enterprises.[3] As part of this process, the government has decided to divest a total 56 enterprises by 2009. Further dialogue with stakeholders will precede these privatizations to ensure broad ownership (including by parliament and civil society). The first identified batch of 21 enterprises largely consists of commercial enterprises that are no longer operational and therefore could be liquidated without major impact on employment. The Bank reviewed the poverty and social impact, and it found the government's severance pay package and safety net policy to be adequate to mitigate potential negative impacts.
- In *Pakistan,* the second PRSC supported the privatization of the national refinery, the Karachi electricity supply, and the Pakistan telecommunications corporation. All three companies emerged from the government's overall privatization program, and were not identified as triggers or anticipated policy actions in the first PRSC, which allowed government to advance divestiture under its program in line with its own priorities and legal framework.[4] The government's program also includes several initiatives to strengthen regulatory oversight and foster competition alongside the divestiture program. However, the Program Document gives little information about how the government addresses possible poverty and social aspects related to privatization. Few, if any, employment losses are expected from the privatization.
- In *Mali,* the first PRSC supports actions to adopt an operational scheme for the privatization of the cotton parastatal CMDT and the definition of cotton zones to be privatized, after stakeholder validation. Mali's cotton sector, after severe strain caused by a producer strike following producer price reductions in 2001-02, again faced several difficulties in 2005-06: declining cotton prices in local currency terms, inefficiencies in the parastatal, and farmgate prices misaligned with international prices. A new pricing formula (which was subject to preliminary analysis) to set administered prices closer to world market prices was adopted in 2006, but cumulative losses still triggered the need to recapitalize the parastatal, a process in which the foreign private shareholder did not take part. In this context, structural reforms in the cotton sector remain a very sensitive issue. As the report from the consultations shows clearly, the donor community is collectively not willing to

[3] The interim Afghanistan National Development Strategy of 2006 states "The state owns a large number of enterprises of varying financial status. The Government has assessed each of these enterprises against a set of criteria to determine whether they should remain in government ownership, be liquidated, or be privatized. Government will strengthen management, oversight, and transparency for those SOEs that remain under its control."

[4] For example, the planned privatization of the Pakistan Steel Mills was annulled by the Supreme Court.

finance the cost of subsidizing cotton production unless the cotton company becomes more efficient. The government and civil society, by contrast, feel that this stance has led in the past to undue pressures for privatization (for a sector under external pressure due to subsidies in developed countries) without clarity as to whether such a structural change would lead to higher efficiency. In this setting, the current strategy, most recently adjusted in 2005, builds on analytic work and consultative processes. A number of consultant studies were conducted during 2000-2003 to review policy options. These studies were inputs for extensive consultations with key sector stakeholders (CMDT, farmers, government, donors), leading to formulation and adoption of the current reform program, which is reflected in the second PRSP and Bank operations.[5] In view of the government's intention to build further consensus ahead of any further privatization-related measures in 2008, the PRSC series does not include cotton related triggers for 2007.

- In *Andhra Pradesh, India,* the Bank supports the government's public enterprise reform program, which includes the privatization, liquidation, and restructuring of public enterprises. The Bank does not identify any particular transactions or activities as prior actions or triggers, but assesses the program implementation in its entirety. The program is an integral part of the government's program, which has excluded strategic or sensitive enterprises from the second phase of the enterprise reform program. The program receives technical and financial support from DfID. A social safety net program addresses the social impact of reforms through a voluntary retirement scheme, labor counseling, and retraining.

- In *Sierra Leone,* the policy matrix includes support for the government's overall privatization program. The privatization program, which is conducted by a national commission, is not used as a prior action or trigger. The national commission not only oversees privatization transactions and ensures transparency, it also oversees regulatory reform. DfID is providing extensive technical support for the national commission.

- In *Rwanda,* the program includes a benchmark referring to the privatization of two tea plantations. Donors, CSOs, and government underscored during the consultations that the Bank's support reflects Rwanda's circumstances and priorities. Initial differences of views on whether further investments in the plantations were desirable before the divestiture of tea plantations were resolved, with the government's views and preferences prevailing. The government conducted a thorough analysis of poverty and social impacts to map and profile all the stakeholders in the sector, examine how the reform effects them, and determine its responses for households in the sector, particularly the poor and vulnerable.

[5] Mali Growth and Poverty Reduction Strategy Paper for 2007-11, adopted by the Council of Ministers on December 20, 2006. The cotton strategy outlined in the PRS is two-pronged, including the privatization of the CMDT by transfer of shares of subsidiaries to be created (para. 232) and a national cotton development strategy (para. 233). The second PRSP also endorses the memorandum of understanding between government, ginning company, and producers on principles of engagement, including the new price setting mechanism and creation of a price support fund and mechanisms to mitigate price volatility (para. 231).

Public Enterprise Restructuring

- In *Bangladesh*, one operation supported a reform to transform the railway into an entity operating in accordance with commercial criteria and under transparent cost accounting and reporting. The reform benefited from analytic work and extensive stakeholder consultations. No worker retrenchments are expected beyond voluntary departures that already took place, and the program includes PSIA to inform future reform steps. Under a second operation, the fourth development support credit, the government is restructuring nationalized commercial banks to corporatize them and bring them under the regulatory and supervisory control of the central bank.[6]

- In *Afghanistan,* the government has decided as part of a review of its portfolio to keep 65 enterprises in the public domain. The Bank is supporting improvements to the oversight and transparent reporting of these enterprises.

- In *Lao PDR,* the Bank is supporting the government's efforts to improve the performance of key public enterprises. The government is pursuing the reform sequentially for three batches of public enterprises. Reform steps typically include the development of restructuring plans and the audit of state-owned enterprises. The Business Promotion Office (in the Prime Minister's office) follows up on audit recommendations and ensures regular monitoring of public enterprises. Two workshops were held to create consensus and agree on follow-up actions. Public enterprise reform is an important pillar of the second PRSP, and the government intends to accelerate reforms in this area. However, there are also indications of strong opposition to reforms.

- In *Andhra Pradesh, India,* the government is undertaking restructuring of public enterprises alongside privatizations. The social safety net program supports the transition for workers affected by the restructuring.

Price Liberalization, Utility Price Adjustments, Subsidy Reform

- In *Bangladesh*, with support from the fourth development support credit, the government adjusted fuel prices and energy tariffs to put the energy sector as a whole on a sustainable basis. The losses for the state refinery and the electricity board would have become unsustainable at the price levels prevailing before April 2007, and even after the price increase the problem of servicing the debt of the state refinery (and its spillover effect on state-owned banks) remains. The caretaker government in power since early 2007 therefore felt compelled to act in the interest of preserving macroeconomic stability on the basis of broad-based support for its policies when it came into power, but it did face opposition from some groups. The Bank provided the government an analysis of the likely poverty and social impacts of the energy price adjustments, which concluded that major impact on the poor was unlikely because of the small share of expenditure (5 percent) spent on petroleum products, electricity,

---

6 Para. 5.60 of the Bangladesh National Strategy for Accelerated Poverty Reduction, adopted in October 2005, announces the government's plan of immediate privatization of one nationalized commercial bank, and the restructuring of three others.

natural gas, and transport. The study found that potential second- and third-round impacts would likely be small.

- In *Croatia*, the program supported by the second programmatic adjustment loan includes efforts to reduce subsidies for public enterprises (which comprised 3.4 percent of GDP in 2003) and reduce untargeted social benefit payments (which reached 4.0 percent of GDP in 2005) in order to consolidate and better target social protection programs. Despite strong ownership within most of government, the narrow government majority and approaching elections mean that the achievement of the reduction in social benefit spending is still uncertain.

- In *Morocco*, under an *energy sector operation*, the Bank is supporting a government program to reduce energy import dependency, increase renewable energy production, and reduce budgetary exposure to energy price fluctuations. As part of this effort, the state is passing on international price fluctuations to domestic prices to reduce budgetary pressures. Particularly sensitive parts of the price adjustments that touch on butane subsidies are sequenced over time (with support anticipated under future operations) and incorporate parallel measures to reduce social impacts. Analytic work to assess social, environmental, economic, and budgetary implications has been conducted prior to the operation, and the government has developed a communication strategy to explain planned policy changes. A *water sector development policy loan* supports the government's program for water sector reform. It includes an adjustment of water tariffs to better target subsidies, promote water connections, and reduce waste, with further changes to the tariff structure anticipated in response to ongoing analytic work. The program also includes the development of a plan to adjust irrigation water tariffs, and provides for an increase of the capital grant from 40 to 60 percent of investment costs for modern irrigation technology. Both water tariff and irrigation tariff reforms were subject to poverty and social impact analysis, and further impact analysis will accompany future measures under the reform program. The PSIA recommended better assessing poor householders' ability and willingness to pay, and designing targeted subsidies for water connection. On irrigation reform, the PSIA identified the importance of better communication, definitions of the responsibilities of local and regional stakeholders, and development of a financial and regulatory framework.

- In *Afghanistan*, the government adjusted electricity tariffs to respond to rising fuel costs. This step was carefully reviewed and discussed, including through PSIA, before the government decided that it was a necessary step to protect the financial viability of the energy company. The PSIA found limited short-term negative impacts on the poor, whose energy consumption is limited, and possible positive medium-term impacts as the energy supply is sustained and expanded.

- In *Lao PDR,* the government program supported by the Bank includes regular adjustments to bring electricity tariffs in line with cost recovery levels. The adjustment schedule which was included in the Power Sector Action Plan, is part of the restructuring for state-owned enterprises laid out in the June 2004 National Growth and Poverty Eradication Strategy (section 5.8). While ensuring the viability of the public electricity company, the government is seeking to expand coverage (with related monitoring indicators under the strategy), especially in rural areas. To this end, it has also created a Rural Electrification Fund. Given the phased adjustment, the income profile of currently connected households, and the tariff structure, poor households are expected to experience limited negative effects and longer-term benefits as electrification rates in rural areas improve.

- In *Pakistan*, the program supported under the second PRSC includes changes to gas tariffs and electricity tariffs. The gas tariff adjustment includes both a move to semiannual retail price adjustments and a change in the size of the first tariff slab to better target the implicit subsidy on poor households. The controversial measure was delayed from the first to the second PRSC to build sufficient consensus. In the electricity sector, the regulatory agency determined differentiated tariffs by distribution company for the first time, with an average increase of 28 percent. However, the government decided to announce a uniform tariff to consumers with a much smaller average increase (6.5 percent); it will use budgetary resources to compensate regional companies for losses made compared to tariffs determined by the regulator. Thus, while the financial autonomy of regional distribution companies has been strengthened through the recognition of regional price differences, the impact on consumers has remained limited.
- In *Cape Verde,* under the third PRSC, the Bank supported the removal of fuel subsidies, which increased both fuel costs and electricity and water tariffs. Fuel costs increased by between 36 and 143 percent, and water and electricity tariffs increased by 13.3 and 25.4 percent, respectively. These reforms build on a tradition of openness and consensus-building around key reforms. Poverty and social impact analysis conducted as part of the identification process concluded that the overall poverty impact would likely be small, given the poorly targeted subsidies for butane, electricity, and water, and poor people's low access to and consumption of electricity. By contrast, the study found that the removal of the kerosene subsidy was likely have to a significant affect on about 1 percent of the households, and that monitoring of any environmental effects (from shifting to wood fuels) was advisable. These aspects will be part of the Bank's future operations.
- In the *Philippines,* with Bank support, the government implemented a series of measures to return to a sustainable path for addressing fiscal deficits, in part by improving tax revenue and stemming losses in the electricity sector. The value-added tax (VAT) was broadened, and electricity tariffs were increased to reverse a decline in tax revenue (as a ratio to GDP) and reduce the electricity sector's contribution to public sector deficits. The revenue measures intend to give additional fiscal space to preserve and expand basic social services, some of which had been cut under increasing fiscal pressures. VAT reform comes at the end of a long public debate about the need to raise revenue and is accompanied by an information campaign; electricity tariff revisions were subject to a consultative process. Poverty and social impact analysis found that the VAT reform was slightly progressive, a factor likely further enhanced by mitigating measures taken on fuels, such as the elimination of excises on kerosene and reduction of diesel excise taxes. Regarding electricity tariffs, the poorest are protected by lifeline tariffs that apply if a household consumes less than 200 kWh.

- In *Mauritius,* the government decided to put in place a comprehensive reform program to counter the challenges of eroding trade preferences and declining competitiveness. This program, which builds on a platform that obtained widespread support in the population, is underpinned with analytic and financial resources from the Bank and several other development partners. It combines actions to consolidate fiscal performance and reductions in external tariffs and subsidies with measures to boost the investment climate, and a program to "democratize" the economy through participation, social inclusion, and sustainability. As part of the program, rice and flour subsidies were phased out, resulting in price increases of about 50 percent for these staples, and replaced with a cash transfer program. As the Program Document acknowledged, the cash transfer program originally had difficulties in identifying eligible households, which may have resulted in – mostly temporary – hardships for poor families that should have but did not receive the cash transfer. This aspect of the program continues to be closely monitored by government.

- In *Moldova,* the government program supported by the first PRSC included a benchmark regarding the increase in gas tariffs in response to rising gas import costs. Poverty and social impact analysis showed that the utility price had a significant impact on the poor since the social assistance system is poorly targeted. It suggested that the government's fiscal resources would be sufficient to protect poor people's current energy consumption levels. As a result, a pilot program for means testing is under way, and the poverty impact of gas tariffs is being monitored under quarterly household budget surveys.

- In *Vietnam*, the government program supported under the sixth PRSC included a benchmark to increase wastewater charges based on cost recovery considerations. This measure is intended to ensure the sustainability of investments in water and sanitation. It was accompanied by appropriate caps to protect the poor.

Trade Reform

- In *Bangladesh*, the government reduced the external tariff levels by 2 percentage points as part of the goal to reduce overall trade protection to 20 percent on average, an explicit objective of the PRSP.[7] Trade measures are phased so as to protect domestic revenue and distribute any economic adjustment processes over time.

- In *Mauritius*, the government's objective is to create a "duty free" island, for which it has broad popular support. The first step in this process was taken, with Bank support, by reducing tariffs by 2 percentage points and reducing top ad valorem rates from 65 to 30 percent in an effort to drastically reduce tariff dispersion. Further steps are yet to be decided, and will depend on internal consensus building. Poverty and social impact analysis undertaken during the design phase estimates that the ultimate tariff rate reduction would lift 5 percent of low-income workers above the poverty line by reducing prices for food, clothing, and footwear. At the same time, the analysis estimates that about 13,000 workers may be dislocated, representing 2.5 percent of the labor force and 12.5 percent of the industrial labor force. Although

---

[7] Bangladesh National Strategy for Accelerated Poverty Reduction, adopted in October 2005, p. 86 and 246.

these dislocations are much smaller those from previous job losses in sugar and apparel production (50,000), the impact will need to be carefully managed under the accompanying empowerment program.[8]

- In *Nicaragua,* parliament ratified the regional free trade agreement with the United States under a Bank-supported program. Poverty and social impact analysis conducted on the free trade agreement found that most populations would benefit, even in the short run. The PSIA suggested mitigating the effects on farmers who produce potentially negatively affected crops.

- In *Peru*, parliament ratified the free trade agreement with the United States, with support from the Bank for the government's program. Prior analytic work identified potential negative effects of the free trade agreement on agricultural populations. The government has prepared a policy package to mitigate these effects through modernization and export promotion. In addition to the policy package, there is a compensation package for crops that could potentially be affected by the free-trade agreement. However, given current commodity price levels, the likelihood that compensation will need to be provided is low.

- In *Lao PDR,* WTO accession is an explicit objective of the PRSP,[9] and a program benchmark of the third PRSC is related to that process.

8 Indications are that the second phase of tariff reductions may be delayed compared to the original timetable to review the first round impacts.

9 Lao PDR National Growth and Poverty Reduction Strategy, June 2004, Table 3.10.

ANNEX E. SELECTED WORLD BANK CONDITIONALITY AND DEVELOPMENT OUTCOMES ACHIEVED

Country	DPO / PRSC 1	DPO / PRSC 2	DPO / PRSC 3	DPO / PRSC 4	DPO / PRSC 5	Outcomes Achieved
Ghana	Launch of the national policy of community-based health services Implement fee exemption policy for maternal deliveries in four underserved regions	Approve new health recurrent expenditure allocation formula to protecting the deprived areas Implement fee exemption policy on maternal deliveries in deprived areas	Assess health professional attraction and retention program in consultation with stakeholders and decentralize management of human resources continued, including the identification of options for decentralizing personnel *Increase funding for exemptions, develop and implement system for identifying the poor for exemptions from fees / health insurance premia subsidy, and expand maternal delivery exemptions to two additional regions*	Register the indigents at the district-wide Mutual Health Insurance Schemes (DMHIS) and have the National Health Insurance Council (NHIC) transfer the premium subsidy to district schemes	Scale up health spending to accelerate progress toward the MDGs by ensuring: (i) that the government allocation to the health sector is increased to compensate for the reduction in donor contribution to the health fund; (ii) high budget execution rates for the total non-salary health budget and district level allocations *Increase access to reproductive health services with the aim to increase coverage of supervised maternal to 57%*	Supervised deliveries increased from 49% in 2002 to 55% in 2006 Ratio of population per nurse in the four deprived regions decreased from 2,000:1 in 2002 to 1,450:1 in 2005
Ghana	Completion of the school mapping exercise in five deprived districts with the objective of improving the targeting of budget resources	Establish incentive schemes, including scholarships, to enable girls to complete primary school in deprived districts	Eliminate all government-controlled fees and introduce capitation grants for girls in public primary schools in deprived districts and in all public primary schools for the disabled.	Extend capitation grants to all pupils attending public primary and junior secondary schools and eliminate all government and district controlled fees for all public primary and junior secondary schools	Reduce the share of teacher vacancies in deprived districts *Implement girls' education programs, with emphasis on areas with low gender parity index*	Gross primary enrollment rates (GPER) rose from 81% in 2002-03 to 92% in 2005-06 Girls' GPER rose from 76% in 2002-03 to 88.5% in 2005-06
Ghana	Completion of a survey of regulatory and administrative costs of business, undertaken to prepare an action plan for reducing transaction costs of business	Begin implementation of a Cabinet approved private sector development strategy with an action plan to remove key regulatory and administrative barriers for business development	Implement 2004 tranche of the PSDS action plan, including (i) strengthening of the institutional framework for implementation of the strategy; (ii) completing and beginning implementation of the National Trade Policy; (iii) establishing four Land Registries in the regions; (iv) extending GCMS/GCNet facilities to Aflao and Elubo; and (v) completing the automation of Registrar-General's department	Implement the 2005 tranche of the PSDS action plan, including: (i) further reducing time for registering businesses; *(ii) beginning implementation of the trade sector support program; (iii) establishing 3 additional land deed registries*	*Implement the 2006 tranche of the PSDS action plan, including: (i) establishing 3 additional land deed registries; and (ii) further reducing time for registering businesses*	Time required to register a business reduced from 85 days in 2004 to 44 days in 2007
Tanzania	Approval of revised PFMRP which includes the key agreed recommendations of the CFAA	Approved budget in line with PRS objectives, delineating budget codes for priority sectors and items Budget execution in line with approved budget and PRS priorities, consistently reported	Approved budget in line with PRS objectives, delineating budget codes for priority sectors and items Budget execution in line with approved budget and with PRS priorities, consistently reported	Approved budget for FY06 in line with PRS priorities Expenditure outturn for FY05 consistent with approved budget National Audit Office staff has been trained, and procurement and installation of computer	National Audit Office General Report for FY05 issued by April 2006 Expenditure outturn for FY06 consistent with approved budget Approved budget for FY07 in line with policy objectives	Number of HIPC expenditure tracking benchmarks met increased from 8 of 15 in 2001-02 to 11of 15 in 2004

ANNEX E. SELECTED WORLD BANK CONDITIONALITY AND DEVELOPMENT OUTCOMES ACHIEVED

Country	DPO / PRSC 1	DPO / PRSC 2	DPO / PRSC 3	DPO / PRSC 4	DPO / PRSC 5	Outcomes Achieved
		as per identified expenditure budget codes for priority sectors, and also by identified codes for priority items Joint PFMRP Steering Committee reviewed establishment of a management structure and the detailed annual work plan and budget for the first phase of PFMRP implementation Prepared draft bill amending Public Procurement Act of 2001 reflecting the CPAR recommendations, and submitted a letter from the Attorney General confirming that said bill will be presented for parliamentary approval during 2004 budget session Progress in strengthening and sustaining capacity of the VPO secretariat to support and monitor implementation of the PRS according to an updated action plan to be approved by government	as per identified expenditure budget codes for priority sectors and items Progress in the implementation of the PFMRP Establish the Regulatory Authority for procurement and decentralize procurement to Procurement Authorities	equipment at the National Audit Office completed, allowing audit through IFMS in future periods Organization structure of Public Procurement Regulatory Authority approved and additional budgetary resources allocated		
Tanzania	Approval of an implementation plan for the Business Environment Strengthening in Tanzania (BEST) program by the integrated framework steering committee	Reviewed the business licensing system after consultation with stakeholders, prepared a position paper on business licensing reforms, and submitted to Parliament amendments to the Business Licensing Act, introducing reforms of the business licensing system	New business licensing framework under implementation in a phased strategy	Draft bill on business activities registration submitted to Parliament by April 2005	Progress in the reform of the business activities registration and the business regulatory licensing regime, including reflecting private sector views in the redrafting of the business activities registration bill.	Cost of registering a business fell from 199% of per capita income in 2004 to 47.1% in 2007
Indonesia		Reduce subsidies to the non-poor	Monitor effectiveness and undertake independent operational assessment including fiduciary aspects of new compensation programs from reallocated fuel subsidy	Develop an enhanced assessment framework for selected service delivery programs		Level of subsidies reduced from 4% in 2004 to 2.7 percent in 2007, allowing reallocation of $10 billion to pro-poor programs, including a cash transfer to 19.2 million

ANNEX E. SELECTED WORLD BANK CONDITIONALITY AND DEVELOPMENT OUTCOMES ACHIEVED

Country	DPO / PRSC 1	DPO / PRSC 2	DPO / PRSC 3	DPO / PRSC 4	DPO / PRSC 5	Outcomes Achieved
			funds (e.g., cash transfer, health, education, village infra)			households vulnerable to fuel price increase. Lessons learned helped establish modern social protection system.
Indonesia	Organizational reform at the MOF, including first steps in establishing a Treasury Single Account (TSA)	Treasury single account timetable and activity plan adopted for the consolidation of bank accounts	Extend the pilot for zero-balance non-salary accounts to at least 50 KPPNs (or 75% of transactions)	Continue to consolidate core government (revenue and expenditure) bank accounts		Cash management has improved with the reduction of commercial bank accounts holding government funds from 18,000 to a Treasury Single Account (expected end-2007)
Cape Verde	2005 budget law takes into account adequate funding of PRS priorities, cross-cutting reforms for public administration and public expenditure management	2005 revised budget takes into account adequate funding of PRS priorities	Executed 2006 budget consistent with approved 2006 budget *2007 Budget Law is in accordance with the benchmarks for social sectors (health and education) as stated in PRSP*			Health sector spending as a share of the budget increased from 6.3 in 2004 to 7% in 2006
Cape Verde	Teacher training priorities (public basic education) identified and three-year action plan prepared	First year of teacher training action plan for basic education implemented	Second year of teacher training action plan for basic education implemented			Share of primary education teachers without professional qualifications decreased from 27% in 2004 to 15% in 2007

Note: Reform measures in italics denote non-binding “benchmarks” and not conditionality.

ANNEX E. SELECTED WORLD BANK CONDITIONALITY AND DEVELOPMENT OUTCOMES ACHIEVED

Country	DPO / PRSC 1	DPO / PRSC 2	DPO / PRSC 3	DPO / PRSC 4	DPO / PRSC 5	Outcomes Achieved
Ghana	Launch of the national policy of community-based health services Implement fee exemption policy for maternal deliveries in four underserved regions	Approve new health recurrent expenditure allocation formula to protecting the deprived areas Implement fee exemption policy on maternal deliveries in deprived areas	Assess health professional attraction and retention program in consultation with stakeholders and decentralize management of human resources continued, including the identification of options for decentralizing personnel *Increase funding for exemptions, develop and implement system for identifying the poor for exemptions from fees / health insurance premia subsidy, and expand maternal delivery exemptions to two additional regions*	Register the indigents at the district-wide Mutual Health Insurance Schemes (DMHIS) and have the National Health Insurance Council (NHIC) transfer the premium subsidy to district schemes	Scale up health spending to accelerate progress toward the MDGs by ensuring: (i) that the government allocation to the health sector is increased to compensate for the reduction in donor contribution to the health fund; (ii) high budget execution rates for the total non-salary health budget and district level allocations *Increase access to reproductive health services with the aim to increase coverage of supervised maternal to 57%*	Supervised deliveries increased from 49% in 2002 to 55% in 2006 Ratio of population per nurse in the four deprived regions decreased from 2,000:1 in 2002 to 1,450:1 in 2005
Ghana	Completion of the school mapping exercise in five deprived districts with the objective of improving the targeting of budget resources	Establish incentive schemes, including scholarships, to enable girls to complete primary school in deprived districts	Eliminate all government-controlled fees and introduce capitation grants for girls in public primary schools in deprived districts and in all public primary schools for the disabled.	Extend capitation grants to all pupils attending public primary and junior secondary schools and eliminate all government and district controlled fees for all public primary and junior secondary schools	Reduce the share of teacher vacancies in deprived districts *Implement girls' education programs, with emphasis on areas with low gender parity index*	Gross primary enrollment rates (GPER) rose from 81% in 2002-03 to 92% in 2005-06. Girls' GPER rose from 76% in 2002-03 to 88.5% in 2005-06
Ghana	Completion of a survey of regulatory and administrative costs of business, undertaken to prepare an action plan for reducing transaction costs of business	Begin implementation of a Cabinet approved private sector development strategy with an action plan to remove key regulatory and administrative barriers for business development	Implement 2004 tranche of the PSDS action plan, including (i) strengthening of the institutional framework for implementation of the strategy; (ii) completing and beginning implementation of the National Trade Policy; (iii) establishing four Land Registries in the regions; (iv) extending GCMS/GCNet facilities to Aflao and Elubo; and (v) completing the automation of Registrar-General's department	Implement the 2005 tranche of the PSDS action plan, including: (i) further reducing time for registering businesses; *(ii) beginning implementation of the trade sector support program; (iii) establishing 3 additional land deed registries*	*Implement the 2006 tranche of the PSDS action plan, including: (i) establishing 3 additional land deed registries; and (ii) further reducing time for registering businesses*	Time required to register a business reduced from 85 days in 2004 to 44 days in 2007
Tanzania	Approval of revised PFMRP which includes the key agreed recommendations of the CFAA	Approved budget in line with PRS objectives, delineating budget codes for priority sectors and items Budget execution in line with approved budget and PRS priorities, consistently reported	Approved budget in line with PRS objectives, delineating budget codes for priority sectors and items Budget execution in line with approved budget and with PRS priorities, consistently reported	Approved budget for FY06 in line with PRS priorities Expenditure outturn for FY05 consistent with approved budget National Audit Office staff has been trained, and procurement and installation of computer	National Audit Office General Report for FY05 issued by April 2006 Expenditure outturn for FY06 consistent with approved budget Approved budget for FY07 in line with policy objectives	Number of HIPC expenditure tracking benchmarks met increased from 8 of 15 in 2001-02 to 11of 15 in 2004

ANNEX E. SELECTED WORLD BANK CONDITIONALITY AND DEVELOPMENT OUTCOMES ACHIEVED

Country	DPO / PRSC 1	DPO / PRSC 2	DPO / PRSC 3	DPO / PRSC 4	DPO / PRSC 5	Outcomes Achieved
		as per identified expenditure budget codes for priority sectors, and also by identified codes for priority items Joint PFMRP Steering Committee reviewed establishment of a management structure and the detailed annual work plan and budget for the first phase of PFMRP implementation Prepared draft bill amending Public Procurement Act of 2001 reflecting the CPAR recommendations, and submitted a letter from the Attorney General confirming that said bill will be presented for parliamentary approval during 2004 budget session Progress in strengthening and sustaining capacity of the VPO secretariat to support and monitor implementation of the PRS according to an updated action plan to be approved by government	as per identified expenditure budget codes for priority sectors and items Progress in the implementation of the PFMRP Establish the Regulatory Authority for procurement and decentralize procurement to Procurement Authorities	equipment at the National Audit Office completed, allowing audit through IFMS in future periods Organization structure of Public Procurement Regulatory Authority approved and additional budgetary resources allocated		
Tanzania	Finalized the Agriculture Sector Development Strategy (ASDS) framework and process document and adopt it for implementation		Building on the results of the Crop Boards review, Government approval of a strategy to reform two crop boards consistent with ASDS	Progress in the implementation of the Action Plan for the rationalization of roles, functions, financing and accountability of crop boards, consistent with the ASDS	Consultation for four crop boards completed and MOUs signed	GDP growth of agriculture per annum has increased from 3.4% in 2000 to 5..2% in 2006 Reduction of share of rural population below basic needs poverty line from 38.6% in 2000-01 to XX in 200X
Tanzania	Approval of an implementation plan for the Business Environment Strengthening in Tanzania (BEST) program by the integrated framework steering committee	Reviewed the business licensing system after consultation with stakeholders, prepared a position paper on business licensing reforms, and submitted to Parliament amendments to the Business Licensing Act, introducing reforms of the business	New business licensing framework under implementation in a phased strategy	Draft bill on business activities registration submitted to Parliament by April 2005	Progress in the reform of the business activities registration and the business regulatory licensing regime, including reflecting private sector views in the redrafting of the business activities registration bill.	Cost of registering a business fell from 199% of per capita income in 2004 to 47.1% in 2007.

ANNEX E. SELECTED WORLD BANK CONDITIONALITY AND DEVELOPMENT OUTCOMES ACHIEVED

Country	DPO / PRSC 1	DPO / PRSC 2	DPO / PRSC 3	DPO / PRSC 4	DPO / PRSC 5	Outcomes Achieved
		licensing system				
Indonesia		Reduce subsidies to the non-poor	Monitor effectiveness and undertake independent operational assessment including fiduciary aspects of new compensation programs from reallocated fuel subsidy funds (e.g., cash transfer, health, education, village infra)	Develop an enhanced assessment framework for selected service delivery programs		Level of subsidies reduced from 4% in 2004 to 2.7 percent in 2007, allowing reallocation of $10 billion to pro-poor programs, including a cash transfer to 19.2 million households vulnerable to fuel price increase. Lessons learned helped establish modern social protection system.
Indonesia	Organizational reform at the MOF, including first steps in establishing a Treasury Single Account (TSA)	Treasury single account timetable and activity plan adopted for the consolidation of bank accounts	Extend the pilot for zero-balance non-salary accounts to at least 50 KPPNs (or 75% of transactions)	Continue to consolidate core government (revenue and expenditure) bank accounts		Cash management has improved with the reduction of commercial bank accounts holding government funds from 18,000 to a Treasury Single Account (expected end-2007)
Cape Verde	2005 budget law takes into account adequate funding of PRS priorities, cross-cutting reforms for public administration and public expenditure management	2005 revised budget takes into account adequate funding of PRS priorities	Executed 2006 budget consistent with approved 2006 budget *2007 Budget Law is in accordance with the benchmarks for social sectors (health and education) as stated in PRSP*			Health sector spending as a share of the budget increased from 6.3 in 2004 to 7% in 2006
Cape Verde	Teacher training priorities (public basic education) identified and three-year action plan prepared	First year of teacher training action plan for basic education implemented	Second year of teacher training action plan for basic education implemented			Share of primary education teachers without professional qualifications decreased from 27% in 2004 to 15% in 2007

Note: Reform measures in italics denote non-binding "benchmarks" and not conditionality.