Development Policy Financing and 2015 Retrospective
Frequently Asked Questions
December 5, 2014

1. **What is Development Policy Financing?**

World Bank assistance to its clients can be provided in the form of Development Policy Financing (DPF), one of the World Bank's three financing instruments. This could be a loan, grant, credit or guarantee which provide budget support to help a country address actual or anticipated development financing requirements.

2. **What is the Bank's policy for Development Policy Financing?**

DPF is governed by the operational policy, OP8.60, approved by the World Bank's Executive Directors in August 2004. The policy emphasizes country ownership and alignment, government consultation with stakeholders in the design of the reform program, donor coordination and results. It also requires a systematic treatment of fiduciary risks as well as environment and social risks associated with the country's reforms being supported.

3. **What are the criteria used by the Bank to provide Development Policy Financing?**

The Bank's use of DPF in a country is determined in the context of the Country Partnership Framework (CPF). DPF can be extended in the form of loans, credits, grants or guarantees. The Bank makes the funds available to the client upon: (a) maintenance of an adequate macroeconomic policy framework, as determined by the Bank with inputs from IMF assessments; (b) satisfactory implementation of the overall reform program; and (c) completion of a set of critical mutually agreed prior policy and institutional actions (prior actions) between the Bank and the client.

4. **How does Development Policy Financing support countries?**

DPF aims to help the borrower achieve sustainable poverty reduction through a program of policy and institutional actions. Examples include, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. This represents a shift away from short-term macroeconomic stabilization and trade liberalization reforms of the 1980s-90s towards more medium-term policy and institutional reforms.

5. **Can Development Policy Financing's funds be earmarked to a specific sector?**

No. DPF supports country-owned reforms through non-earmarked general budget financing that is subject to the borrower's own implementation processes and systems. That is, while a thematic DPF operation supports Government policy and institutional actions and results in a specific sector or area (for example, the Global Food Crisis Response Program TF supported policy and institutional actions to address a food crisis, and the Education For All – Fast Track Initiative TF supported policy and institutional actions to improve results in primary education), the proceeds of the DPF operation must be deposited directly in the country's National Treasury account without earmarking.

6. **What are prior actions and triggers?**

Prior actions are a set of mutually agreed policy and institutional actions that are deemed critical to achieving selected development objectives of a country and that a country agrees to take before the Board approves a loan (credit, grant or guarantee). Prior actions are legal conditions for disbursement. Triggers, as used in the context of programmatic development policy financing, are the planned actions in the following operation(s) that are deemed critical to achieving the results of the program and that will be the basis for establishing the prior actions for later operations.

7. **How does the Bank monitor results on the ground and the impact of Development Policy Financing?**

All DPF operations have a results framework matrix, which outlines the objectives of the program of reforms being supported, the operation's expected results accompanied by baselines, targets, and monitoring indicators to supervise and monitor program implementation. An ex-post evaluation as to whether a operation achieved its intended development objectives is done through an Implementation Completion and Results Report (ICR). All ICRs are validated by the Independent Evaluation Group (IEG).

8. **Are documents related to Development Policy Financing public i.e. are they disclosed?**

The Program Documents of all DPF operations and the Government's Letter of Development Policy (LDP) are published after Board consideration of the operation unless Executive Directors decide otherwise. If the clients agree, documents can also be made public prior to Board Approval. That is, documents can be publicly available when sent for consideration to the Board of Directors.

9. **Does Development Policy Financing consider the likely social and distributive impacts of the reforms supported by the Bank?**

During preparation stages of a DPF operation, the policies supported by the operation are reviewed with the objective of identifying whether they are likely to have any significant poverty and social impacts. If so, Bank staff discusses the analytical knowledge about those impacts and the borrower's systems for mitigating negative impacts and enhancing positive impacts in the program document. If there are significant gaps in the borrower's systems, the program document describes how such gaps are to be filled before or during program implementation.

10. **Does Development Policy Financing consider the likely environmental impacts of the reforms supported by the Bank?**

OP8.60 requires Bank staff to determine whether specific policy actions to be supported by the operation are likely to cause significant effects on the country's environment, forests and other natural resources. For policies with likely significant effects, the Bank discusses in the PD the borrower's systems for reducing such adverse effects and enhancing positive ones, drawing on relevant country-level or sectoral environment analysis. If there are significant gaps in the analysis or shortcomings in the country's system or capacity, the PD should describe how these shortcomings would be addressed before or during program implementation.

11. **Do all Bank financing instruments have policies to manage social and environmental risks?**

Yes, all instruments include policies to protect people and the environment in a manner appropriate to each instrument. In the case of Development Policy Financing (DPF), the Operation Policy (OP8.60) has provisions on poverty, social and environmental effects that are tailored to an instrument that supports policy and institutional reforms.

12. **Why does the Bank have different policies for each instrument with regard to poverty and social risks?**

DPF provides budget support upon completion of a program of reforms to help countries improve the livelihoods of people, build institutions, and strengthen capacity in a sustainable manner. As such, DPF is an instrument with different characteristics to IPF. Unlike IPF, DPF does not finance specific investments, such as roads, dams or power plants. IPF safeguards are designed for financing of specific goods and services within projects with a physical footprint. Thus IPF safeguards are neither conceptually appropriate nor applicable in practice to DPF, which disburses into the general budget and supports policies at the country level.

13. **How will this Retrospective be conducted?**

The team will include Bank staff from various departments of the World Bank Group. The review of the DPF will use a combination of methodologies in gathering the information and in carrying out the analysis. It will involve a combination of methodologies, including desk reviews, empirical and qualitative analysis with case studies. These will also include consultations with relevant stakeholders, review of existing program documents and database and various analytical tools, including regression analysis and other econometric techniques and models, among others.

14. **How are we consulting on the Retrospective?**

Global multi-stakeholder consultations will take place during the preparation of the Retrospective. The dedicated website for the Retrospective will help keep interested stakeholders informed and will serve as an avenue for soliciting and receive feedback from a wide variety of stakeholders in as broad and inclusive manner as possible as the preparation of the Retrospective advances. In addition, there will be face-to-face events at key stages to provide opportunities to directly engage with stakeholders on the scope of the Retrospective. A more detailed consultation plan is available at https://consultations.worldbank.org/consultation/dpfconsultations.

15. **What has been the impact of previous Retrospectives?**

The Bank has systematically analyzed its experience with policy-based lending since the introduction of this instrument in the early 1980s. Similarly, since the introduction of OP8.60 in August 2004 the Bank has conducted reviews of Development Policy Financing about every three years (in 2006, 2009, and most recently in 2012). These exercises consisted of a review of the entire universe of operations approved during the three-year period to take stock of the use of the instrument and distill key lessons. The lessons from Retrospectives have been critical to improve the use of the instrument and have led to policy and practice reforms to enhance its development impact, including ensuring country ownership, reducing unnecessary conditionality, and a better focus on results. For example, the number of conditions has declined from over 30 per operation, on average, in the structural adjustment loans of the mid-1990s to approximately 10 since 2005. Results frameworks have improved measurably and significantly. Retrospectives have also contributed to better implementation of the provisions related to poverty and social aspects. The lessons from the Retrospectives have led to the preparation and updating of guidance notes on poverty and social impacts, and increased attention to poverty and social aspects by the teams and the corporate review process.