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Operations Policy & Country Services

Anchoring financing in results & reforms

Key takeaways from World Bank experience

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on Future of Cohesion Policy,
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Why travel this road? Complementing investments with reforms can institutionalize a mindset shift in support of development goals

The *process of identifying needed reforms and alignment of vision on results* has the potential to add an impetus to the achievement of development goals:

- Shifts dialogue from **inputs and compliance** to **results**
- Leverages funds and builds **coalitions around results**: results based operations serve as a platform to mobilize inter-ministerial and development partner support around broader government programs
- **Advances difficult agendas**: providing positive incentives that links disbursements to results or to reforms can give reform agendas sudden impetus
- Lasting **impact beyond the specific program**: focuses on strengthening institutional capacity and systems

5Rs: Reforms, Resources, Results -> Responsiveness and Relevance

The road the WB has traveled:

Reforms & Technical Assistance feeding into Investments and Results

Project support: IPF (Investment Project Financing)

- ✓ Supports specific investment operations
- ✓ Disburses against specific expenditures that support the operation
- ✓ Funds for specific expenditures

Policy support: DPF (Development Policy Financing)

- ✓ Supports policy and institutional actions
- ✓ Has been used to support subnational reforms
- ✓ Disburses against policy and institutional actions
- ✓ Non-earmarked funds for general budget support

Program support: PforR (Program for Results)

- ✓ Supports government programs or subprograms
- ✓ Disburses upon achievement of results according to indicators
- ✓ Finances a defined program of expenditures

Gradual shift toward results

An example pathway for linking investments to reforms at the subnational level

- ✓ 41% of the World Bank's Urban Sector financing goes to operations with performance-based fiscal transfers to local governments (territorially directed Performance Based Grants)
- ✓ 14 out of 18 of these are PforR; this instrument naturally serves the objective of PBGs to support the improvement of intergovernmental fiscal transfer systems, as well as the improvement of infrastructure and service delivery upon achievement of results
- ✓ These operations incentivize a mix of improvements in municipal service delivery, infrastructure, and governance reforms
- ✓ Use of minimum conditions for subnational government units to be eligible to compete for Results Based Financing (additional mechanism by which reforms are incentivized):
 - Timely approval of budgets, financial statements produced on time, acceptable audit reports, modern procurement systems in place, HR minimum staffing, etc.
- ✓ Interventions have been highly successful: full report available [here](#)

Where the rubber hits the road: key factors for these instruments to work well, support inclusion and to be effectively disbursed

- ✓ Anchoring reforms using **evidence and analytics** including at a regional level, to identify both horizontal and vertical reforms
- ✓ Applied judiciously where appropriate (not always the instrument of choice - need for **rigorous and credible systems** to be in place)
- ✓ Ability to provide **hands-on implementation support and technical assistance** – which has also been an important factor in some RRF milestones and targets
- ✓ **Government buy-in and mindset shift** to accountability based on results and agreement to move away from fund-based programming
- ✓ Importance of **performance management and assessment**, complemented by **evaluation/verification**
- ✓ **Building coalitions, partnerships of stakeholders** to identify regional reforms - and bringing these priorities into the dialogue around the European Semester

Thank you



World Bank's three lending instruments

	DPF Development Policy Financing	IPF Investment Project Financing	PforR Program-for-Results Financing
		Regular	With Performance-Based Conditions
Supports	A set of policy and institutional actions	Ring-fenced, project activities	A wider government program
Disbursement based on...	Achievement of Development Policy Actions	Borrower incurring eligible investment project expenditures	Verified achievement of wider program's <u>Disbursement Linked Indicators</u> (no tracing of specific expenditures)
	Not considered RBF		0+ to 100% Results-Based
			100% Results-Based

World Bank lending instruments

	IPF Investment Project Financing	PforR Program-for-Results Financing	DPF Development Policy Financing
Supports	Ring-fenced, project activities	A wider government program	A set of policy and institutional actions
Disbursement based on...	Borrower incurring eligible investment project expenditures	Verified achievement of program's Disbursement Linked Indicators (no tracing of specific expenditures)	Achievement of Development Policy Actions
Disburses to...	Designated accounts or specific account for reimbursement	General budget (exceptionally to implementer account)	General budget
Implementation mechanism	Bank IPF rules and procedures	Borrower program systems	Country policy processes
Fiduciary and E&S risk management	Bank fiduciary and E&S policies apply	E&S and Fiduciary Assessments identify weaknesses in risk management and propose countermeasures.	Attention to fiduciary and environmental and other natural resources aspects, and social and poverty impacts
Macroeconomic risk	Macro framework required	Not required	Required

PforR has been applied in 48 countries since 2012

Country	Count
India	27
Pakistan	14
Morocco	12
China	11
Nigeria	9
Ethiopia	8
Kenya	7
Tanzania	7
Bangladesh	6
Indonesia	6
Vietnam	6
Nepal	5
Brazil	4
Rwanda	4
Senegal	3

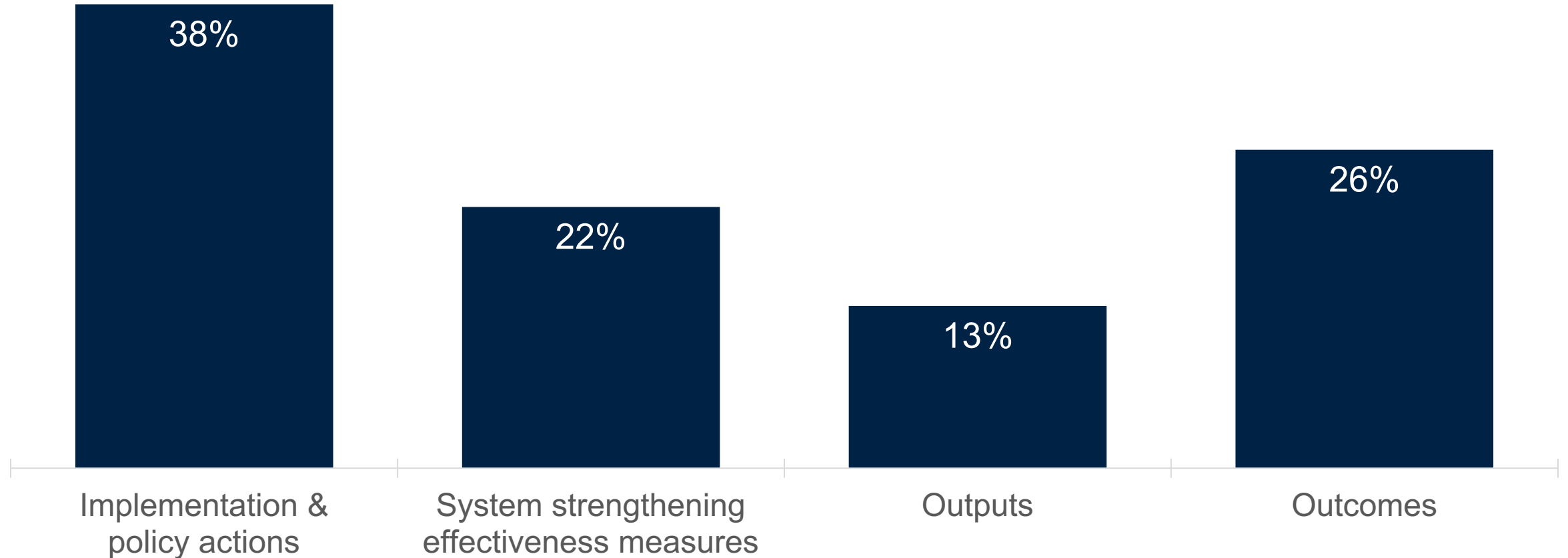
Country	Count
Ghana	3
Egypt	3
Jordan	3
Mozambique	3
Uganda	3
Tunisia	2
Burkina Faso	2
Tajikistan	2
Cote d'Ivoire	2
Serbia	2
Argentina	2
Benin	2
Lebanon	2
Colombia	2
Albania	1

Country	Count
Croatia	1
Moldova	1
Mexico	1
Samoa	1
Georgia	1
Ukraine	1
Zambia	1
Sri Lanka	1
Uruguay	1
Poland	1
Armenia	1
Costa Rica	1
Seychelles	1
Romania	1
Kazakhstan	1
Kyrgyz Republic	1
Niger	1
Bhutan	1

PforR disburses against blend of actions, outputs, and outcomes

They also strengthen results-based, fiduciary and risk management systems

Financing tied to results



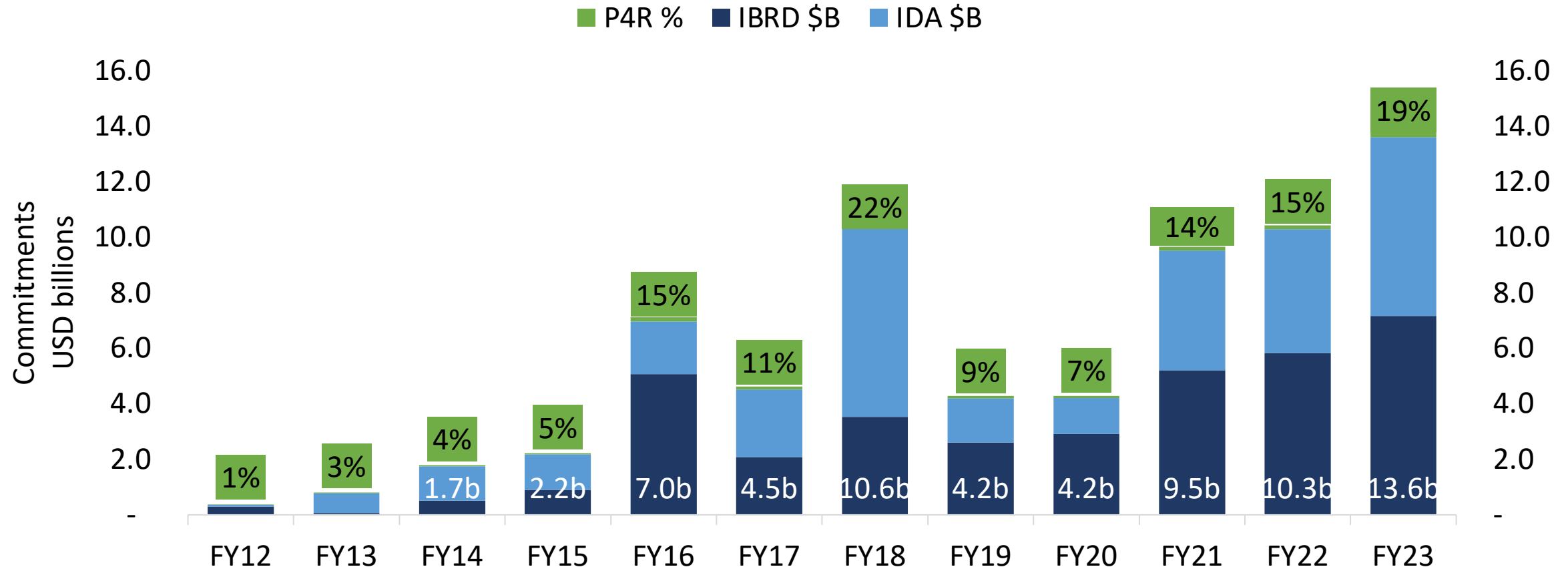
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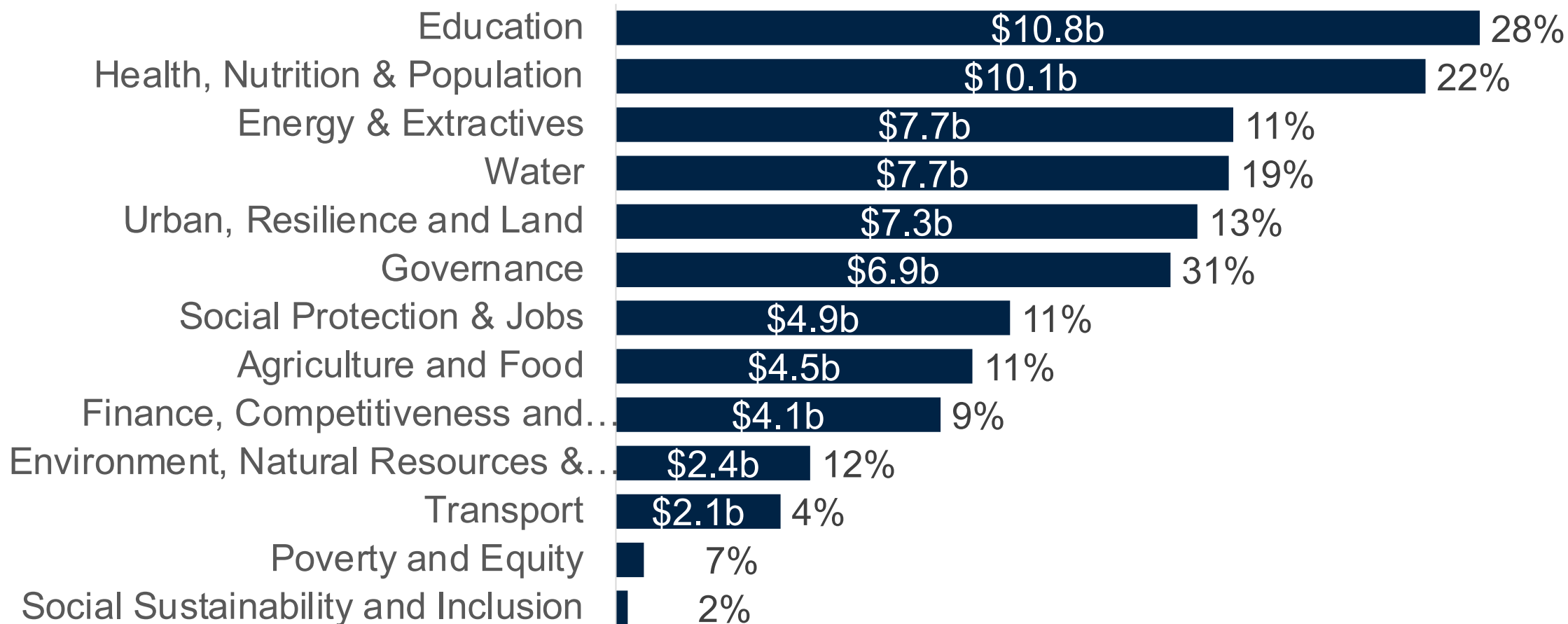
There has been a steady increase in PforR since its introduction in 2012
PforR has been used in all regions at all income levels

1a. PforR Financing Volumes Over Time



Mainly used for public service delivery and system strengthening

FY12-FY13: financial commitments and % of each sector



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Example of disbursement indicators in detail

Implementation & policy actions	System strengthening effectiveness measures
Adoption and effective use of financial management information system (IFMIS)	Improvement in budget outturns; reduction in arrears by hospitals, public utilities
Adoption and effective use of e-procurement system	Reduction in bid-processing times; increase in perceived transparency
Output	Outcomes
Schools built to standard, textbooks delivered	Students enrolled, student completion rates
Health facilities open, health workers trained	Number of visits to health clinics, availability of medicines
Households connected to water, sewage, electricity	Reliable access to water, electricity
Increase in private sector lending; reduced costs of doing business	Announced investments in targeted sectors
Improved access to farm inputs; increase in irrigated area	Adoption of new agricultural technology

Key Findings from 2022 [Review](#) of WB Financing for Territorial Performance Based Grants (PBG) Programs

- ✓ PBG programs have helped enhance urban systems, by improving OSR (own-source revenue) performance, PFM, accountability and transparency, operation and maintenance (O&M) of capital infrastructure investments, and human resource (HR) management
- ✓ The average annual execution rate of planned infrastructure investments was 88%, and steadily improved over program periods across all PBG programs
- ✓ For programs to be effective, they need to have considerable size (in absolute and relative terms)

Figure 3.6. Percentage Increase in Own-Source Revenue over Program Period

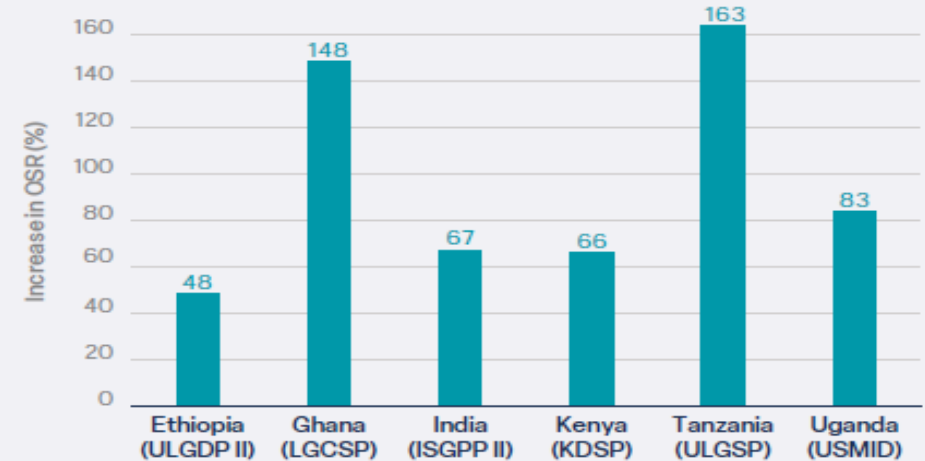


Figure 3.7. Annual Execution Rate of Planned Infrastructure Investments at the Local Level

