



Development Policy Lending: Option for Development Financing

Vincent Tsoungui Belinga

Economic Development Days – May 2017

Vienna University of Economics and Business (WU Wien)

The views and interpretations expressed in this presentation are entirely those of the author. They do not necessarily represent the views of – and should not be attributed to – any former or current employer.

Outline

- I. World Bank engagement and set of instruments
- II. Development Policy Financing (DPF)
 1. What is DPF?
 2. Design and evaluation of DPF
- III. Conclusion



1. World Bank engagement and set of instruments



The World Bank engages with countries through a Country Partnership Framework

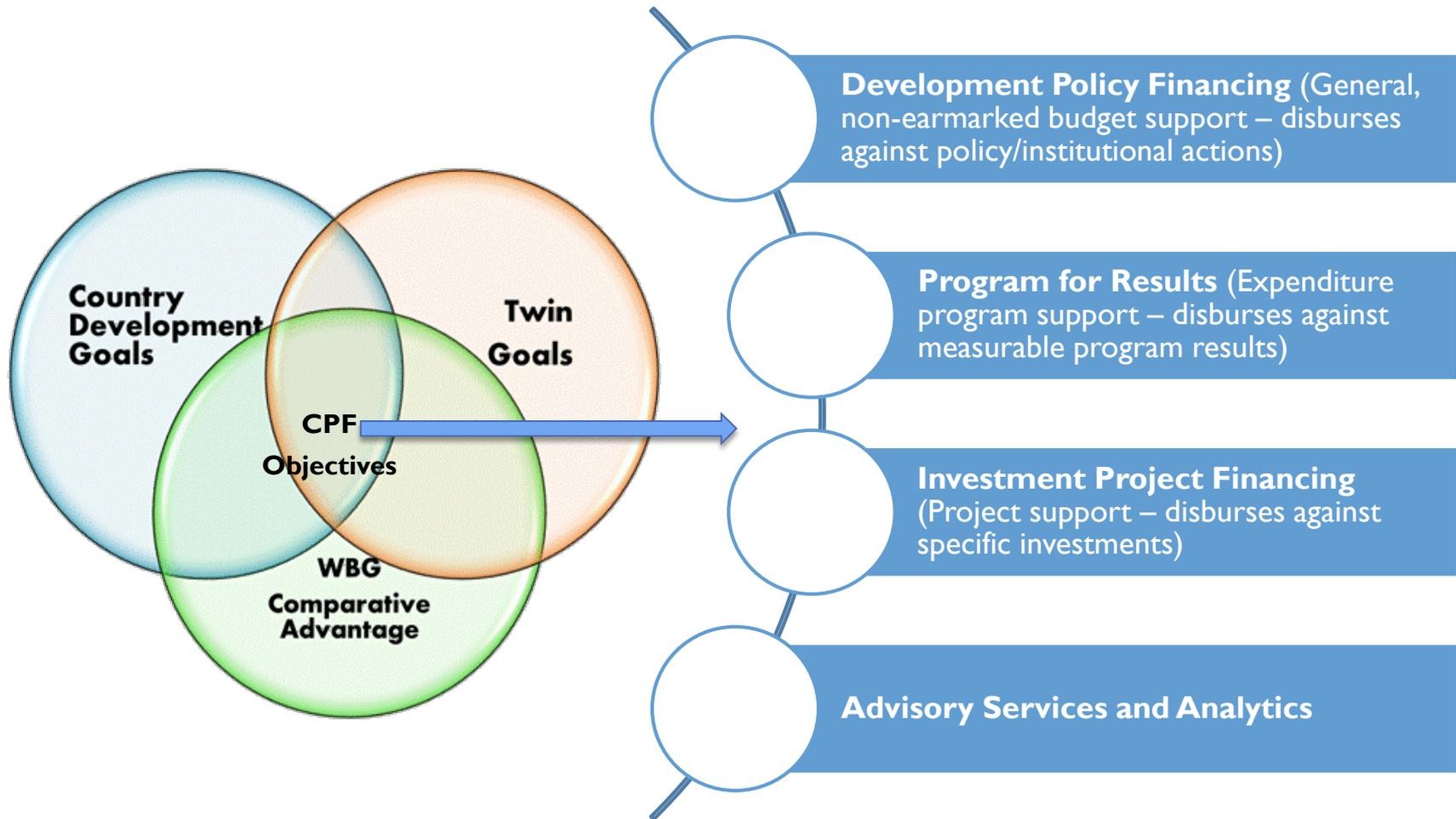
Country Development Strategy/
Vision/reforms agenda

```
graph TD; A[Country Development Strategy/  
Vision/reforms agenda] --> B[Systematic Country Diagnostic (SCD)]; B --> C[Country Partnership Framework (CPF)];
```

Systematic Country Diagnostic (SCD)

Country Partnership Framework (CPF)

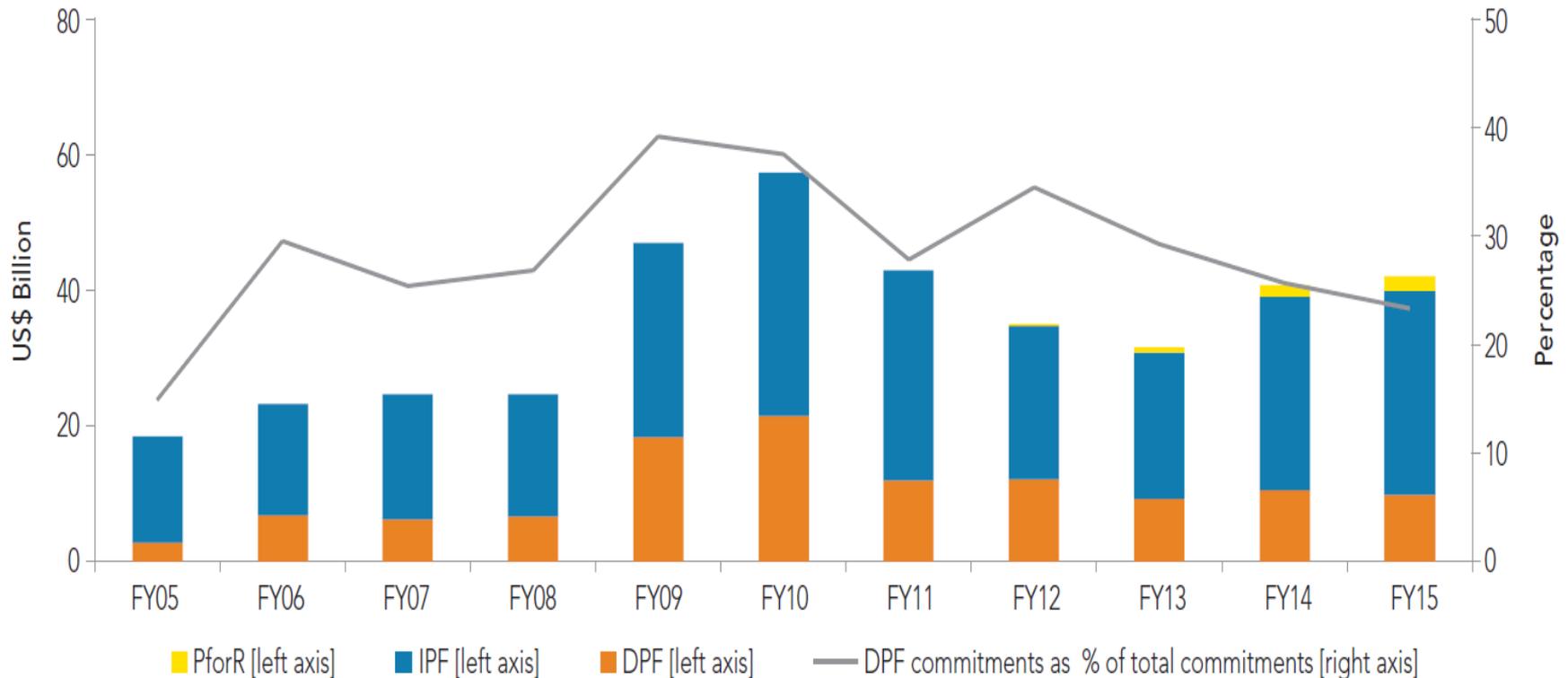
The Bank has a mix of complementary instruments to assist clients



CPF provides a strategic vehicle for the WBG and its clients to decide on the right mix of instruments to support CPF objectives

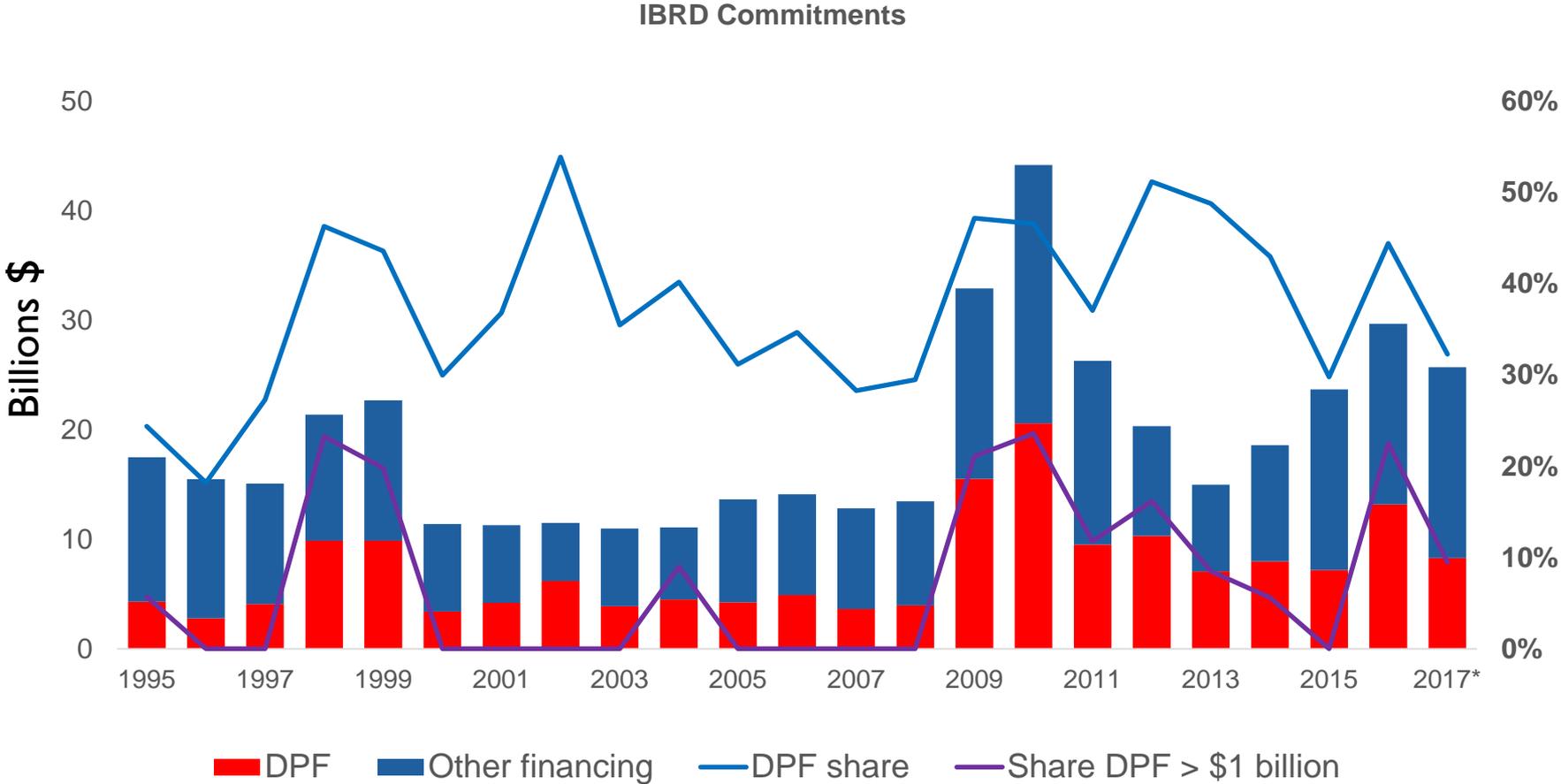
World bank financing likely to increase with economic shocks, especially to support structural reforms (DPF)...

World Bank financing commitments



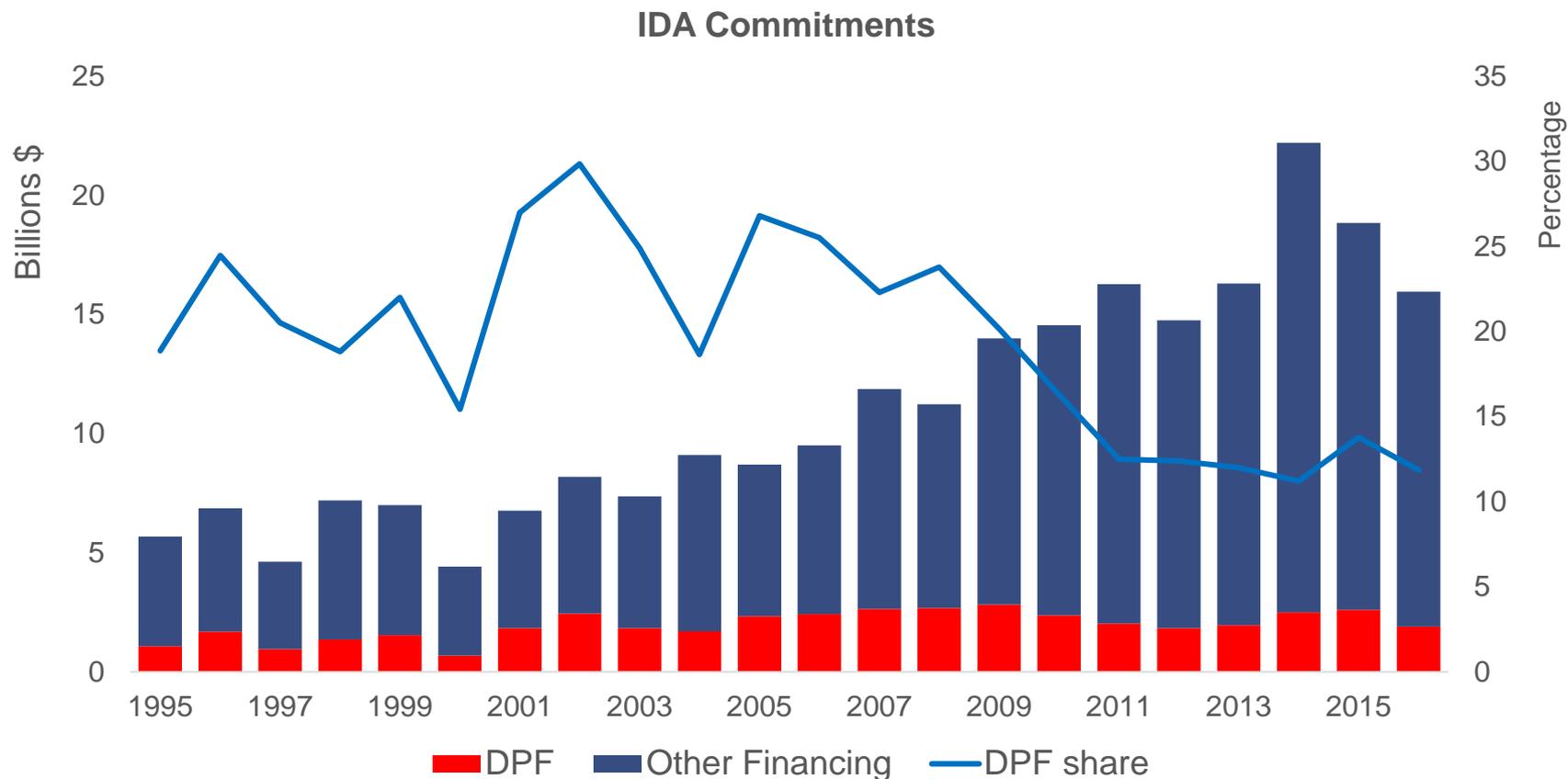
Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

...Driven by IBRD financing



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

While overall IDA financing increases over time with smaller DPF share relative to previous decade



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

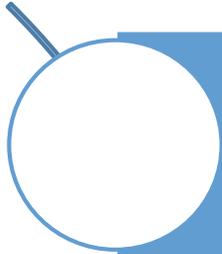
2. Development Policy Financing

What is DPF?

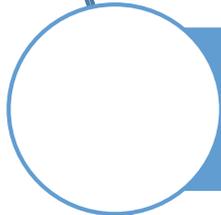
What is Development Policy Financing?



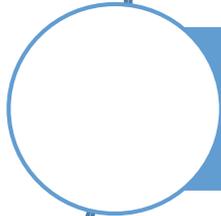
Development Policy Financing: role in structural reforms



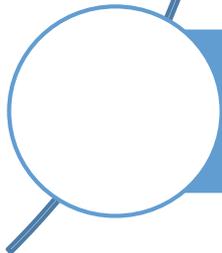
Structural reforms include a wide range of legal, regulatory, and institutional changes across a range of sectors; and promote economic growth, human capital, protect the vulnerable and support global public goods



Examples include: strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, or diversifying the economy



DPFs are used both when countries are growing/stable and when adjusting to shocks. Governments use DPF to help on the technical quality, sequencing and timetable of reforms.



DPFs “...help to de-risk and leverage investments, in that the reforms they support help improve the environment for private investment (Giordano and Pagano 2016).”

DPF offer multiple options to support reform programs

Stand-alone and Programmatic DPF

Both stand-alone and programmatic DPF are embedded in a medium-term program.

Regional:

Cote d'Ivoire/Burkina Faso

Deferred Drawdown Option (DDO)

Allows IBRD borrowers to postpone drawing down a loan for a defined period.

Peru

Catastrophe DDO (Cat-DDO)

May be drawn down when a pre-specified trigger linked to a natural disaster or public health emergency is met.

Sri Lanka

Subnational DPF

Budget support to political subdivisions with a sovereign guarantee.

Brazil/China

Policy Based Guarantee

Covers debt service defaults on commercial debt owed by a member country.

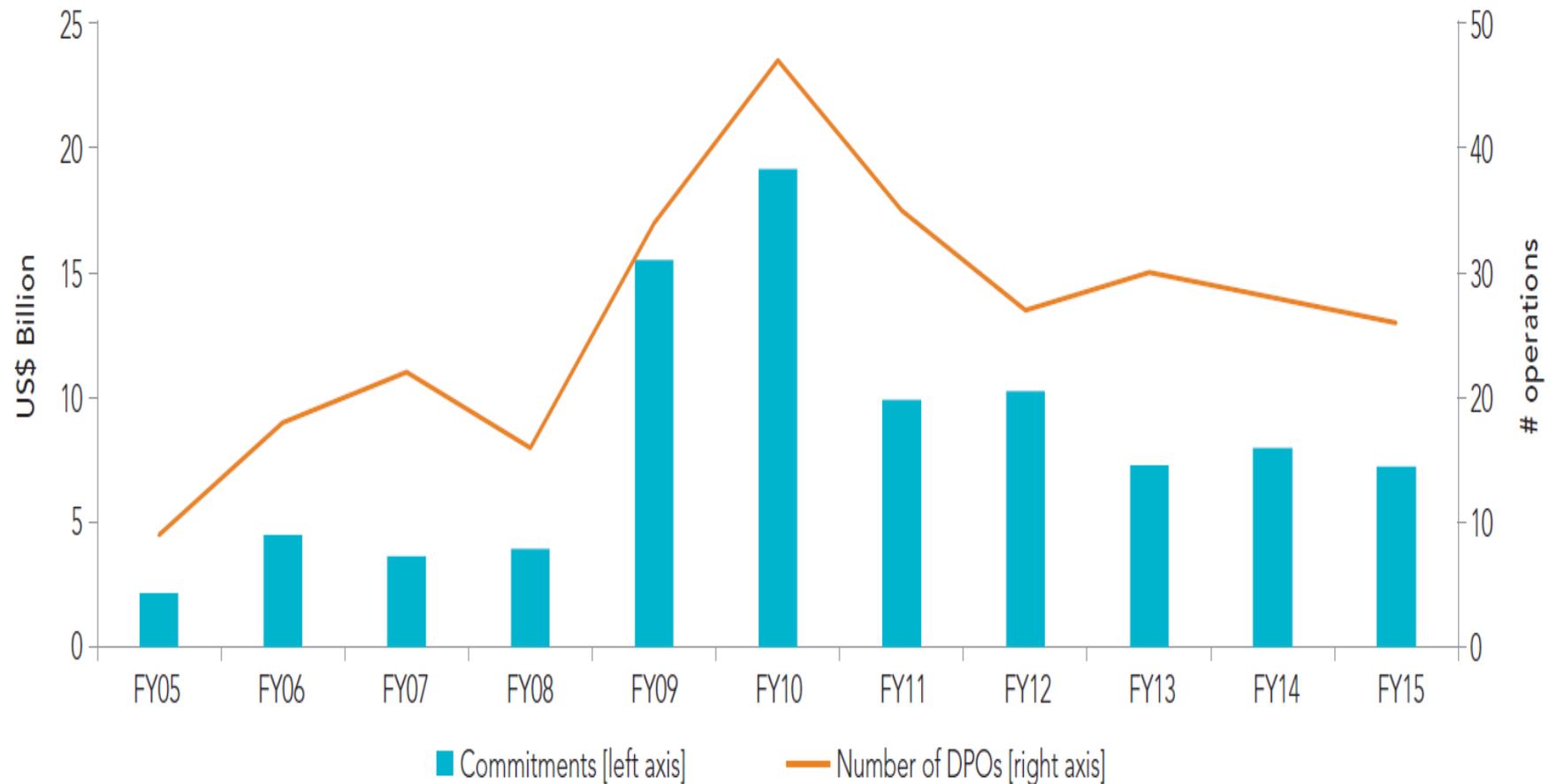
FYR Macedonia

Supplemental Financing

Exceptional support for an active DPF whose program may be jeopardized by an unanticipated shock and financing gap.

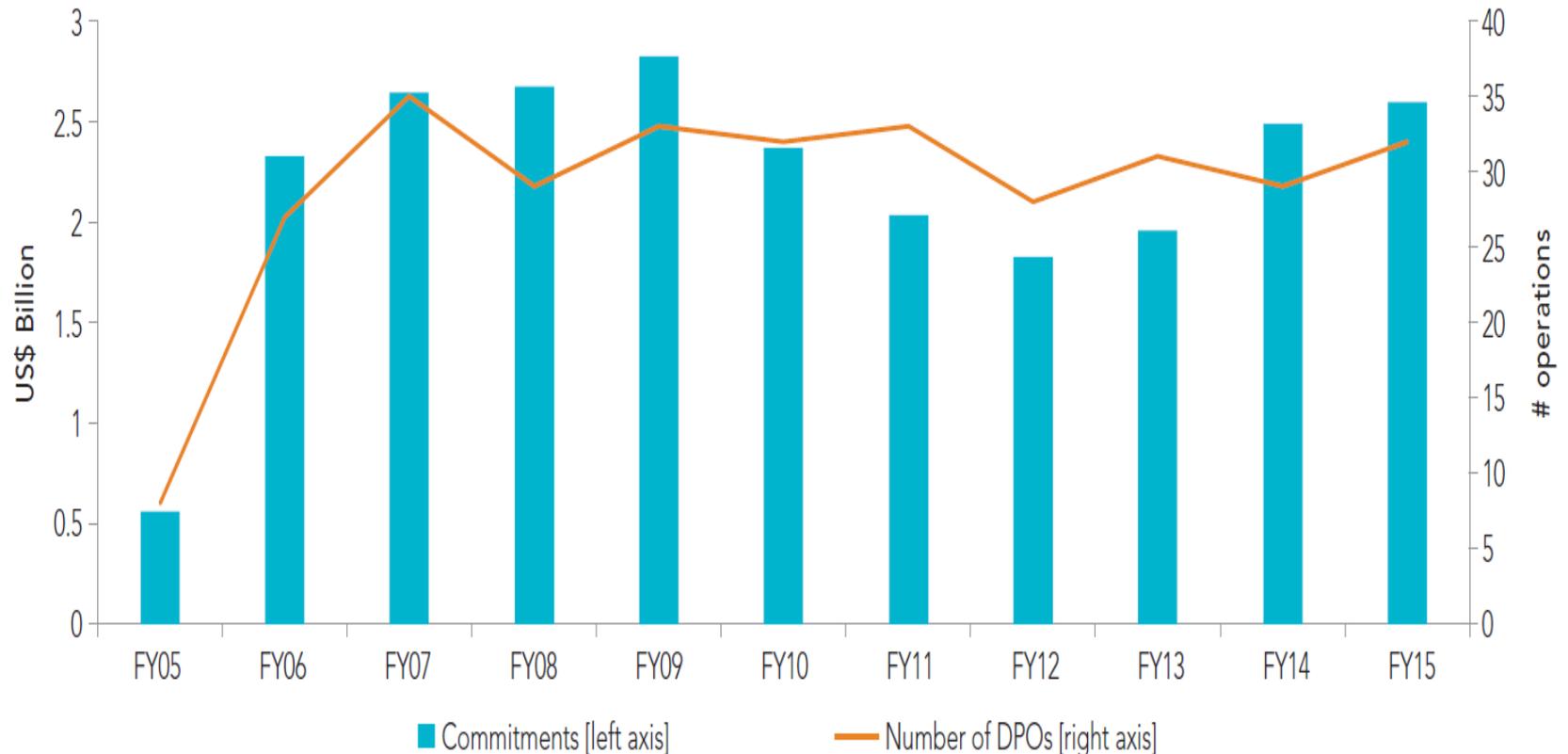
Liberia/Sierra Leone

IBRD DPF commitments and number of operations



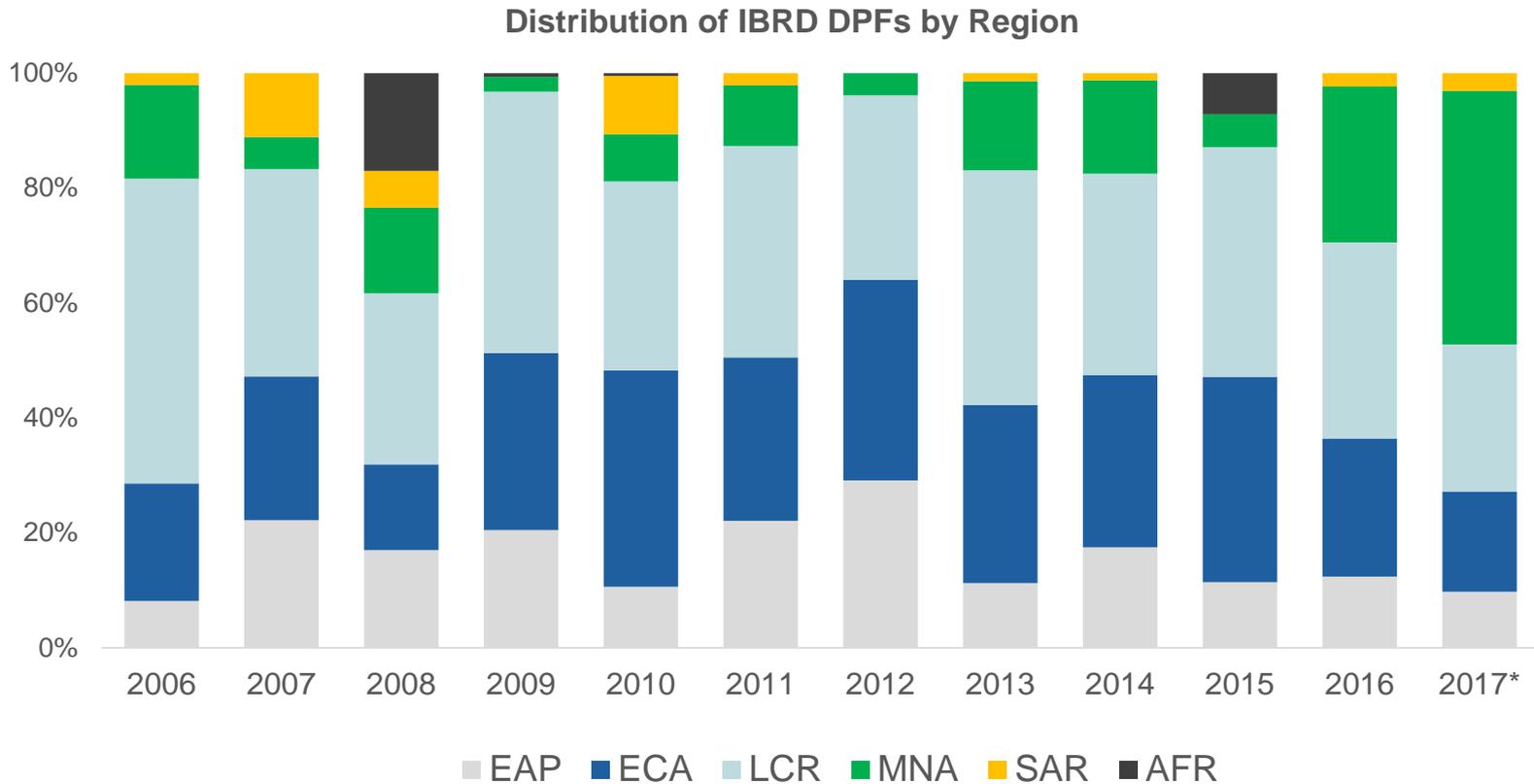
Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

IDA DPF commitments and number of operations



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

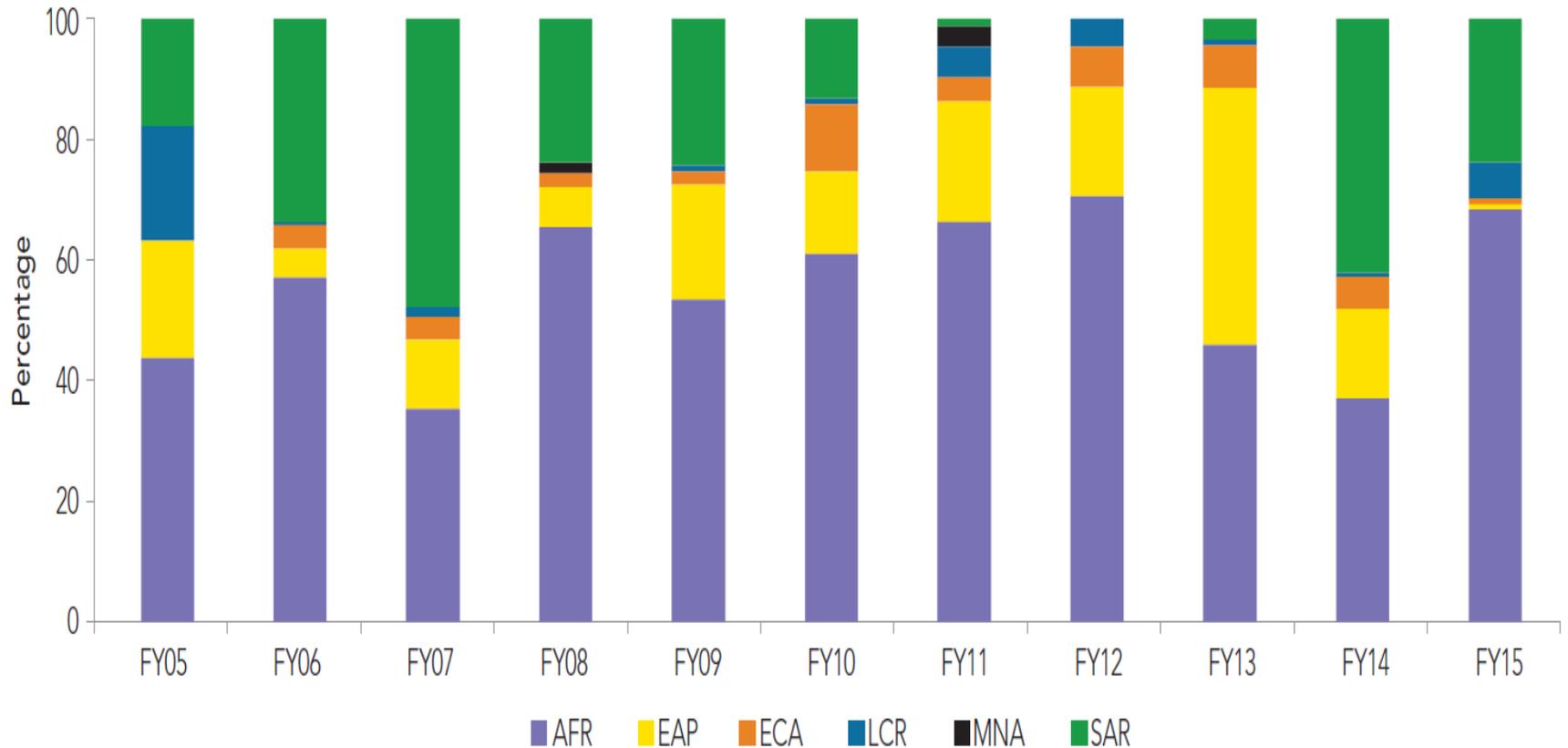
Regional distribution shows increase in IBRD DPF in MENA in FY16 and FY17



Note: 2017 data is for DPFs approved as of December 29 2016 and projections for Board approval for remainder of FY17.

Africa and South Asia are the main beneficiaries of IDA DPF

Distribution of IDA DPF commitments by region



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

2. Development Policy Financing

Design and evaluation of DPF

Design of Development Policy Financing

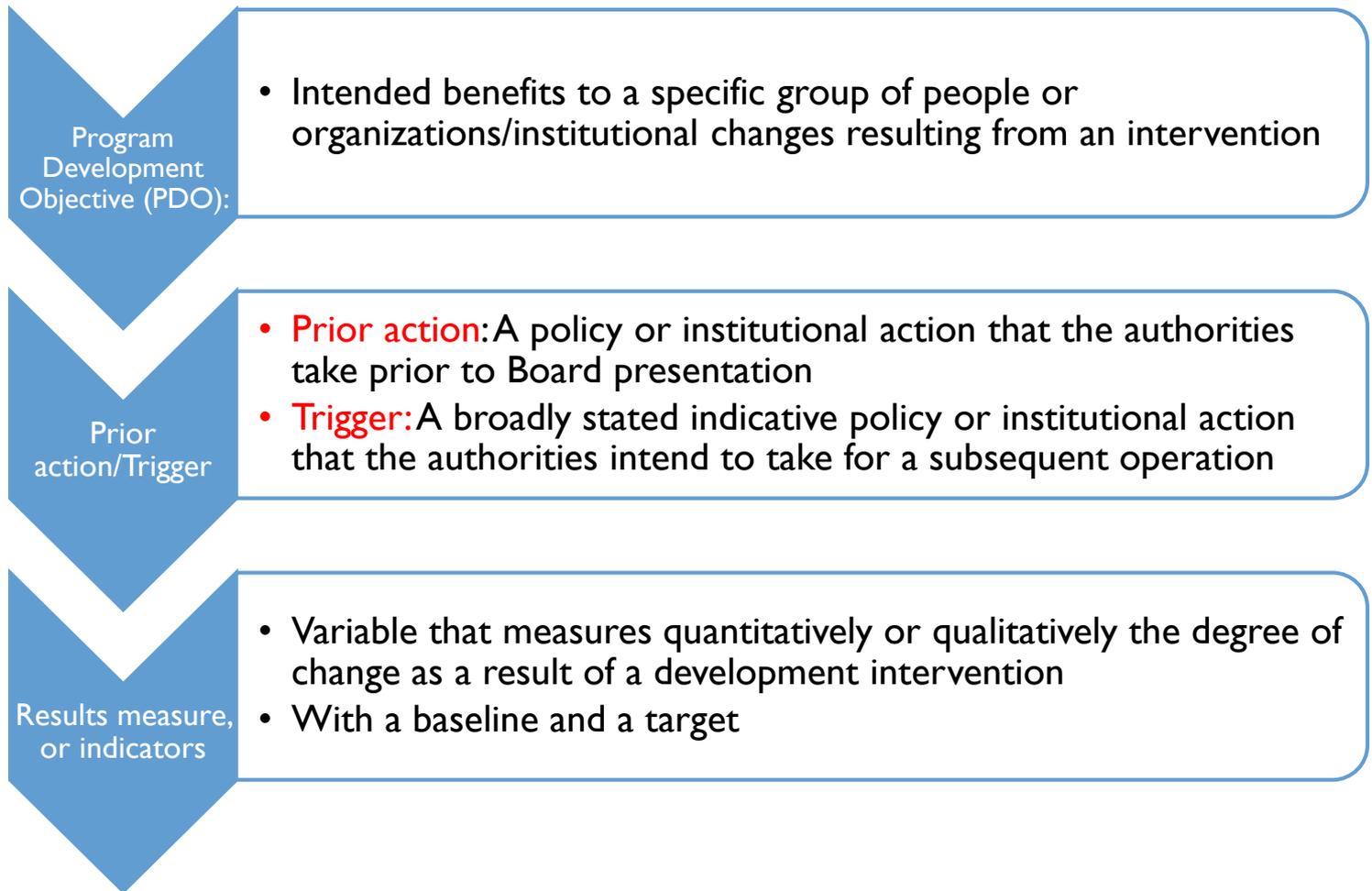


Adequate
Macroeconomic
framework

Assessment of
fiduciary Systems

Environmental and
Social impacts

Design of DPF: policy prior actions and results matrix



Example of Policy prior actions and results matrix:

Peru - Boosting Human Capital and Productivity DPF, 2016

(US\$1.25 billion)

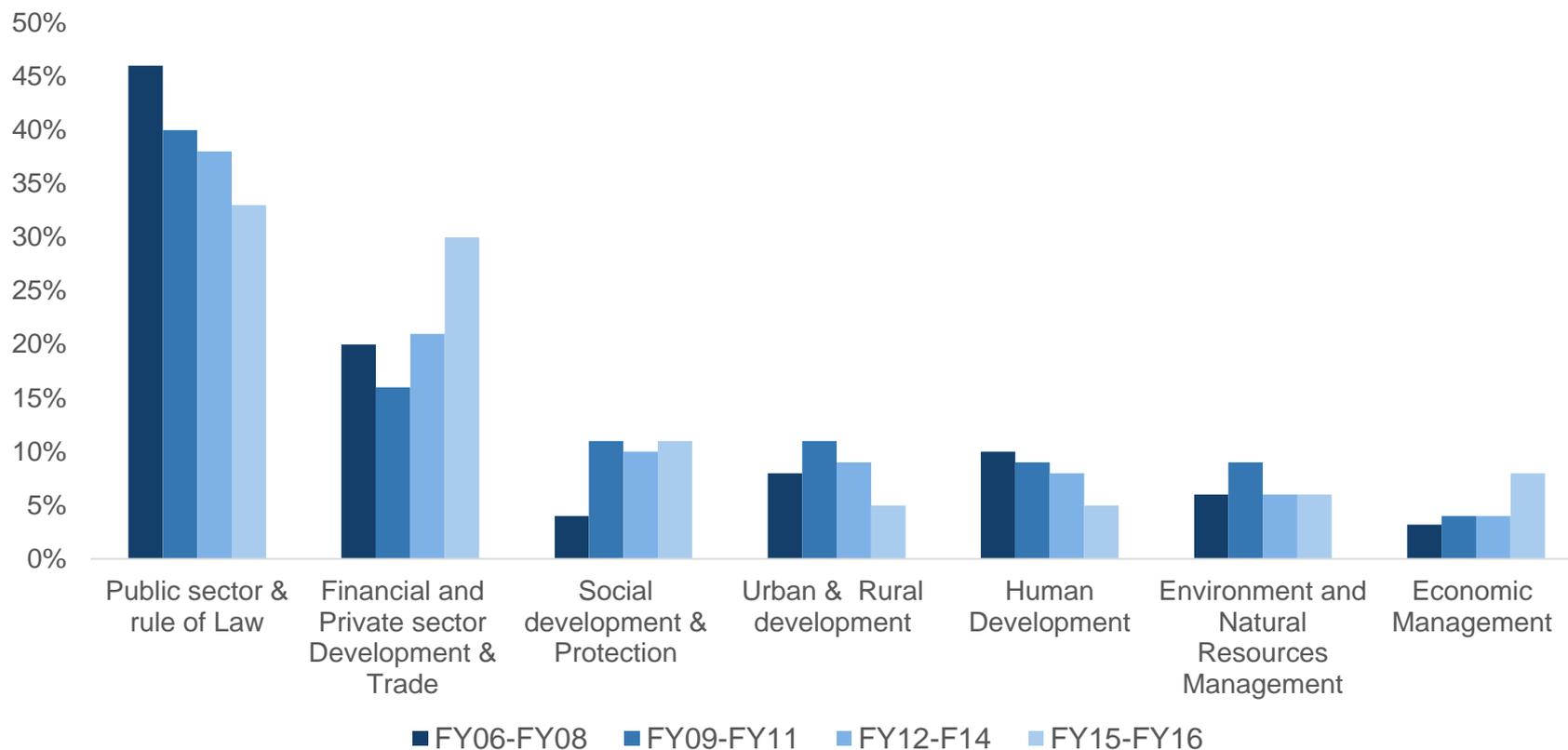
ANNEX 1: POLICY AND RESULTS MATRIX

DPF Prior Actions	Results
<i>Pillar 1: Enhancing the education policy framework to enable better quality of skills</i>	
Prior Action #1: Increase in the teaching quality of education in economically disadvantaged areas by introducing a balanced and equitable system for recruiting and promoting qualified teachers and principals within the merit-based Teaching Career System [Resolution of the General Secretariat No. 813-2014-MINEDU and Vice-Ministerial Resolution No. 021-2015-MINEDU]	<i>Increase the share of programmed merit-based promotions and appointments for teachers and school principals within the Teaching Career outside Lima and Callao from 60% in 2014 to 75% in 2017. Source: MINEDU</i>
Prior Action #2: Improvement of school graduates' learning outcomes by: (i) introducing an extended school-day model for secondary education that strengthens the teaching of Math, Science, English language, and soft skills [Ministerial Resolution 451-2014-MINEDU]; and (ii) creating performance-based financial incentives for subnational government institutions that manage schools (UGEL and DRE) to improve the learning environment in schools [Ministerial Resolution No. 591-2014-MINEDU]	<i>Increase the number of secondary schools that implement the new school-day model from 0 in 2014 to 1500 in 2017; and include learning outcomes in the stated targets of the performance-based financial incentive mechanism for subnational entities: baseline: 0% in 2014, target: 100% in 2017. Source: MINEDU</i>
Prior Action #3: Creation of the General Directorate for School Infrastructure within the Ministry of Education, to foster the participation of the private sector in school infrastructure upgrading, and to separate the functions of policy formulation and planning from construction [Supreme Decree No. 001-2015-MINEDU]	<i>Increase private sector investment in the construction and/or maintenance of public schools from 0 in 2014 to US\$150 million in 2017. Source: MINEDU</i>

Source: World Bank. 2016. *Peru - Boosting Human Capital and Productivity Development Policy Financing with a Deferred Drawdown Option Project*. Washington, D.C.: World Bank Group.

DPF supports structural reforms in Bank core areas

Thematic distribution of prior actions in IBRD and IDA DPF



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

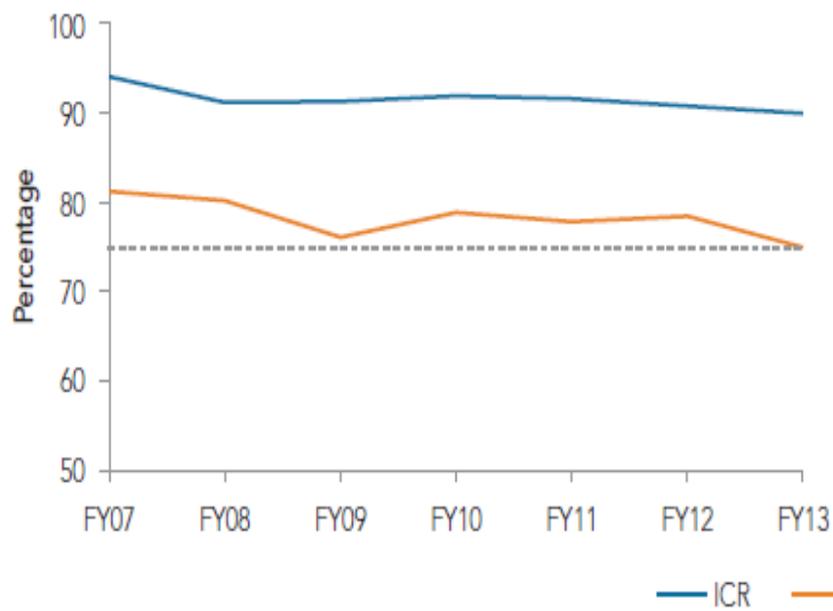
Development Policy Financing: reforms to support national and global agendas– examples

- **Romania DPF-DDO** (FY12; €1 b) supported reforms to enhance the efficiency of public spending and the Government's revenue-raising capacity; to improve governance of state owned enterprises in the energy and transport sectors ; and to enhance the quality of public health care
- **Morocco DPF** (FY14 and FY16; \$300 m each) supported reforms related to low carbon growth and pollution management linked to climate change adaptation and improved health outcomes.
- **Colombia programmatic DPF series** (FY15-16; \$700 m each) supported reforms to promote financial inclusion
- **Egypt DPF** (FY17; \$1 bn) energy subsidy reforms that are expected to help with medium term fiscal sustainability;
- **Angola DPF** (FY16, \$450 m) and **PBG** (FY16; \$200 m) supported a set of reforms to mobilize revenues, including reducing fuel subsidies; leveraged private capital via guarantee.

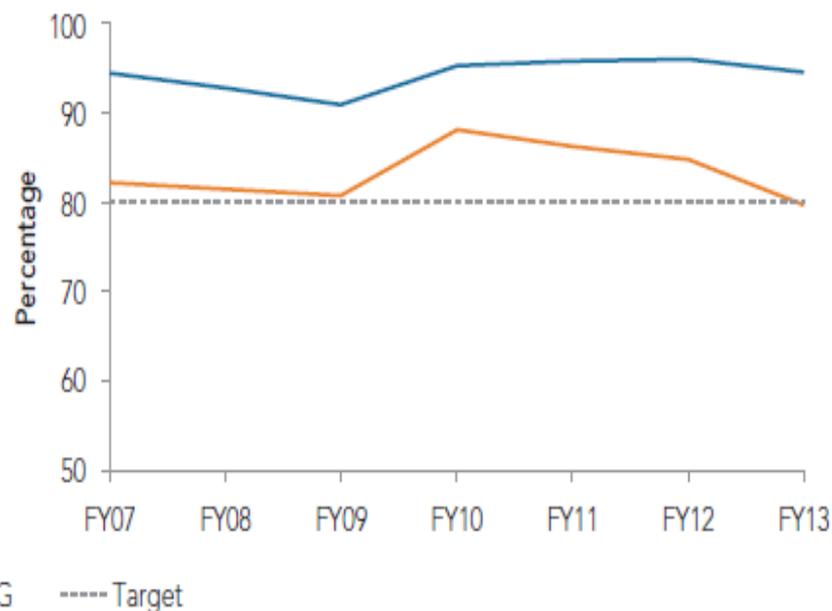
Recent evaluations show that DPFs have positively contributed to intended results

Percentage of DPF evaluated Moderately Satisfactory or above– 3 year moving average (FY05–FY13)

a. By number of DPOs



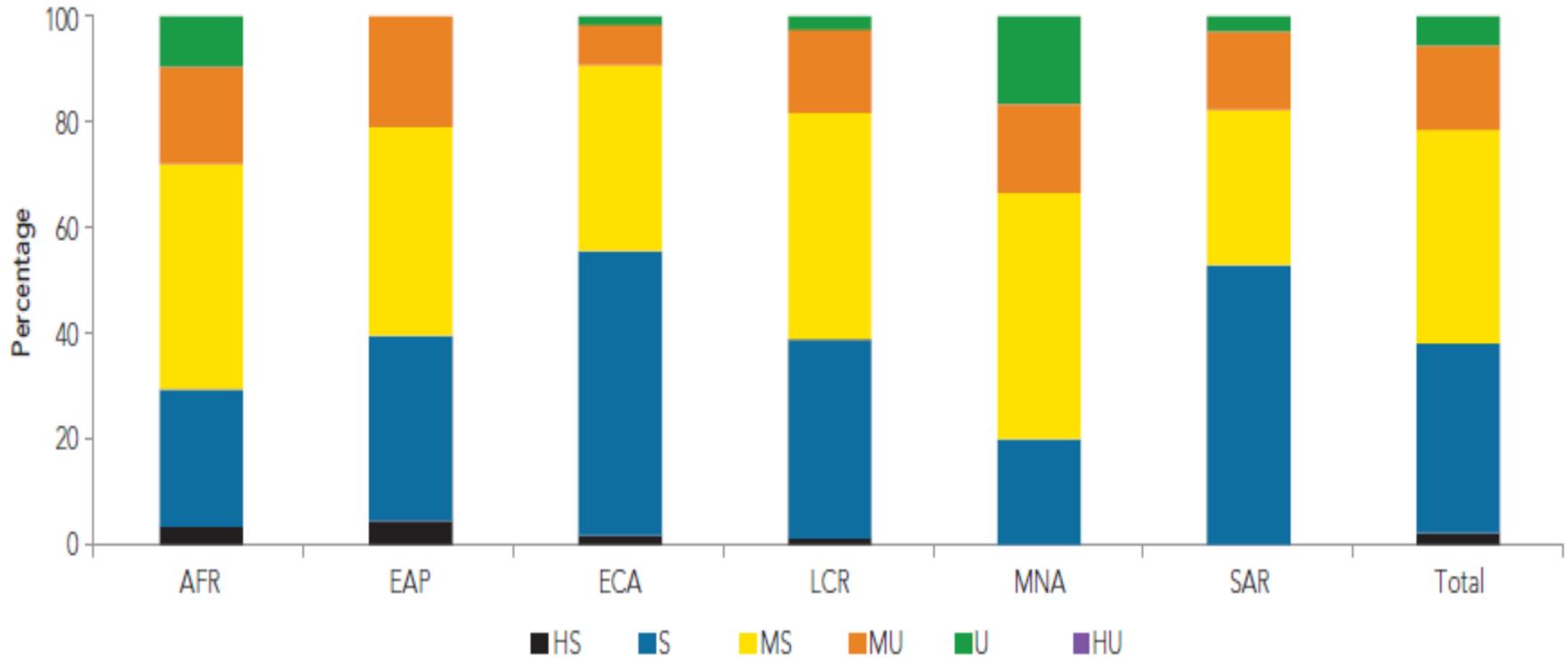
b. By commitment amounts



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

...But performance varies across regions

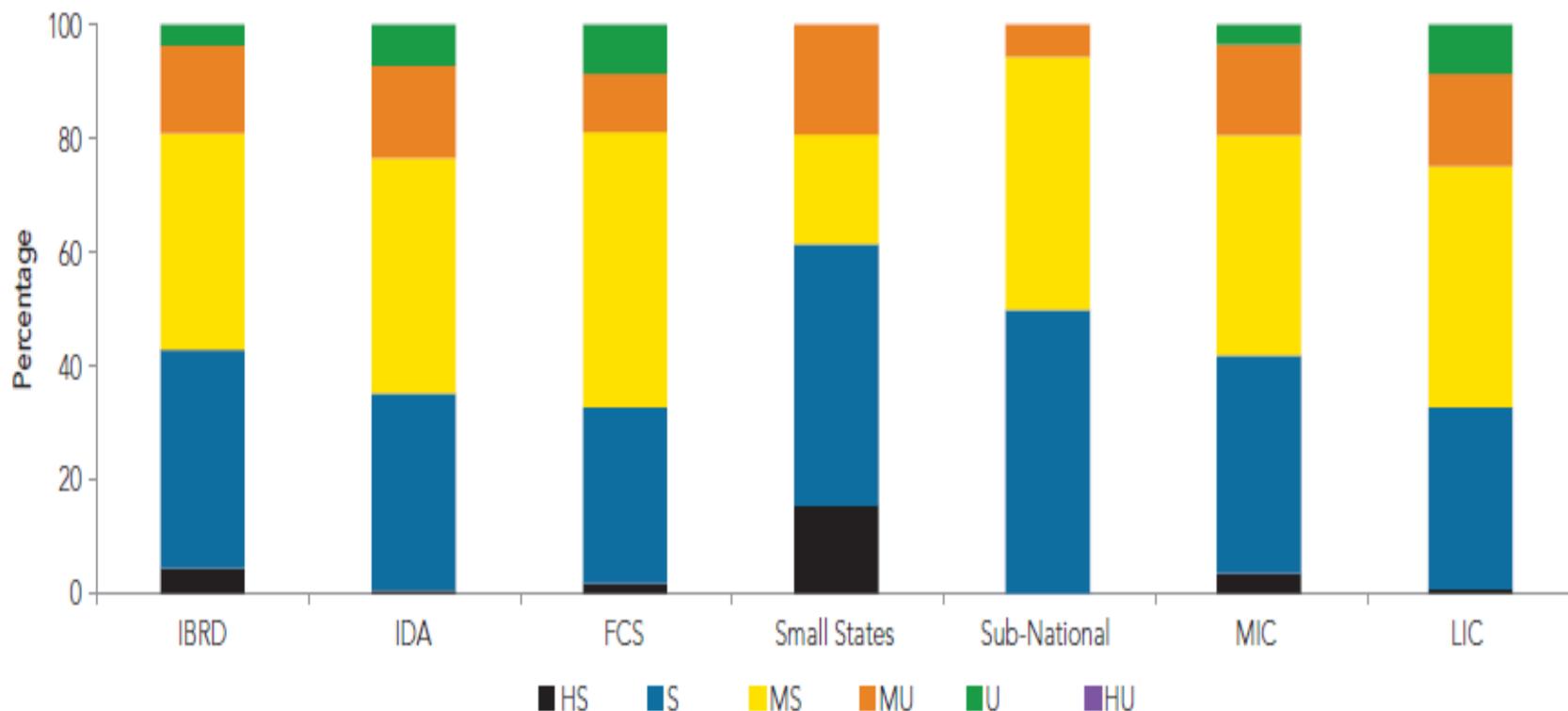
Distribution of IEG ratings of DPOs, by region (FY05–FY15)



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

...and also across type of clients

Distribution of IEG ratings of DPOs, by client type (FY05–FY15)



Source: Development Policy Financing Retrospective: Results and Sustainability, 2015

Conclusion

- ▶ The World Bank has a set of instruments (financial and non-financial) to support country's development strategy
- ▶ DPF is one the 3 financial instrument used by the World Bank to support country's reform agenda
- ▶ From its introduction in 2004 to 2015, the World Bank has approved \$117 billion worth of DPF commitments for 652 operations.
- ▶ The overall performance of DPFs in achieving intended results has remained relatively high, but there are variations by regions and client segments



Thank you

Economic Development Days – May 2017

Vienna University of Economics and Business (WU Wien)