

PROGRAM-FOR-RESULTS FINANCING



INTERIM GUIDANCE NOTES TO STAFF ON ASSESSMENTS

These interim guidance notes are intended for internal use by Bank staff to provide a framework to conduct assessments required by the Program-for-Results financing policy. The notes will be updated and complemented from time to time. They are being shared with the public on an informational basis.

Operations Policy and Country Services

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ACRONYMS AND ABBREVIATIONS

ACGs	Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing
BP	Bank Procedure
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CMU	Country Management Unit
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DLI	Disbursement-linked indicator
ESSA	Environmental and Social Systems Assessment
F&C	Fraud and Corruption
FM	Financial management
FSA	Fiduciary Systems Assessment
GAC	Governance and anti-corruption
IMF	International Monetary Fund
INT	Integrity Vice Presidency (World Bank)
ISR	Implementation Status and Results Report
IT	Information technology
M&E	Monitoring and evaluation
MIS	Management Information System
MTEF	Medium-term expenditure framework
NGO	Nongovernmental organization
OP	Operational Policy Statement
PAD	Program Appraisal Document
PAP	Program Action Plan
PCN	Project Concept Note
PDO	Program Development Objective
PEFA	Performance Expenditure and Financial Accounting
PER	Public Expenditure Review
PforR	Program-for-Results
PFS	Program financial statement
ROSC	Report on Observance of Standards and Codes
SAI	Supreme Audit Institution
SMU	Sector Management Unit
SWAp	Sectorwide Approach

**PROGRAM-FOR-RESULTS FINANCING
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PROGRAM-FOR-RESULTS FINANCING INTERIM GUIDANCE NOTES

OVERVIEW

1. Program-for-Results (PforR) represents a new approach to World Bank financing. It focuses Bank support on helping governments improve the design and implementation of their programs using program systems and directly linking achievement of results to the disbursement of Bank funds. Bank task teams work directly with program institutions to strengthen capacity and system performance over time—a critical input to promoting transparency and accountability in government programs. This paradigm shift requires Bank staff to use their existing skills within a new preparation, appraisal, and implementation framework, with focus moving from the transaction level (as it is the case under Investment Lending projects) to the program level.

2. These PforR interim guidance notes provide Bank staff with a framework to conduct assessments and provide advice to borrowers during the preparation, appraisal, and implementation of PforR operations in a manner consistent with OP/BP 9.00, *Program-for-Results Financing*. The guidance notes propose examples of areas to be explored and questions to be discussed as a means of fostering the technical dialogue between the Bank and the borrower. In the context of a specific operation, other issues and questions may arise and should be reflected, as necessary, in the assessments. Given the novelty of the PforR instrument, this first version of the guidance notes is an interim one, to be updated and complemented over the next few years as good practices are developed and lessons are learned.

3. ***Defining the Program.*** A program supported by PforR could cover an entire sector or subsector; it could be subnational or multisectoral. It could also be a “time-slice” of an ongoing program. There is flexibility in how such boundaries are defined, but they need to be anchored in the government program. Boundaries could be based on specific technical areas or components of a government program and can also include geographical or financial (e.g., specific budgetary lines of the government program) boundaries. For the purpose of these guidance notes and Bank documents, the “Program” is the portion of a government program supported by a PforR operation. As a first step in defining the Program boundaries, the task team should clearly present the key aspects of the overall government program, including its objective(s), key expected results,¹ expenditures, and implementation parameters. While a PforR operation may only support part of a government program, it is important that the description provides adequate context of the broader government program in which the PforR operation is anchored. As a second step, the Program definition involves clarity about the expenditure program to be supported and how do we define its boundaries. The definition of the Program and its boundaries is critical for the preparation of a PforR operation because it also defines the scope of the assessments. There is flexibility in how such boundaries are defined and they need to be anchored in the government program. Boundaries could be based on specific technical areas or components of a government program and can also include geographical (e.g., in case the Program supports the government program focusing on specific geographical areas), and/or financial (e.g., in case the Program supports specific budgetary lines of the government program) boundaries. Still clarity is important for the definition of a PforR operation and its related

¹ For ongoing government programs, this should include results to date.

attributes and requirements. In some cases, the process to define Program boundaries and undertake assessments will be iterative, i.e. an initial definition of the Program boundaries may reveal to be too high risk following initial assessments, which could lead to a revised definition of the Program boundaries, and a redirected focus for the assessments. In addition, as PforR policy has specific exclusion criteria for some activities, teams need to screen early on for such activities, and continue to do so throughout the Program preparation and implementation period.

4. Next, task teams define the Program development objectives, showing a clear linkage with the broader government program’s objectives and the Program’s results framework. In addition, the team will assess the types of types of activities included under the Program (As these are important for some of the assessments and excluded activities) as well as institutional arrangements. Box 1 below provides an example of a Program definition within the broader context of the relevant government program.

Box 1: Illustrative example of a government program supported by a PforR operation¹

	The Government Program	The Program supported by PforR
Objective	To combat social and economic exclusion and improve the living conditions of poor and vulnerable groups through enhanced economic opportunities, better access to basic services, and improved governance.	To improve, in Program areas, access to and/or use of enhanced participatory local governance mechanisms, basic infrastructure, social services, and economic opportunities.
Activities types	<ul style="list-style-type: none"> • Small infrastructure construction or rehabilitation and provision of services • Income generating activities • Social, cultural and sporting activities • Capacity development activities • Improvements in quality of life of vulnerable persons • Basic infrastructure investments in remote areas 	<ul style="list-style-type: none"> • Small infrastructure construction or rehabilitation and provision of services • Income generating activities • Social, cultural and sporting activities • Capacity development activities
Geographic scope	Whole country	Specific areas in the country
Implementation period	2011-2015	2012-2015
Cost	US\$2.1 billion	US\$1.1 billion

¹Adapted from the proposed National Initiative for Human Development Program for the Kingdom of Morocco.

5. **Program assessments.** Within the Program boundaries, the task team, working with government and other partners, and drawing upon existing studies and other work, assesses the Program systems and technical aspects as per the requirements set forth in OP/BP 9.00, *Program for Results Financing*. PforR operations include three primary assessments. The *technical assessment* describes the government program and the Program. It focuses in particular on the strategic relevance of the Program, its technical soundness, and its institutional quality and implementation capacity. It also assesses the Program’s expenditure framework, including the

level, allocation, transparency, efficiency, and the effectiveness of program expenditures and the quality of the Program's results framework arrangements for monitoring and evaluation. The *fiduciary systems assessment* and the *environmental and social systems assessment* cover, in their relevant areas, the framework within which such systems operate in the Program, the capacity of the entities managing such systems, and the systems' performance.

6. Task teams are responsible for preparing the assessments, and where needed, the Sector Manager, in collaboration with the task team and other regional managers, will evaluate skills mix requirements and complement the team. In particular, the task team leader is the *recommender* for the assessments, leading their overall preparation, and coordinating with each specialist on the team (e.g., procurement, financial management, environment, social, and technical specialists, as needed) responsible for the delivery of his/her part of the relevant assessments. To this end, the specialists will also be responsible for relevant Fraud and Corruption (F&C) aspects integrated in those assessments (see below).

7. All available sources of relevant information should be considered in undertaking the Bank's assessments for a given PforR operation. Sources could include, among other, the client country, other development partners, or other units within the Bank. These guidance notes call on staff to make an effort to avoid duplication if other partners have undertaken work in the field and to try to build upon it to the extent possible.

8. Each of the assessments will review existing complaint mechanisms under the Program (including with regard to fraud and corruption and, as necessary, propose actions to ensure adequate mechanisms are available. For instance, the fiduciary assessment will examine complaints about F&C issues related to procurement and handling of payments; while for social aspects, the assessment will need to examine the way citizens affected by the program have a channel to express their grievances.² All three assessments identify key risks to the Program not achieving its expected objectives and results within their specific areas. They also recommend actions for strengthening institutions, improving systems performance, and managing key identified risks. While there is some overlap among the assessments, it is necessary to appraise the operation from each of these perspectives. The set of risks identified by the assessments and related management measures will feed into one *integrated risk assessment* that will serve as a tool for Bank Management to accept, modify, or reject a proposed PforR operation, as well as to monitor the evolution of the Program's risks during implementation.

9. ***The Program Action Plan (PAP)***. The set of actions for strengthening institutions and improving systems performance serve as inputs to the *Program Action Plan*, which selects, from each assessment, a limited set of key priority actions. Types of improvements that may be included in the action plan include:

- (a) Actions to improve the technical dimensions of the program and the formal rules and procedures governing the organization and management of the systems used to implement the program;
- (b) Actions to enhance the capacity and performance of the agencies involved; and

² Please see the Interim Guidance Notes for the various assessments for more details on complaint and grievance mechanisms.

- (c) Risk-mitigating measures to increase the potential for the Program to achieve its results and to address fiduciary, social, and environmental concerns.

10. The PAP is drafted as part of the preparation/assessment process and further refined during appraisal of a PforR operation. It is based on the outcome of the assessments where certain actions may be selected to help improve the performance of the Program systems, improve capacity and/or mitigate Program risks. Actions identified as part of the PAP should be feasible and realistic in terms of their achievements within the timeframe of the operation. A PAP should also be reasonable in terms of number of actions required and can be selective in regard to areas of focus (e.g., 4 or 5 areas), with few specific actions under each. In a number of cases, this will imply trade-offs between recommended actions stemming from the various assessments.

11. If the Program of the PAP implementation requires additional technical assistance, there are a number of options available. When possible, the implementation of the PAP is financed as an integral part of the Program. In cases where separate additional financing may be needed, and if the Bank is asked to support such a request, technical assistance activities can be financed as a PforR/IL hybrid operation or a stand-alone companion IL operation. Technical assistance may also be financed by other development partners, including through a Bank-administered Trust Fund.

12. To assist Bank staff in conducting the technical, fiduciary systems and environmental and social systems assessments, as well as in preparing the PAP and integrated risk assessment, interim guidance notes have been prepared on the following topics:

- (a) Technical assessment;
- (b) Disbursement-linked indicators and disbursement arrangements;
- (c) Fiduciary systems assessment;
- (d) Environmental and social systems assessment; and
- (e) Integrated risk assessment.

13. ***Bringing it all together.*** The above assessments will lead to the identification of a series of Program weaknesses (e.g., in terms of systems, capacity, or impact) and risks to the Program not achieving its expected results (e.g., budgetary constraint, or inadequate staffing). Task teams, working in collaboration with the borrower and relevant development partners, need to identify from among the weaknesses and risks, those that will be addressed under the Program and how they will be addressed. As necessary, improvement and risk management measures can be reflected in the Program's results framework, as Disbursement-Linked Indicators (DLIs), or in the PAP. In some cases, it is expected that early inputs from the assessments will lead to modifications of the Program's boundaries to ensure weaknesses and risks can be adequately managed. Overall, the government program, its links to the Program, the Program results framework, the DLIs, the PAP, and the assessments should present an integrated and coherent storyline.

Addressing Fraud and Corruption under PforR operations

1. During the preparation of a PforR operation, each of the assessments should consider the F&C risks to achieving the Program's objectives and results. F&C risks, consistent with the risk framework for PforR, are evaluated with a primary focus on the risks to achieving the program's development objective(s) and results, and are reflected in the PforR operation's integrated risk assessment.
2. ***Kinds of Risk.*** The identification of critical F&C risks depends on the nature of the program. For example, programs that support activities of the community-driven development type may have risks of elite capture or manipulation of community funding allocations; programs of relatively large infrastructure investments may have risks of bidders' collusion; and programs with significant soft expenditures may have higher F&C risks under financial management. Based on inputs from the assessment, PforR documentation should provide a summary of assessed critical F&C risks and proposed risk management measures.
3. ***Reporting on F&C Risks.*** Any findings related to F&C risks are reflected, as appropriate, in the operation's technical, fiduciary system, environmental and social system and the integrated risk assessments. Management (Regional but also Senior Management in case of OC reviews) and, ultimately, the Board decide whether the proposed PforR operation strikes an adequate balance between risks and expected results. Management and the Board may be prepared to take higher risks if they are judged to be justified by the results sought, and if they are appropriately identified, disclosed, and addressed by appropriate risk management measures. When presenting a PforR operation for Board approval, if there are recently completed or ongoing INT investigations that have identified F&C risks relevant to the operation, Management advises the Board through the Memorandum of the President. In such cases, Management will also offer a technical briefing if the Executive Directors wish to learn additional details about the investigation and how the identified risks have been factored into the design of the operation. This is similar to the approach adopted for IL operations.
4. ***Borrower Request for Assistance.*** If, during the various assessments and discussions about the operation, the borrower asks for specific support from the Bank to improve its capacity to deal with F&C issues, the task team should record the request and explore options that are appropriate to respond to such requests—for example, specific support under the PforR or other operations under preparation/implementation or Bank direct technical support.
5. ***Anticorruption Guidelines (ACGs).*** As part of the preparation of a PforR operation, the task team discusses the ACGs with the borrower and seeks commitment to the obligations set out in the ACGs. The borrower's formal commitment to the obligations stated in the ACGs will be reflected in the program's legal documents through a standard clause. While overall commitment is sought, there are three specific aspects that task teams should focus on, to clarify modalities and record agreement:³

³ As part of the operation's decision meeting, the specific ACGs arrangements discussed with the borrower should be presented, as well as any outstanding concern from the borrower with respect to the ACGs application. The final

(i) the reporting of credible and material allegations of F&C as part of overall reporting requirements on the Program to the Bank (and the Bank's reporting to government on similar allegations) and main contacts from both the borrower and the Bank when it comes to exchange of information on allegations of F&C;

(ii) commitment that persons or entities debarred or suspended by the Bank are not awarded a contract under the Program during the period of such debarment or suspension. In this connection, it is important to discuss with client how the debarment and suspension lists will be disseminated to the relevant program stakeholders⁴. The compliance can be checked through inclusion in the TORs for the Program's audits; and

(iii) the Bank's right to investigate allegations and the related access to needed persons and information will be supported under the borrower's regulations applicable to the Program. Where this is not possible, the task team will consider other actions to achieve the same end.

6. It is also important to discuss with the borrower how to provide to the relevant program stakeholders the relevant information regarding the ACGs and the Bank's right to investigate Program allegations. Such information can be disseminated through different channels, depending on the nature of the program, including the Program operation manual, Program website or other means that guarantee public access and so forth. In appropriate cases, the understandings on these matters can be memorialized in an exchange of notes, aide-memoire, the minutes of negotiation or in a separate protocol.

7. **Implementation Support.** The borrower is responsible for the Program's overall implementation. Implementation support by the task team includes (a) reviewing implementation progress and achievement of Program results and DLIs; (b) providing support for implementation issues as well as institutional capacity building; (c) monitoring systems' performance to ensure their continuing adequacy through Program monitoring reports, audit reports, as well as field visits; and (d) monitoring changes in risks to the Program and compliance with legal agreements and, as needed, the Program's Action Plan (for more details, see section VII of the Technical Assessment interim guidance note and corresponding sections in the Fiduciary Systems, Environmental and Social Systems and Integrated Risk assessments interim guidance notes).

8. During implementation of a PforR operation, as part of implementation support, the task team monitors (a) the evolution of the overall risks to the operation (including F&C risks); (b) the borrower's reporting of F&C allegations and their processing; (c) the status and functioning of the Program's complaints mechanism(s), where applicable; and (d) results of the audits to check for any changes in the risks and the adherence to the provisions related to the Bank's

arrangements to handle the ACGs are formally agreed upon with the borrower in the operation's minutes of negotiations.

⁴ Task teams can also check the likelihood of having such debarred firms contracted by the program by simply checking the type of activities likely to be financed and the services offered by such debarred firms.

debarment list. In addition, if the task team is made aware of a specific F&C allegation, the team reports it to the borrower and INT; and if INT decides to launch an investigation, the task team provides support.

DRAFT

CHAPTER ONE: TECHNICAL ASSESSMENT INTERIM GUIDANCE NOTE

1. The purpose of this guidance note is to provide Bank staff, government counterparts, and development partners a framework to conduct the technical assessment of a Program proposed for support by a Program-for-Results (PforR) operation. It also gives Bank staff a framework for providing technical advice to the borrower during the preparation, appraisal, and implementation of a PforR operation. The note proposes examples of areas to be explored and questions to be discussed as a means of fostering the technical dialogue between the Bank and the borrower. In the context of a specific PforR operation, other areas and questions may arise and should be reflected as necessary in the assessment and taken into account as part of the technical advice offered by the Bank. An indicative outline for the technical assessment can be found at the end of this Chapter in Attachment 1.2.

I. PROGRAM ASSESSMENT STRUCTURE AND SCOPE

2. In carrying out the assessment, task teams evaluate, with the borrower's support, the adequacy of the Program arrangements and their performance in four areas:

- Strategic relevance and technical soundness,
- Expenditure framework,
- Results framework and monitoring and evaluation (M&E) capacity, and
- Economic justification.

3. Task teams identify key weaknesses and possible improvements, propose specific recommendations,⁵ and define the relevant key risks to the achievement of the Program's stated results and associated mitigation measures. The actual depth of analysis to be provided in the assessment for a particular PforR operation will be a function of (a) the complexity of the Program; (b) the level of innovative features under the Program; and (c) the level of the Bank's and other partners' knowledge of the Program. Task teams will need to exercise judgment and follow Bank Management guidance to determine the depth of analysis for a given operation.

4. The assessment is carried out during the preparation phase of the operation based on information provided by the borrower and relevant development partners, found in existing reports and studies, or collected and analyzed as part of the assessment's undertaking. This includes analytic work supported by development partners. The assessment provides an evaluation of the Program's technical arrangements and identifies key areas for improvements.

5. Based on the assessment findings, the Bank, together with other development partners when relevant, will discuss the following with government counterparts: (a) actions (as needed) to be undertaken by the borrower (with Bank support as needed) during preparation and implementation to address selected areas for improvement; (b) the definition of the scope and form of technical support during implementation; and (c) the key technical risks to the Program not achieving its expected results as inputs to the integrated risk assessment for the operation. It

⁵ These recommendations are expected to be put in place over the preparation and implementation period of the PforR operation.

is anticipated that the assessment could be coordinated with or carried out jointly with other development partners.

II. OVERVIEW OF THE TECHNICAL ASSESSMENT BY PROCESSING STAGES

6. ***During identification***, as an input to the Program Concept Note (PCN), the task team conducts an initial review of the Program in relation to the four areas included in the technical assessment. Specifically, it is anticipated that the task team will (a) provide in the PCN a preliminary assessment of the government program's strategic relevance, governance arrangements, level of borrower commitment to the program, as well as the program objectives, key results, implementation arrangements, and overall performance (for ongoing programs); and (b) propose the boundaries of the Program. At this stage, the assessment will rely mainly on available documentation from the borrower (e.g., internal progress reports, plans, organizational charts, policies or laws related to the program, annual budgets); from the Bank (e.g., the latest country assistance/partnership strategies [CAS/CPS], sector-specific analytic and advisory activities, public expenditure reviews); and from development partners.

7. Elements of the assessment that are key inputs to the PCN are a description of the government program, and an initial proposal of the Program's goals, results framework, activity type, and overall Program expenditure profile. The Program's detailed results framework may not be available or may not have been formally stated. If this is the case, it would be important to begin working with the borrower to strengthen the results focus of the Program and develop an explicit results framework for the Program. While it is not feasible to fully assess a Program's expenditure framework during identification, a snapshot of the budget with major classifications (e.g., by administrative units, economic categories, functions, activities) should be completed in most cases. The PCN should also address basic questions of the economic rationale for the Program and Bank support, framing how these questions can be answered more fully through preparation and into implementation.

8. ***During preparation***, the task team works in close partnership with the borrower and any development partners to deepen the assessment of the technical aspects of the Program, including strategy, institutional set-up (including governance features), expenditures, results framework, M&E capacity, definition of disbursement-linked indicators (DLIs), and implementation arrangements. In addition, at this stage the DLIs, their related Verification Protocols, and disbursement arrangements will be developed.⁶

9. ***During appraisal***, the task team pulls together the findings of the various assessments into an overall assessment of the Program and its associated systems, the commitment to and potential for making improvements, the risks of the Program not achieving its expected results, and the economic rationale. Proposals for improvements in Program performance, capacity building, and risk arrangements (including with respect to the Program's monitoring and evaluation), are discussed with government counterparts and other stakeholders; and, as needed, agreed measures are included in the Program Action Plan (PAP).⁷ A summary and conclusions from the technical assessment, among others, is presented in the Program Appraisal Document

⁶ See Chapter Two, Disbursement-Linked Indicators and Disbursement Arrangements Interim Guidance Note.

⁷ For more details on the Program Action Plan, see the Overview to these Interim Guidance Notes.

(PAD). A fairly complete draft of the technical assessment should be made available by the time of the operation's Decision Review. The final technical assessment is disclosed at the same time as the PAD.

10. ***During implementation***, the Bank provides implementation support to the borrower in carrying out improvement, capacity building and risk management measures agreed on during preparation under the PAP. It also monitors (a) progress under the Program and provides support in resolving issues emerging under the Program's implementation; (b) progress in the achievement of the Program's results, including the DLIs; (c) changes in the Program's technical and other risks; and (d) compliance with the PforR operation's legal agreements.

III. PROGRAM STRATEGIC RELEVANCE AND TECHNICAL SOUNDNESS

A. Program Strategic Relevance

11. ***Program rationale***. Programs supported by PforR operations need to have a strong strategic rationale. Assessing the rationale usually implies validating the issue(s) the Program aims to address as relevant and priority issues for economic development and poverty reduction in the borrower's country. Such issues have usually been identified as bottlenecks in the borrower's development agenda, sector strategies or studies, as well as in the corresponding Bank or development partners' country- and sector-level strategies or studies. If the issue at hand is an emerging one, the Bank could help the borrower in consolidating the diagnosis of the issues and in shaping an appropriate response. Task teams, working in close partnership with the borrower, provide evidence with regard to the scope and impact of the issue for the borrower's development at the country or local level.

12. Once the issue is validated, *is there a clear case for government intervention?* Public investment plays a unique role in a country's development by handling a range of issues that can only be dealt with through government action. The main rationales warranting public action include market failures, spillovers, redistribution, and social and political concerns. Given the scarcity of public funds and implementation capacity, public investment in new or ongoing programs contributes most to development when those programs are clearly directed to addressing one or more of these concerns. Governments' role in reducing market failures and promoting other economic, social, or political goals often takes the form of public provision, but in some cases public-private partnerships of a variety of forms may be the preferred solution. The choice will depend on the strength of governments in terms of their regulatory and administrative capacities and independence from capture by special interests, as well as the relevant private sector's level of development and competitiveness. The specific design features of a given program will also help determine its suitability for public, private, or mixed provision, taking into account, for example, whether the program allows for user fees to be charged and whether the quality of service is realistically contractible.⁸

⁸ The Bank hosts several important public-private partnership resource guides and knowledge sharing portals, including the Global PPP Network (<http://pppnetwork.ning.com/>) and the Financial and Private Sector Development Knowledge Resources (<http://rru.worldbank.org/>).

13. The assessment then turns to whether the Program is adequately structured to resolve the issue at hand, taking into account international good practice. There should be a clear and robust causal link between the Program design and the issue being addressed. If the issue is lagging development in one of the borrower's regions, for example, and the Program is structured as a road construction program, the causal link is likely to be tenuous since other types of interventions are usually necessary to foster economic development in a lagging region. There should also be a significant likelihood that the issue will be addressed as a result of the program's implementation. In the case of ongoing programs, the track record in program implementation progress and impact is evaluated, based primarily on progress and M&E reports/studies available at the time the assessment is conducted.⁹ In the case of new programs, the evaluation is based on progress and M&E reports and studies available for similar programs already completed or ongoing, if possible in the same country.

14. The Bank's sector networks, relevant research centers, and academics are a few of the contacts available to provide support on these topics. In the technical assessment, task teams provide a short rationale for the public sector intervention and its form, determining whether the Program is adequately structured to resolve the targeted issue.

B. Program Technical Soundness

15. A technically sound Program is designed, organized, and implemented to efficiently produce results and reach the Program's objectives. Technical soundness is assessed against relevant international experience and good practice, adapted as necessary to the specific context of the country and sector. The assessment of a Program's technical soundness starts by determining whether the type of Program activities is adequate to reach the Program's objectives. If a Program's objective is to increase access to basic health services in rural areas, for example, the construction of clinics and the provision of clinic equipment may be well-justified activities under the program. However, if the Program were to include the construction of local roads, there could be a question as to whether such activities might not be better handled under a separate rural roads construction program. The assessment also confirms that the type of activities under the Program is sufficient to reach the program's objectives. For example, if the problem is low access to water connections among poor households caused by high connection costs, is the program proposing a reasonable strategy to increase effective demand for water connections? Or if the problem is low quality of education services, has the program identified the key drivers for change as they relate to availability of educational inputs or teacher presence and motivation?

16. The assessment then reviews the incentives in place for Program stakeholders to contribute effectively to the Program's success. Box 1.1 lists questions that may guide the review. Finally, the assessment reviews the Program's organizational ability to plan, design, implement (including manage and supervise contracts), and monitor Program execution. For ongoing Programs, the assessment will also focus on actual performance. Box 1.2 lists indicative questions that a task team may ask in conducting the assessment.

⁹ In some cases, there may be a case for the borrower, the Bank, and relevant development partners to work together and ensure the necessary reports and studies are completed by the time the PforR operation is to be prepared.

Box 1.1. Indicative questions to assess incentives for Program stakeholders

- *Is the Program timely?*
- *Among all the pressing issues the borrower needs to resolve, do Program stakeholders see the issue the Program tackles as a priority issue to be resolved at this point in time?*
- *How supportive are the potential end users?*
- *Is the political environment supportive of the Program?*
- *Does the consensus on the Program's strategic relevance translate into day-to-day support from the central and line ministries, as well as appropriate staff, staff skills mix and budgets made available (taking into account the overall fiscal constraints)?*
- *Does the program have a champion?*
- *Is there a clear structure of accountability in place for the Program?*
- *Are the implementing agency staff accountable but also empowered?*
- *If a key bottleneck to the Program's success is behavior from, for example, government staff or end users, is the Program designed to induce the expected behavioral changes?*
- *Is the Program sufficiently focused, and do the stakeholders understand clearly how Program activities will help resolve the issues the Program intends to tackle? In other words, are the cause-to-effect links clear, have they been communicated widely, and has a consensus emerged on the ability of the Program to resolve the issue?*
- *Are there political economy issues?*
- *Do Program activities increase benefits for some while reducing benefits for others?*
- *Who has vested interests?*
- *Is there on-going transparent communication, consultations, and engagement with stakeholders?*
- *What are the benefits for the Program stakeholders?*
- *Are the Program benefits obvious to beneficiaries and civil society at large?*
- *Is civil society/beneficiaries involved in any way in the Program?*
- *How will the implementing agency staff be recognized if the Program is successful?*
- *For an existing Program, is the team cognizant of any allegations of fraud and corruption and, if any, how was it addressed?*

Box 1.2. Indicative questions to assess the Program's planning, design, execution and monitoring capacity**1. Planning of Program activities**

- *Have key steps and their sequence been clearly identified to allow for an efficient implementation of Program activities and achievement of results? Is this critical path followed in practice?*
- *Are cost and time assumptions related to Program activities realistic, and calibrated through market tests and data from recently completed activities?*
- *Is planning dynamic, reflecting new information as it comes in and changes in key assumptions surface?*
- *Is planning effectively used as a basis to take decisions?*
- *If so, how transparent has this process been?*

2. Design of Program activities

- *Are the strategies operationalized in a way that would facilitate implementation? Can Program managers translate strategy into actions?*
- *Do the various Program stakeholders have adequate incentives to influence Program performance? What mechanism is in place to ensure participation in the design process?*
- *Do the specifications ensure that Program activities are affordable and economically viable?*
- *Do the specifications allow for competition among potential providers?*

Box 1.2. Indicative Questions that Might be Asked in Conducting the Assessment (cont'd)

3. Execution of Program activities

- *Does the implementing agency have adequate technical capacity to manage the Program and a clear structure of accountability?*
- *Is the management structure and decision-making consistent with the overall government structure, the Program objectives, and the budget system? If not, what are the key constraints?*
- *In cases where Program activities are contracted out, do agency staff have sufficient technical expertise to ensure the integrity of the selection process, manage contracts and contractors efficiently and transparently, resolve disputes, and ensure most contracts are executed on time and on budget?*
- *Does the implementing agency ensure that its staff has sufficient information, technical expertise, and integrity to authorize payments in the right amount to the right beneficiary? What can be learned from past performance in this area?*
- *Is the implementing agency able to adequately allocate its staff and resources in function of evolution of demand?*
- *Are the intended beneficiaries the actual beneficiaries? Do the beneficiaries receive the intended benefit? What is their degree of participation in program activities? Is the program publicized enough for the beneficiaries to be aware and know what to expect? Are their factors of possible participant exclusion to be considered?*
- *In the case of an ongoing Program, are outputs of acceptable quality?*
- *Is a feedback loop included in the Program's structure, to allow for continuous monitoring of emerging issues, and timely implementation of corrective measures? Does it include all the necessary stakeholders?*

4. Monitoring of Program activities

- *Is the Program subjected to adequate monitoring by an entity capable of objectively and reliably assessing Program performance and credibly measuring progress in reaching the Program's objectives?*
- *What reporting arrangements are in place for Program monitoring? What entity is responsible for reporting? What agencies receive routine reporting? How do these agencies use the information reported?*
- *Can the implementing agency know whether the Program is achieving its expected results and impact, and what the main obstacles to reach such results are? If so, does the implementing agency adequately act upon such knowledge?*

5. Overall performance of the Program

- *For ongoing Programs, has the Program been performing consistently?*
- *Have expected results been achieved over the recent past?*
- *How do the overall achievements compare to their plans and targets?*
- *What are the main constraints and weaknesses facing the Program?*
- *How widely are the results known?*

17. Task teams may rely on knowledge and experience of team members and internal and external experts, as well as those working with other development partners, as needed, to conduct the technical assessment. Task teams may also rely on available guidance on topics such as project management, monitoring and evaluation, and how to handle sector-specific technical issues. In the assessment, task teams provide a summary evaluation of the Program's technical soundness and incentives structure, as well as of the Program's organization at the various stages of processing, planning, designing, executing, and monitoring program activities.

C. Institutional Arrangements

18. ***Borrower capacity.*** Task teams assess the adequacy of borrower capacity to implement the Program and the proposed PAP, including the ability to manage fraud and corruption risks (F&C).¹⁰ In cases where there is a choice of agency, task teams would confirm that the borrower's choice in terms of Program implementing agencies is adequate, within the pool of likely implementing agencies. For example, if an agricultural frontier development program was to involve road construction, would the construction of such roads best be handled by the borrower's Ministry of Agriculture's implementing unit, or by the borrower's road administration?

19. The assessment then turns to the institutional structure for Program implementation. Task teams may consider the following questions:

- *Are the necessary borrower entities involved under the Program?*
- *Are their roles and responsibilities clearly defined in relation to the Program's implementing agency, including accountability for delivering the Program?*
- *Are there adequate incentives to ensure cross-entity collaboration?*

20. *Does the implementing agency have adequate resources to carry out the Program?* In answering this question, task teams may assess whether (a) staffing levels and skills mix are adequate at each of the Program stages; (b) the agency can quickly leverage its available staffing with external support (e.g., consultants or staff from other government entities) to respond to specific issues arising during Program implementation; (c) approved budgets, both for recurrent and capital expenditures, have adequate levels and are made available in a timely and transparent fashion to respond to the Program's needs; (d) there is adequate capacity to provide credible, routine reporting on the Program and its outcomes; and (e) there is an adequate oversight mechanism.

21. *Are adequate arrangements in place to implement the Program?* Programs can be implemented in various ways. Regardless of the arrangements in place, they (a) should cover the various stages of the Program, such as planning, design, resource commitment, bidding/contracting (when needed), execution, supervision, reporting, and auditing; (b) should involve staff with relevant skills and experience for the various aspects of the Program; and (c) should be designed to foster the Program's performance. Typical issues to look for include

¹⁰ Parts of the input for the assessment of institutional arrangements are expected to be generated from the systems assessment for PforR operations; see Fiduciary Systems Assessment Interim Guidance Note (Chapter Three) and Environmental and Social Systems Assessment Interim Guidance Note (Chapter Four).

overlapping or competing responsibilities among different agency units, weak arrangements at a specific program stage (e.g., supervision), and weak M&E arrangements. In addition, the technical assessment is expected to include a description of the institutional and organizational framework in place in the country to deal with F&C, and to allow for complaints, and of the framework's elements applicable under the Program. If possible, the assessment should indicate whether the framework is functioning (e.g., by providing estimates of the number of F&C allegations or complaints received and/or processed recently under the Program, and making reference to available background studies/evaluations available to the task team on the framework's efficiency in general or, if possible, under the Program).

22. *How clear is the decision-making process in the agency? Who are the decision-makers and are they accountable for the delivery of the Program?* In answering these questions, task teams may look at whether (a) decision-makers receive, in a timely fashion, the necessary information to conduct their analysis, identify issues, and support their decisions to resolve such issues; (b) routine decisions are predictable; and (c) decisions are communicated with a clear justification.

23. *Is there a clear accountability structure in place for the Program?* In answering this question, task teams may look at whether (a) staff roles and responsibilities are adequate and clear, and whether staff understand them clearly; (b) staff have appropriate incentives to carry out these roles, including commitment to the Program's results, access to adequate resources, management support, and compensation; and (c) accountability is enforced. Task teams may also look at whether the Program benefits from clear leadership in its management.

24. ***Borrower commitment.*** A strong borrower commitment to the Program's objectives and implementation is key to ensure that it can meet its expected results in a timely and efficient fashion. Building and maintaining commitment is a dynamic process for the borrower. It often involves persuading new groups to support and contribute to the Program, and it sometimes requires modifying the Program to reflect evolving experience and changing circumstances. The Bank can contribute to this process through its policy dialogue and its analytic work.

25. Assessing commitment can be difficult. At the level of strategic discussions between a borrower and the Bank (e.g., in the context of the preparation of a Bank country strategy), specific government programs are usually referred to in broad terms, with few details given on the program's precise objectives and results, and usually no details given on the program's design and implementation arrangements. Also, policymakers may underestimate the risks of the program not achieving its expected results in a cost- and time-efficient fashion. In most cases, assessing ownership requires thoughtful inquiry by Bank staff. Because ownership can change over time, periodic reassessment is necessary. Finally, a PforR operation should not be used to induce a borrower to introduce improvements that it does not wish because it is unlikely that these improvements will be fully implemented and sustained. Box 1.3 provides indicators for assessing borrower commitment.

Box 1.3. Illustrative Indicators for Assessing Borrower Commitment

- *The program is specifically referred to in the country's national or relevant sectoral development plan or similar document that has been widely discussed and formally approved.*
- *Key policymakers articulate their commitment and to the program and its relevance.*
- *Political leaders have publicly stated their support for the program.*
- *Relevant interest groups have been engaged in dialogue with the government about the program design and implementation and have indicated general support.*
- *The government has a good track record in implementing the program or in implementing programs similar in size, scope, complexity, and impacts on the environment and society.*
- *The government has recently taken steps to address some of the key issues under the program.*
- *Budgets and payments under the program allow for meaningful implementation progress.*

26. Task teams provide a summary of their assessment of borrower capacity and commitment to the Program, using, as necessary, inputs from the other sections of this technical assessment or sections of the systems assessments.

IV. ASSESSING THE PROGRAM EXPENDITURE FRAMEWORK

27. An adequate expenditure framework is essential for an effective implementation of government programs and the delivery of services, which enable the achievement of the country development objectives. A sound government expenditure framework should contribute to the efficient execution of government programs in three ways:

- (a) A good expenditure framework favors the maintenance of financial sustainability and the predictability of resource availability, essential for the continuous funding of government programs and the delivery of services.
- (b) A well-functioning expenditure management system allows the alignment of the policy objectives, selected priorities, and intended results established in the government's strategies with the resource allocation defined in the budget and more importantly in the budget execution.
- (c) A proper budget execution system creates the mechanisms and incentives supporting an efficient service delivery and value for money in government programs.

28. The content and complexity of the assessment of a Program expenditure framework varies according to size and complexity of the financing structure of the programs to be supported. Therefore, the scope of the assessment should focus on the government budget and expenditure management issues that may put at risk the capacity of the Program to reach its expected results.

29. There are four suggested steps for assessing the Program expenditure framework:

Step 1. Review the budget structure and classification,

Step 2. Assess the Program's financial sustainability and funding predictability,

Step 3. Assess the adherence of the budgeted Program expenditure and its execution to the government's priorities, and

Step 4. Focus on the efficiency of Program expenditures.

30. **Step 1. Review the budget structure and classification.** The assessment begins by tracking government expenditures under the Program and the budgetary information available on the economic category and programmatic composition of expenditures (i.e., the share of the Program's expenditures that is allocated to salaries, operating, and capital spending). A proper classification allows the tracking of expenditures according to (a) administrative units (ministries, decentralized entities, etc); (b) economic categories (recurrent, capital spending, etc); (c) functions (health, education, etc); and (d) government programs, subprograms, projects, and activities.

31. **Step 2. Assess the Program's financial sustainability and funding predictability.** The task team assesses the capability of the government to finance (from various funding sources) the execution of the Program, relative to the government's overall fiscal situation in a multi-year perspective. A quick verification of the medium-term financial conditions of the government could be done early and simply through referencing the main findings of the IMF/Bank Joint Debt Sustainability Analysis. Another option that has been commonly used in sector-wide approaches (SWAp) is the medium-term expenditure frameworks (MTEFs) for the Program. The MTEFs provide projections and detailed information on expenditure composition by sectors, programs, and/or administrative units. Some programs may have an MTEF while others may prepare one as part of the preparation of sector strategies or the preparation of a PforR operation. The formulation of a Program's MTEF would involve making projections of both expenditures and their sources of financing. The aggregate financing expected to be available for the Program over the projection period is the Program's resource envelope. For each year of the projection, expenditures must fall within the resource envelope. In projecting the Program's expenditures, it may not be necessary or feasible to use the same level of aggregation in the projection as that found in the base-year annual budget. The projection could be made using a broader level of aggregation.

32. Determining the proper level of aggregation of the expenditure projection requires judgment and would be discussed and agreed on between the Bank and the counterpart team at an early stage of preparation. A medium-term projection of a Program's expenditures usually includes the definition of the *results* to be achieved within a specific timeframe and the specific *transactions* and *activities* to achieve such results. In assessing a Program's medium-term budget, the Bank applies certain criteria. The first is that the medium-term budget adequately reflects the estimated costs of the transactions and activities that would have to be carried out in order to generate the outputs required to achieve the Program's objectives as summarized in the results.

33. Task teams also assess the government's ability to execute, under the Program, its budgeted expenditures. A measure of the ability to execute budgeted expenditures could be the aggregate expenditure out-turns compared to those approved in the budget law. Sizeable and persistent deviations (e.g., of more than 20 percent and for the last three years) could indicate weaknesses with regard to the government's ability to implement the Program or that resource availability projections used to prepare the Program budget are not reliable and therefore planned or budgeted expenditures are not realistic.

34. The generation of arrears¹¹ is an important source of risk that may affect the Program's ability to achieve its expected results. A stock of arrears reflects inadequate budgeting of expenditures (underestimation of expenses), cash shortfalls, or cash flow uncertainty and weaknesses in budget execution controls under the Program at the commitment stage. Task teams would request information on the existent stock of arrears under the Program and on the annual flow of arrears generation. A large stock of arrears and permanent generation of arrears could indicate that the government frequently under-finances its programs or that financial execution controls are weak.

35. In conducting their assessment, task teams could also consider the possible impacts from unexpected exogenous shocks that are not under the control of the government but could negatively affect the accuracy of revenue projections, thus harming the predictability of funding of government programs. In this respect, task teams could evaluate the priority level of the Program when a government has to consider budget cuts since frequently the government's maneuverability is limited during budget cuts in scenarios of revenue shortfall. Certain programs, considered of strategic importance by the government, have revenue protection mechanisms in place. Mandatory expenditures such as salaries, debt service payments, pensions, and other entitlements or earmarking revenue mechanisms reduce maneuverability; and expenditure adjustments are concentrated in programs that are less resilient to potential cuts (mostly discretionary spending or non-mandatory spending) and not necessarily on programs that the government would like to cut.

36. Expenditure rigidity can be measured as the proportion of expenditures that cannot be reduced (due to their mandatory nature or because they provide continuous services) on total expenditures. Values above 80 percent indicate that expenditure rigidity could threaten the implementation of programs, especially those involving discretionary spending. If quantitative measurement of expenditure rigidity cannot be easily estimated (mainly because there is controversy regarding the rigid nature of some expenditures), task teams could provide a qualitative assessment of the impact of budget rigidity for the Program, or use the sum of salaries and debt services (both categories are clearly rigid) to total expenses as a proxy.

37. Along this line, task teams could review the composition of the expenditure of the Program according to the economic category classification. Shares of salaries, goods, and services and capital spending on total expenditures and expected maintenance costs would allow the identification and measurement of parts of the expenditure program that would become permanent and therefore could affect financial sustainability in the medium term.

38. The predictability of donors' aid flows in terms of budget support operations or support to specific government programs is another relevant factor affecting the execution of programs, especially in cases when there is a low domestic resource mobilization capacity, and donors' support represents a large portion of government revenues. Lack of predictability of donor support has the same effect of inaccurate projection of revenues: high variability and delays within the year of donors' support jeopardizes expenditure management harming the ability to execute the budget as planned.

¹¹ "Generation of arrears" is debt accrued by the government under the Program after having missed one or more due payments.

39. **Step 3. Assessing the adherence of the budgeted Program expenditure and its execution to the government's priorities.** This aspect of the assessment consists of (a) verification of whether Program budget allocations are aligned with government priorities; (b) comparison of Program expenditure composition out-turn and original approved budget composition; (c) verification of whether the Program budget allocations are consistent with intended results; and (d) analysis of budget allocations across the various types of Program transactions.

40. ***Alignment of budget allocations with government priorities.*** For a given sector, there is often a sector strategy defined in which government priorities are explicitly defined and translated into sector programs, which are sometimes explicitly noted in expenditures. Programs may also be part of a medium-term government strategy for development or poverty reduction, or be included in a medium-term expenditure framework. In principle, allocations defined in annual budgets should simply reproduce on an annual basis the allocations defined in the multi-year framework. Of course, some discrepancies are likely due to differences in revenue forecasts, unexpected events, etc.; but in the medium term, the adherence between multi-year and annual budget allocations is expected to be observed.

41. A simple measure to assess the adherence of budget allocations to government priorities could be the ratio of actual annual budget allocations for sectors or programs to the resource allocation defined in the multi-year program. For countries that do not have multi-year budgeting, a simple judgment on compatibility between overall government priorities and aggregated allocations directed to sectors would be used.

42. ***Comparison between Program expenditure composition out-turn and the expenditure composition in the budget.*** When expenditure composition differs considerably from the composition derived from the approved budget, it is possible to deduce that the budget may not be a reliable source of information regarding government priorities and that implementation capacity may be an issue. Such discrepancy may be due to inefficiencies in budget management, including inaccurate revenue forecasts, underestimation of mandatory expenses, cash management inefficiencies, and inadequate budget execution controls. Such discrepancy may also be linked to the capacity of the Program's implementing agency. In principle, the quality of public spending would improve to the extent to which the Program's implementing agency and line ministry have adequate technical capacity and institutional processes.

43. ***Relationship between budgetary allocations and intended results.*** The assessment of this relationship could provide information on the relevance attributed by the government to the Program to allow it to achieve its expected results. Bank experience and knowledge on the sectors and programs in client countries could provide information to assess whether expenditure levels devoted to the Program are adequate for the achievement of intended results. Key expenditure parameters are essential to determine whether resource allocations are sufficient to obtain the intended level of outputs or service delivery. How that is done will vary depending on the nature of the sector and the specific results of the Program. Good practice notes and examples could be made available to task teams to help guide them in this task. Task teams could also build upon the assessments of the Program's strategic relevance and technical soundness.

44. ***Budget allocations across the various types of Program activities.*** The analysis of such budget allocations would allow for the determination of whether the budget received by each type of activity corresponds to the technical need for such activity (as evaluated under the Program’s technical soundness assessment). Under a primary education program, for example, it would be important to assess whether the budgetary allocations for teachers’ salaries versus classroom construction versus provision of textbooks would allow the primary education program to reach its expected results.

45. **Step 4. Focus on the efficiency of Program expenditures.** This step is complementary to the Program’s economic analysis. Task teams assess whether the Program is delivered efficiently, taking into account available resources, and/or if the production costs are reasonable (e.g., compatible with national or international standards). Given the difficulties of comparing what is actually produced or performed with what can be achieved with the same consumption of resources, the task team could perform simple comparisons between international unitary costs or costs observed in other programs in the same country (or countries with similar characteristics), and build on the lessons learned and evaluation studies and good practice to assess if the Program is efficiently delivered. The results of such analysis could be complemented by the Program’s economic evaluation.

46. Task teams would also identify the factors explaining the expenditure levels of the Program. From an expenditure management perspective, three key factors to be considered in the approach and related costs for the delivery of the Program are (a) its procurement system,¹² (b) budget process, and (c) the corresponding institutional arrangements (including the expenditure execution incentive mechanisms).

47. ***Quality of the Program budget execution process.*** It is important to ascertain if there has been a recent pattern of major discrepancies between budget allocations, releases, and actual expenditures. Gaps between budget allocations and releases may be indicative of a pattern of over-estimation of government revenues (usually a government-wide feature, rather than specific to any given program). On the other hand, if releases had been timely and in line with the corresponding budget allocations but actual Program expenditure had fallen short of the amounts released, this would suggest that the Program’s implementing agencies have had insufficient capacity to carry out their planned activities. The Bank would need to ascertain and assess what changes the borrower intends to make in order to enhance implementation capacity of the relevant agencies. A poor budget execution process has perverse effects on the efficiency in the use of resources and on the pricing of government programs. In particular, the lack of predictability in resource flows negatively affects plans and use of resources in a timely and efficient manner. When private sector contracts are involved, for example, delays in financial execution lead to higher costs due to constant renegotiation and readjustment of contracts (known as “stops-and-gos”), litigations, higher costs of supervision and management, and additional interest payments on loans.

48. ***Institutional arrangements and expenditure execution incentive mechanisms.*** Task teams could assess the degree of autonomy in budget execution and the institutional capacity of the Program’s implementing agency. For example, systems that mix central input control through line-

¹² See Chapter Three, Fiduciary Systems Assessment Interim Guidance Note, for more details.

item budgeting and commitment and cash control with a degree of ministerial autonomy in actual program-level resource allocations do not create a favorable environment for efficient resource use by sector ministries. Because the sector ministries do not have any control of the flow of resources received, they are not accountable for results. Instead the focus of these ministries is to protect their overall budgets, executing non-priority programs with the expectation that central agencies will release resources for government priority programs executed by them and for their basic operation and maintenance costs. As a result, a reversal of budget priorities frequently occurs with cuts in investment programs and contingent liabilities generated by new expenditure commitments made by execution agencies out of approved budgets.

49. The guarantee of predictability of funds generates incentives that in turn affect the efficiency of government expenditures. In particular, the use of earmarking resources as a way to guarantee or at least to make funds more predictable could result in inefficient and wasteful use of resources. In fact, the effect of excessive earmarking on incentives to improve efficiency is normally negative.

50. While guaranteeing predictability and protecting key government expenditures, earmarking is a technically complex issue in which political economy considerations play a relevant role—since behind each earmarking arrangement, there is a vested interest prepared to defend the existing allocation. To the extent these “protected” expenditures are also of high quality, meeting the collective societal welfare, the use of earmarking mechanisms may actually enhance government expenditure allocation efficiency, at least in the static sense, especially in a situation where the budgeting process leads to unpredictable funding flows for legally unprotected expenditures. The problem with earmarking is not necessarily that those rigid budget components are always inefficient in terms of allocation but that it removes those portions of the budget from overall allocative decision-making in annual or even multi-annual budgetary considerations where inevitable trade-offs should be considered. It is thus likely that by “protecting” specific expenditure items through earmarking or obligatory designation, some of the programs that the government and the society might consider to be higher priorities end up becoming de facto lower priorities in terms of resource allocations. More importantly, protection generates incentives in expenditure efficiency. As resources are guaranteed, benefited agencies may not have incentives to improve performance and results since the feedback to the budget cycle will not affect the earmarked resources. Box 1.4 gives indicative questions that might be asked in conducting the expenditure review.

51. Task teams will inform whether the Program is protected by revenue-earmarking mechanisms and assess the impact of such earmarking on funding predictability and expenditure efficiency. As necessary, task teams will review the structure of financing of the Program, calculating the “protected” share of the Program that could be defined as the ratio of earmarked revenues (that finances the Program) to the budgeted expenditure dedicated to the Program.

Box 1.4. Indicative Questions a Task Team May Ask in Conducting the Expenditure Review

Budget classifications

- *Are budget classifications in place to track government expenditures under the Program?*
- *Is budgetary information available on the economic category and programmatic composition of expenditures (i.e., the share of the Program's expenditures that is allocated to salaries, operating, and capital spending)?*

Financial sustainability and funding predictability

- *Is the government able to finance, from its own revenues, loans, credits, or grants (including from relevant development partners) the execution of the Program?*
- *Is the government able to execute, under the Program, its budgeted expenditures? Are there sizeable and persistent deviations between the aggregate expenditure out-turns and the approved amount in the budget law (e.g., of more than 20 percent and for the last three years)?*
- *Is there a stock of arrears reflecting inadequate budgeting of expenditures (underestimation of expenses), cash shortfalls, or cash flow uncertainty and weaknesses in budget execution controls under the Program?*
- *Are there possible impacts from unexpected exogenous shocks that are not under the control of the government, but could negatively affect the accuracy of revenue projections, thus harming the predictability of funding of government programs? Is the Program a high enough priority that it would survive budget cuts?*
- *What is the predictability of donors' aid flows in terms of budget support operations or support to the Program?*

Adherence of Program expenditure to government priorities

- *Are Program budget allocations aligned with government priorities (as reflected in the sector strategy, medium-term government strategy for development or poverty reduction, etc.)?*
- *What is the ratio of the sum of annual budget allocations for sectors or programs and the resource allocation defined in the multi-year program?*
- *Is there considerable difference between Program expenditure composition out-turn and the expenditure composition in the budget?*
- *What is the relationship between budgetary allocations and intended results?*
- *Does international experience in the sector provide information to assess whether expenditure levels devoted to the Program are adequate for the achievement of intended results?*

Allocation of budget across activities

- *What is the budget allocation across the various types of Program activities?*
- *Does the budget received by each type of activities correspond to the technical need for such activities?*

Efficiency of Program expenditures

- *Is the Program delivered efficiently, taking into account available resources?*
- *Are production costs reasonable (for example, compatible with national or international standards)?*

Budget execution

- *What is the quality of the Program budget execution process?*
- *What is the degree of autonomy in budget execution and the institutional capacity of the Program's implementing agency? Is there central input control through line-item budgeting or commitment and cash control with a degree of ministerial autonomy in actual resource allocations at the Program level? Is there a mix?*
- *Is the Program protected by revenue earmarking mechanisms? What is the impact of such earmarking on fund predictability and expenditure efficiency?*
- *What is the "protected" share of the Program—defined as the ratio of earmarked revenues (that finances the Program) to the budgeted expenditure dedicated to the Program?*

V. RESULTS FRAMEWORK AND MONITORING AND EVALUATION

52. The assessment of the results framework for a government program is carried out in partnership between the borrower and the Bank during preparation of a PforR operation. This should address (a) the definition of the Program's results framework; (b) definition of the disbursement-linked indicators; and (c) the assessment of M&E capacity building needed to achieve results. Box 1.5 provides a list of terms frequently used in the results vocabulary in reference to PforR operations.

Box 1.5. A Results Vocabulary for PforR Operations

Results are the output, outcome, or impact of a development intervention. In general, the Bank seeks to encourage results that support sustainable improvements in country **outcomes** – that is, evident changes in peoples' lives, and/or the behaviors of targeted organizations, households, or firms.

A program's **results chain** is a plausible causal relationship that describes how the program's activities and interventions will lead to its expected outcomes.

A program's **results framework** explains how its development objectives will be achieved, linking its outcomes, outputs and actions and the indicators to be used to verify their achievement, as presented in the **Results Framework Matrix**.

Disbursement-linked indicators are a limited set of key indicators that are considered critical toward achievement of the Program development objectives (PDOs) and would be the basis for disbursement of World Bank funding. They may also include key performance actions deemed necessary to strengthen the performance of the government's financial management and procurement processes, environmental and social aspects, oversight and controls (including integrity systems), monitoring and evaluation for the program.

Outputs are the supply-side deliverables, including events, products, capital goods, or services that result from a development intervention (e.g., construction of a school, road, or health clinic). Outputs are within the control of Program management and represent the results that Program management should be able to guarantee. Output indicators are measures to verify to what extent the outputs are produced. They generally describe the number or type of outputs produced. Examples include number of teachers provided training, number of children vaccinated, and kilometers of roads rehabilitated. The key distinction between an output (a specific good or service) and an outcome is that an output typically is a change in the supply of goods and services (supply side), while an outcome reflects changes in the utilization of goods and services (demand side).

Intermediate Outcomes or Intermediate Results describe how outputs are used—the results of a program's outputs. For example, teachers use new teaching methods (intermediate outcome) to improve learning among students (final outcome). Intermediate outcome or intermediate results indicators typically measure the number or type of intermediate outcomes or results, such as number of teachers using the new teaching methods.

Outcomes describe the uptake, adoption, or use of program outputs by the program beneficiaries. Outcomes can be medium-term or longer-term outcomes. Outcome indicators are generally at the PDO level and measure one or more of a program's typical results over the medium term. They indicate, by the end of the program, expected achievements. Examples include improved learning outcomes, reduced child malnutrition, and reduced transportation costs.

Action, process, or performance indicators typically measure decisions, performance, enactment of program guidelines, or the general adoption of key measures needed to ensure the functioning of a government program. Process indicators would typically include measures to strengthen the performance of the government financial management, procurements processes, environmental and social aspects, oversight and controls, or monitoring and evaluation.

A. Definition of a Program’s Results Framework

53. Programs supported by PforR operations require a well-defined results framework, with clearly defined objectives and indicators that the government can monitor, measure, and report on routinely. While all Bank operations have a results orientation, the strengthened results focus under the PforR instrument requires a sound and comprehensive Program results framework and that adequate systems for the measurement of its results be in place.

54. Throughout preparation and appraisal, the task team works closely with the borrower to define the Program’s results framework, which is then summarized in a results framework that presents the PDOs and relevant indicators¹³ in the Program’s results chain (i.e., process indicators, financing indicators, intermediate outcomes, outputs or outcomes) and their relation to achieving the PDOs. When a PforR operation supports part of a government’s program (certain components, for example) or when the assessment of a Program’s results framework reveals a highly detailed set of results, including results that would be difficult to measure and monitor realistically, task teams can adopt a subset of the Program’s results. The results framework should present reference, realistic targets during implementation; and frequency, data source, and monitoring responsibility for each of the selected results. Table 1.1 provides illustrative examples of results indicators for select sectors.

Table 1.1: Illustrative Examples of Results Indicators for Select Sectors

<i>Sector</i>	<i>Output-level indicators</i>	<i>Intermediate outcome-level indicators</i>	<i>PDO- or outcome-level indicators</i>
Education	Number of teachers trained in new curriculum	Number of teachers using improved curriculum in classrooms	Improved student achievement scores on tests at primary level
Agriculture	Number tons of fertilizer and of new seed varieties distributed to target farmer groups	Number of farmers using fertilizer and new seed varieties	Number of farmers who increase rice yields by 50%
Transport	Kilometers of roads rehabilitated	Number of persons using rehabilitated roads	Percentage of overall average annual increase in passenger and goods traffic on rehabilitated roads

B. Assessment of the Results Framework and the Program’s M&E Capacity

55. **During identification.** During identification, the task team should gain a general understanding of the government’s program and carry out an initial assessment of its corresponding results framework and the implementing agency’s M&E systems, including arrangements and capacity. The team should also learn about existing reporting arrangements that are in place for the government program, including both the responsibility for and use of reporting information.

¹³ Where Program results indicators are similar to or the same as Core Sector Indicators approved by Bank Sector Boards and are relevant to the Program, the data supporting these indicators should be captured in a manner consistent with the PforR approach.

56. The task team should review the government program's results framework to understand the basic design of the program and the expected results. At this stage, the government program's results framework may not be available or may not have been made explicit or referred to as such. In many cases, the results framework may be implicit in a government strategy or other documents either about the program or one that mentions the program and sets out its objectives and planned activities, and possible targets. At this stage, an initial understanding and engagement with the client to understand the program and the expected results will be important. Teams may want to address the following broad questions:

- *Does the government program have a results framework? If so, what is it?*
- *Does the framework address only those results that can be attributable to the government program?*
- *Is the government fully aware of the risks and how clearly are they linked to the results to achieve? If not, how can it be improved and better defined?*
- *How can Bank assistance help strengthen the results framework? How can this assistance best be provided?*

57. As necessary, the task team starts adapting the government program results framework to the boundaries of the Program, tentatively defining PDOs and a set of key Program results. The initial assessment of the Program's M&E system can be brief during the identification stage. It could consist mainly of seeing what systems the Program has in place to monitor, evaluate, and report. A preliminary look at Program progress reports, if available, would give some sense of M&E capacity and the type of information already being collected for the Program. This would also provide an understanding of institutional responsibilities for reporting, how reported information is utilized among various institutions, and what decisions or actions it informs. It is also important at this stage to determine if the government has already identified the need for strengthening M&E systems with specific results indicators that are or will become integral to the Program's results framework. As an example, cash transfer programs typically involve not only financing of transfers but also objectives related to institutional strengthening for better targeting to monitor conditions and improve the program's management. It is not unusual for these programs to include strengthening of beneficiary registries and improved monitoring as an integral aspect of the program and the results.

58. The PCN would include a general description of the government program; an assessment of its expected results and whether a framework is in place or is being developed; an initial description of the Program; the tentative PDOs, key results and scope of activities; a brief description of existing M&E systems, including reporting arrangements and responsibilities; and a description of any areas for strengthening that have already been identified with the borrower.

59. ***During assessment and appraisal.*** Throughout assessment and appraisal, the task team should continue to work closely with the client to consolidate (a) the Program's results framework; and (b) M&E systems (arrangements and capacity), including relevant reporting arrangements.

60. During the assessment phase of preparation, task teams should continue to work with the borrower to refine (or define) the Program's results framework. A borrower may already have a

well-defined Program supported by a concise, well-framed results framework. In this case, the task team's input may be one of assessing and appraising the framework and providing advice on possible areas for improvement. At the other extreme, a Program may still require definition and framing, its expected results may be optimistic goals that may not be achievable within the Program's timeframe. More thought may need to be given to the actions, processes, and outputs that will be required to make the PDOs achievable. Most Programs will probably fall somewhere between these extremes. In any event, task teams should use this phase of preparation as an opportunity to engage with clients in capacity building, either by providing technical assistance through the preparation process, or through workshops, seminars, or other means. The process of defining a results framework may be a continuous process of working with the client to frame and refine the Program. When task teams need to provide continuous hands-on assistance, it is important to remember that the borrower must have ownership of the Program and its results framework.

61. Below are indicative questions a task team may ask in conducting the assessment of the Program's results framework:

- *Does the framework identify all of the actions, outputs, and outcomes needed to achieve the Program's development objectives? Are the objectives realistic? Is the results chain implicit in the results framework realistic?*
- *Are the expected results achievable within the Program's expected implementation period? Is the data needed to confirm achievement available in a timely manner? Are the results (outputs, intermediate outcomes, and outcomes) clear?*
- *Are there expected results not within the borrower's sphere of influence, or are they dependent only on agencies implementing the Program? Are there results that could be impacted by factors exogenous to the Program, for example climate variability? Are the expected results realistic? Are the indicators in the results framework well defined and unambiguous? Are the indicators to measure results at each level clear? Are they SMART (specific, measurable, attainable, relevant, and timely)? Can the indicators be monitored routinely? How will the Program collect data to measure the results (means of verification)? Are those procedures clearly identified and realistic? Is M&E capacity in place to monitor expected results? If not, what actions can be taken to strengthen M&E capacity?*
- *Does the results framework address issues identified in the systems assessment and potential risks identified in the Program's integrated risk assessments?*
- *Are all of the results an integral part of the government's program and seen as necessary toward achievement of the Program's development objectives?*

62. **Evaluation.** The task team should also begin to identify the specific areas for which evaluation would be relevant, the possible type of evaluations, and their timing. For example, process evaluations may be required to improve performance during Program implementation, while results impact evaluation may be required to measure the efficiency and effectiveness of Program interventions. Impact evaluations are particularly important to measure results rigorously, although not all programs require or can actually implement rigorous impact evaluations. Impact evaluations using experimental or quasi-experimental methods are

recommended if (a) the Program is considered highly strategic for the country's overall goals; (b) the Program is testing innovative and new ways of reaching objectives; and (c) a rigorous impact evaluation is feasible (e.g., one can identify and maintain comparison/control groups). The task team should begin to explore whether an impact evaluation is needed or possible, as this may affect the Program's design and the selection of Program locations, in addition to having cost implications.

63. **Risks.** Throughout preparation, the task team should consider risks related to the Program's results framework. Specifically, the team should identify and assess key risks to the government's program related to the following:

- Achievement of the Program's key milestones on its results chain;
- Factors that could alter or affect the timing and calibration of achievement of Program results, including governance and integrity risks; and
- Factors associated with capacity and institutional arrangements for monitoring, verifying, and evaluating the Program's results chain and key indicators.

64. For each identified key risk, the task team should assign relevant risk ratings, and identify and incorporate measures that will serve to mitigate those risks in the operation's design. In deciding on whether to proceed with a PforR operation, the Bank should weigh the acceptability or adequacy of government systems with respect to the scope of the Program, the benchmarks used to assess technical and institutional quality, and the associated risks.

C. Capacity Building for Monitoring and Evaluation

65. The government's capacity to monitor, evaluate, validate programs, and report results is an important aspect of a PforR operation. When that capacity does not exist, the operation provides an opportunity to help clients in strengthening systems for monitoring and evaluation. Functional M&E systems (including arrangements and capacity) that are responsive to the Program's requirements, taking into consideration its complexity and scope, are needed to demonstrate the extent to which its results are achieved and to generate important lessons for learning and improvement over time. The M&E systems also provide useful information for accountability purposes and for reporting upon the use of public resources. In addition, carefully designed evaluations can provide useful inputs into budget and resource allocation decisions, as well as assess the effectiveness and efficiency of a Program's interventions to achieve results.

66. While the assessment of systems for M&E of some government programs may indicate that both existing arrangements and adequate capacity for a PforR operation may be in place, the Program's M&E systems may still require strengthening, including its arrangements and institutional capacity to enhance development impact and sustainability. If M&E capacity strengthening is deemed necessary, DLIs related to the M&E system could be defined. Alternatively, key actions and/or results needed to improve M&E systems in order to proceed with a PforR operation could be included in the Program Action Plan. Capacity building could also be supported through complementary analytical work and technical assistance by the Bank or through partnership arrangements with development partners (see Box 1.6 for options and approaches to M&E capacity development).

Box 1.6. Options and approaches to M&E capacity development

There are several ways to support capacity building for M&E. As examples, the Bank could:

- *Support government efforts to conduct M&E activities and learn from these experiences.*
- *Support defining a clear governance structure for results monitoring and reporting.*
- *Provide technical assistance for activities such as MIS development, household surveys, and impact evaluations.*
- *Encourage dissemination of evaluation findings and reports widely to the public.*
- *Support professional development and training of government program staff, universities, and research institutions.*
- *Organize cross-learning events and study tours to countries with strong M&E systems.*
- *Support the organization of a community of evaluation practitioners.*
- *Support public expenditure management reforms and/or performance-based budgeting initiatives.*
- *Support civil society efforts to independently monitor and evaluate programs (e.g., citizen's report cards, community scorecards, surveys, media reports).*

67. Starting early in the preparation phase, the task team should assess the Program's M&E systems. Below are indicative questions a task team may ask in conducting the assessment of the Program's M&E capacity:

1. Overall institutional set-up

- *What is the implementing agency's information infrastructure, including the availability and use of periodic surveys, and routine information systems at the national and local levels (as relevant depending upon the program)?*
- *How do rules, systems, and incentives shape the behavior and decision-making processes within the implementing agency?*
- *What are the budget-making process and the criteria used for how funds are allocated for programs? How does the implementing agency work with the ministries of finance and/or planning?*
- *What is the demand within the implementing agency, and from outside the implementing agency, for relevant information and measuring agency performance?*
- *Is the M&E function adequately staffed, both in terms of number and appropriate and qualified skills-mix?*
- *What additional capacity development needs are there within the implementing agency or with other partners to strengthen the M&E systems?*

2. Monitoring/Reporting

- **Monitoring.** *In assessing the monitoring capacity of the implementing agency and its ability to monitor its programs and investments, what type of monitoring and supervision do they normally perform? What role do decentralized units or departments of the implementing agency play in monitoring and reporting? How is monitoring information used? How is the quality of the monitoring information?*
- *Is there any type of systematic third party or independent monitoring in place?*

- **Reporting.** *What are the current reporting arrangements from local to national levels and vice-versa? What is the frequency of reporting? How is the quality of the reports? What manuals and reports are currently in place? What are the mechanisms for flow of information among the various Program entities? Which agency or agencies are responsible for producing reports? Which agencies receive Program reports? How do they use the information received? What decisions are triggered on the basis of Program reports?*
- *What types of information systems are currently in place to capture and aggregate data (e.g., web-based, spreadsheets or manual)? How can they be improved?*
- *Is the information publicized and made available to the beneficiaries?*

3. Evaluation

- *When assessing the evaluation capacity of the implementing agency and its ability to evaluate its programs and investments, what types of baselines or evaluations are already in place or planned? What has been the quality of past evaluations? Which department is responsible for evaluations?*
- *Is an impact evaluation planned or needed?*
- *Is there any relationship with the national statistics office or the regular national survey data collection in the country?*

4. Supply-side issues

- *In determining the in-country M&E capacities and supply, what are the quality and/or reliability of monitoring and evaluation that have been conducted? What are the strengths and weaknesses of the local supply and knowledge? Are there opportunities for engagement with civil society, universities, survey or research firms in relation to M&E and/or third party monitoring or verification?*

68. A key driver for assessing the capacity of the Program's M&E system is to ensure that a credible mechanism is in place for monitoring and verifying the achievement of individual DLIs. The DLI protocols that verify the achievement of results associated to DLIs should be an integral part of the monitoring and reporting arrangements for the PforR operation. During appraisal, the task team should review the government's experience with internal and external verification and reporting, and agree upon appropriate arrangements. Verification could be carried out by a government agency that has the capacity to provide independent verification or through an external third party (an independent entity, centers of excellence, NGOs, or private sector entities) in the event that capacity is not in place.

69. Taking into consideration the complexity and characteristics of the Program and the borrower's institutional capacity, the assessment should specify whether the following issues have been well considered:

- Systems are in place for accurately monitoring and evaluating progress in the Program's results framework and the achievement of the DLIs;

- Strengthening of M&E systems is an integral part of the Program and therefore should be included in the Program’s results framework; and
- Strengthening of M&E systems would be required for proceeding with a PforR operation. In the event that strengthening of M&E systems is necessary for moving ahead with the operation, the specific activities and results should be described in the PAP.

70. Table 1.2 presents a general framework for classifying M&E strengthening results or actions as either DLIs or actions. At a minimum, all operations require—either up-front or through identified activities to be carried out during the operation’s preparation and/or implementation—the capacity to monitor and evaluate both the Program’s results (in accordance with its results framework, as defined) and the progress toward and achievement of DLIs.

Table 1.2: Summary of Approaches for M&E Systems Strengthening

<i>What requires monitoring?</i>	<i>Why is M&E strengthening needed?</i>	<i>Where is this reflected?</i>	<i>Example</i>
Results framework	To achieve PDO	A result for the Program in the results framework	<ul style="list-style-type: none"> • Updated beneficiary registry • Program systems integrated with other agencies
DLI Matrix and Verification Protocol	To monitor DLI Matrix and Verification Protocol	PAP; Measures to strengthen M&E should only be selected as DLIs if the PforR operation could not move forward without them	<ul style="list-style-type: none"> • Hiring additional staff for M&E • Developing new databases and reports

VI. PROGRAM ECONOMIC EVALUATION

71. The initial decision for the Bank to support a government program through a PforR operation emerges from prior discussions with the client as part of the country dialogue and from management decisions already embedded in the CAS/CPS and related documents. Considerable background information and material may also be available from sector work, from country sources, or from past experience with similar types of programs and projects. This context will provide an important input into the depth and focus of economic analysis required for any individual program.

72. The economic evaluation of a PforR operation aims at answering the following key questions:

- *Is public provision and/or financing appropriate for the Program?*
- *What is the economic impact of the Program, as being currently implemented or planned?*
- *What is the expected economic impact of the improved Program with PforR support?*

- *What is the value added of the World Bank?*

73. The economic evaluation for each operation would answer these questions, but should allow flexibility with respect to their analysis. While the fundamental questions must be addressed under each operation, the method of doing so will, to a considerable extent, be program specific.

A. Rationale for Public Provision and/or Financing

74. Assessing the rationale for public provision and/or financing of goods and services is an integral part of the economic evaluation of any government development program. The main rationales warranting public action include market failures, spillovers, redistribution, and social and political concerns. This assessment should be based on the causal chain underlying the Program, from Program design to outcomes (including the elimination of the bottleneck warranting public action in the first place). It should also build upon inputs provided under the strategic relevance and expenditure framework analysis of the technical assessment

75. Many programs in the public sector do not introduce new programs but strengthen or improve ongoing ones by eliminating binding constraints on performance. In this case, the justification for including the original program in the public sector will most likely have been previously established and reflected in the assessment of the program's strategic relevance. The causal chain from program design to elimination of the bottleneck, however, should still be laid out as fully as possible. For programs that involve various forms of partnership with the private sector, it will be important to explain and justify the chosen mode of delivery with reference to the government's regulatory and administrative capacities, the private sector's level of development and competitiveness, and the specific design features that make the project suitable for a public-private partnerships.

76. The assessment of the Program's expenditure framework should help determine if the existing program is being delivered efficiently and taking account of available resources, and if the production costs are reasonable. In many cases it will be sufficient to undertake comparisons between international unitary costs or costs observed in similar programs in the same country; while in some cases some basic cost-benefit analysis should be possible.

B. Economic Impact of the Program

77. Assessing the Program's economic impact rests on three ideas: (a) a Program contributes to development if expected benefits exceed expected costs; (b) benefits and costs attributable to a Program are measured by comparing the situation with the Program to the situation without the Program; and (c) where plausible alternatives exist, the selected Program should be the preferred design (least-cost option).

78. For many Programs, such evaluation may take the form of a narrative comparison of the "with" and "without" scenario, supported wherever possible by evidence from similar programs in the country or elsewhere to help establish what the Program contributes relative to the counterfactual. If benefits are quantifiable but not in monetary terms, it may be possible to measure benefits with and without the Program in terms of a possible reduction in the incidence

of malaria, for example, without being able to express them in monetary terms. In such instances, several techniques are available to the analyst — break-even calculations, contingent evaluation, and least-cost analysis. In cases where task teams can assign monetary measure of costs and benefits with and without the Program (e.g., transport operations), staff can calculate a preliminary economic rate of return (or net present value) or at least indicate how this is to be done before appraisal.

79. When it comes to assessing the impact of the Program, including improvements determined during the preparation of the PforR operation, the basic approach is to describe what the improved Program is expected to achieve relative to a counterfactual, which is likely to be the continuation of an existing program or no program if the proposed Program is an entirely new one. It is important to provide a clear description of the problems, weaknesses, and constraints identified with the current government program and what exactly the improved Program is expected to do to address those problems and constraints. This description should outline the causal chain from design to impact with the factors justifying the various interventions and improvements. This exercise should parallel and build on the various Program assessments and related PAP and capacity building.

C. World Bank Value Added

80. The Bank's input is intended to complement and contribute to the client's efforts under the Program or those of its other development partners by providing new knowledge based on international experience; and by improving Program design, performance, processes, and capacity of the implementing agency during preparation of a PforR operation, and/or during its implementation, through technical assistance.

81. Bank input usually includes the definition and support to the implementation of Program-level improvement measures and of risk management measures, as well as the dissemination and adaptation of good practice. If a Program is highly innovative or requires special attention to verify the achievement of selected results, the Bank may propose and help organize an impact evaluation in addition to the basic economic analysis. If the goal is to complement local expertise in the short run, for example, training and capacity building may be required for the long run. If the Program is unusually large or risky, there may be need for a more thorough economic analysis. And, when the process from identification to approval requires continuous adjustment and modification of Program design as more information becomes available and more context-specific experience is generated, additional staff time may be required both to adapt Program design and to record any significant implications for the economic analysis.

D. Undertaking the Economic Evaluation

82. *Depth and scope.* The type of program bears on the nature and depth of the economic evaluation. Thus, an innovative program may warrant more rigorous analysis than a more traditional program, or a large program (relative to the country's public investment program) than a small one, or a risky program relative to a straightforward one. An emergency program, on the other hand, may require an abbreviated economic analysis relative to programs implemented in more normal circumstances.

83. The depth of the economic analysis will also depend on the availability of quantitative information and the time and effort required to collect additional information. Even with abundant information early in the project cycle, projecting costs and benefits over 10, 20, or even 30 years inevitably results in highly uncertain estimates. Moreover, the appropriate measure of development impact, the difference between the situation with and without the project, is often difficult to gauge because the “without” project scenario is not observed, adding another layer of imprecision. And for many programs, especially those with a strong rationale for public provision, it may not be possible to express benefits in monetary terms. While generating new information from baseline surveys, control groups, contingent valuations, and so on can help to fill some of the gaps, all such efforts place considerable demands on staff time and that of local counterparts.

84. **Reporting.** An initial economic evaluation undertaken for the PCN should enable Bank Management to:

- Check that the proposed operation is consistent with any prior decisions made in CASs and through the country dialogue regarding country strategy, sectoral focus, rationale for public provision and/or financing, and World Bank value added;
- Understand to what extent and how the Program is expected to contribute to the country’s development; and
- Determine what further actions are necessary to substantiate Program justification, if required, or to shepherd the Program through appraisal and prepare for implementation.

85. At a minimum, the PCN should provide Management with a clear description of the public rationale for the Program. In addition, the PCN should explain how the proposed operation either addresses the identified concern or compensates for it by outlining the causal chain from Program design to impact on the factor(s) justifying public intervention. Also, the PCN should provide a clear description of the Program’s expected contribution to development relative to the most reasonable counterfactual. Finally, the PCN should specify the Bank’s contribution and value added to the Program.

86. During the operation’s preparation, the economic analysis can be deepened. The operation’s appraisal should revisit the key questions, drawing on the additional information and analysis resulting from actions at the concept note stage. The operation’s appraisal should analyze the economic evaluation for the Program. Actions to be undertaken during implementation should also be described. Moreover, this analysis should also be closely coordinated with the risk assessment of the operation (see Chapter Five, Program Integrated Risk Assessment Guidance Note).

VII. IMPLEMENTATION SUPPORT

87. The borrower is responsible for the Program’s overall implementation, including its technical aspects. Implementation support by task teams includes (a) reviewing implementation progress and achievement of Program results and DLIs; (b) providing support for implementation issues as well as institutional capacity building; (c) monitoring systems’

performance to ensure their continuing adequacy through Program monitoring reports, audit reports, as well as field visits; and (d) monitoring changes in risks to the Program and compliance with legal agreements and, as needed, the Program Action Plan.

88. In the technical areas, task team should provide timely implementation support and internal reporting on the capacity of the borrower to (a) maintain satisfactory technical and institutional arrangements under the Program; (b) make available adequate budgets for the Program and to use such budgets appropriately, including through timely commitments and payments, and minimization of arrears; and (c) ensure that activities financed under the Program remain economically justified. Task teams also monitor progress in the implementation of the related improvement measures agreed on during the PforR operation's preparation.

89. Task teams should monitor progress toward the achievement of the Program's results (including the DLIs and associated disbursements) and identify bottlenecks or emerging issues and potential risks to the Program's results, including the achievement of DLIs. The task team should routinely work with the borrower to ensure that the Program is on track toward the results outlined in its results framework. Progress should be monitored on the basis of Program progress reports submitted by the borrower as agreed during preparation and described in the PAD. In reviewing progress, the task team should assess progress against expected results (as well as possible unintended effects) as presented in the Program's results framework: *Are expected results on track? If not, why?* They should compare overall Program expenditures with results achieved: *Has the client incurred overall Program expenditures that support the achievement of its results?* And they should identify possible factors that may affect the expected results: *Are there any factors such as lack of Program funding, changed priorities, etc. that can impact the Program's expected results?* Timely attention in reviewing progress should allow the task team to give advice on, as well as the borrower to implement, any corrective actions needed to achieve the expected results in the face of changing circumstances.

90. Task teams should also routinely monitor progress toward the achievement of DLIs on the basis of agreed on reporting arrangements, including the Program's progress reports and the DLI protocols. When compliance with a DLI is achieved and verified as agreed at appraisal, a clear statement should be reflected in the task team's aide memoire and in the Implementation Status and Results Report.

91. Task teams should also provide technical support to the borrower in (a) the undertaking of the PAP and the institutional capacity building activities as defined during preparation, and (b) the identification and resolution of Program implementation issues. Support may come from the expertise of task team members, development partners, and contracted experts. As appropriate, the support to the borrower may include:

- Direct support by Bank staff in defining how to address a policy or regulatory matter that may affect the Program's performance or resolve a specific Program issue;
- Assistance in drafting terms of reference for consultant services in carrying out specific improvement activities;
- Assistance in reviewing consultants' reports;

- Organization or support of training activities; and
- Establishing appropriate oversight mechanisms.

92. Based on the list of institutional strengthening actions agreed to during the preparation of a PforR operation, the task team and the borrower confirm regularly (annually, for instance) through the implementation period of the operation those specific activities to be carried out. This joint effort allows both the borrower and the task team to structure a joint timetable of concrete actions to be undertaken. As needed, the initial list of technical support activities (reflected in the PAP) can be modified to accommodate unforeseen high-priority needs for Bank technical support.

93. ***Restructuring and additional PforR financing.*** PforR operations may occasionally be affected by changing priorities, circumstances, or external realities surrounding the original government program supported by such operations. In its implementation support, the task team should discuss proposed changes to the operation with the borrower in a timely fashion, and identify the need for a Program restructuring. Depending on the impact of changing priorities, circumstances, or external realities, it may be appropriate to introduce changes in the Program's results framework, its design, the DLIs (including amounts assigned to each), implementation arrangements, or timing. A Program may be restructured to strengthen its development impact, modify its development objectives or DLIs, improve Program performance, address risks and problems that have arisen during implementation, make appropriate use of undisbursed financing, extend the financing closing date, or otherwise respond to changed circumstances.

94. The task team may also identify the need for additional financing that may be necessary for the government to meet (a) unanticipated significant changes to expenditures parameters required to achieve the original Program results or DLIs, or (b) new or modified results, to be reflected in new or modified DLIs, that aim to scale up the impact or development effectiveness of the original Program. In preparing a proposal for additional financing for a government program financed by a PforR operation, the documentation should present:

- The Program's progress toward the achievement of its PDOs and associated results, measuring in particular its progress against the Program's results framework and DLI Matrix, as set out in the PAD; and
- Any additional results expected from the government program, including a revised and expanded results framework for the Program, and DLI Matrix for the additional financing, together with summary protocols for all DLIs.

95. The Bank provides additional PforR financing if it is satisfied with the overall implementation of the original (or restructured) Program. The Bank considers the proposed additional PforR financing on the basis of, as necessary, updated or additional technical, fiduciary, environmental and social impacts, and integrated risk assessments.

Technical Assessment Roles and Responsibilities of the Bank and Borrowers

<i>PforR operation stage</i>	<i>Borrower</i>	<i>World Bank</i>
Identification and Concept	<ul style="list-style-type: none"> • Provide necessary information for and inputs to the technical assessment • Work with the Bank on the consolidation of the Program's results framework • Agree with the Bank on the eventual studies/analysis necessary to underpin the technical assessment • Agree with the Bank on the key areas for improvements over the implementation period of the operation 	<ul style="list-style-type: none"> • Conduct a preliminary review of the government program, reflect initial findings in the PCN and flag key areas for improvement • As needed, identify and organize the carrying out of studies/ analysis necessary to underpin the technical assessment (e.g., economic evaluation) • Describe in the PCN the scope of the Program • As necessary, justify the differences between the scope of the government program and the Program (e.g., existence of excluded high-risk activities) • Include in the PCN the initial results framework
Assessment to Approval	<ul style="list-style-type: none"> • Provide necessary information for and inputs to the technical assessment • Carry out required studies/ analysis as inputs to the technical assessment • Work with the Bank on consolidating the results framework, developing the DLIs and the PAP, if one is required • Review and agree with the Bank on the results framework, DLI Matrix, PAP and Bank implementation support scope 	<ul style="list-style-type: none"> • Carry out technical assessment • Consolidate the results framework • In partnership with the borrower, develop DLIs and Verification Protocol (see Chapter 2) • Identify key areas for improvements, and agree with borrower on improvements to be carried out with Bank support, as part of the PAP • Define implementation support arrangements • Present a summary and initial conclusions of the technical assessment, the consolidated results framework and DLI Matrix in the draft PAD for the Decision Review • Reach final agreement with Bank Management and borrower on the results framework, DLI Matrix, PAP and Bank implementation support scope
Implementation Support	<ul style="list-style-type: none"> • Implement the operation, with Bank support • Inform the Bank of issues and changes likely to affect the capacity of the operation to achieve its expected results 	<ul style="list-style-type: none"> • Provide support to the borrower in the implementation of the PAP, and in the resolution of unexpected issues arising during the Program's implementation. • Monitor Program systems' performance, and compliance with the legal agreements • Review implementation progress and achievement of Program results and DLIs

Technical Assessment Indicative Outline

A. Introduction

1. The Technical Assessment Interim Guidance Note has been prepared to provide Bank staff, development partners, and borrowers a framework to conduct the technical assessment for a Program proposed for support by a PforR operation, in accordance with Operational Policy/Bank Procedures (OP/BP 9.00), *Program-for-Results Financing*. It also serves as a reference guide for Bank staff in providing technical advice to the borrower during the preparation, appraisal, and implementation of a PforR operation.

2. In order to provide task teams with an overview of the scope for the key areas of the technical assessment, this outline provides a brief summary of the main issues discussed in Chapter One of the Guidance Note. The technical assessment is carried out at the Program level, builds on the Bank's, development partners' and borrower's existing knowledge, as well as on specific analysis carried out during the preparation of a PforR operation. As the case may be, such analysis can be carried out in partnership with other development partners and/or the borrower.

3. While the length of a technical assessment will depend on Program characteristics, its average length is expected to be about 20 pages (excluding possible annexes). In addition, the technical assessment section of the PAD is expected to be a few paragraphs, and the PAD annex providing the assessment's summary is expected to be about 3 to 5 pages in length. The final technical assessment is disclosed at the same time as the PAD.

B. Technical Assessment Indicative Outline

1. Program Description¹⁴

4. This section should provide a summary description of the government program, as well as the definition of the Program boundaries and the rationale for it. The definition should also include the Program expenditure framework, typology of activities and time frame for Bank support. The definition of the Program should be clearly anchored in the development objectives and main results of the government program.

2. Description and Assessment of Program Strategic Relevance and Technical Soundness¹⁵

a. Strategic Relevance

5. Task teams present and evaluate the borrower's developmental issue(s) the Program aims to address with regard to its relevance and priority for economic development and poverty reduction in the borrower's country. Task teams also evaluate the Program's suitability for

¹⁴ For more details, see the Overview to these Interim Guidance Notes.

¹⁵ For more details, please see the Technical Assessment Interim Guidance Note.

public, private or mixed provisions, as well as the adequacy of the Program's structure to efficiently address the developmental issue(s) at hand.

b. Technical Soundness

6. The technical design of the Program should contribute to the overall goal of efficiently producing results and reaching the Program's objectives. In this context, technical soundness is assessed against relevant international experience and good practices in terms of technical standards and typology of Program activities. Task teams also evaluate the incentives in place for Program stakeholders to effectively contribute to the Program's success.

c. Institutional Arrangements

7. Task teams assess the adequacy of borrower capacity and commitment to implement the Program and the proposed PAP, including the ability to manage fraud and corruption risks. Both aspects are central to ensure that the Program can meet its expected results in a timely and efficient fashion.

3. Description and Assessment of Program Expenditure Framework

8. Task teams evaluate whether the Program expenditure framework fosters efficient Program implementation, including a timely and cost-effective achievement of expected results. The evaluation usually includes a medium-term projection of the Program's expenditures and budget envelope to ensure the Program's results framework is robustly backed by a realistic expenditure plan. As necessary, task teams and the borrower examine various expenditure scenarios to identify the most realistic one, and adapt as necessary the Program's results framework. In particular, task teams evaluate¹⁶ the ability of the Program to achieve the results under such expenditure framework and its level of efficiency and effectiveness. In doing that, teams will examine certain dimension of the Program expenditures including:

- (a) Program budget structure and classification;
- (b) Program financial sustainability and funding predictability;
- (c) Adherence of the budgeted program expenditure and execution to government priorities; and
- (d) Efficiency of Program expenditures.

4. Description and Assessment of Program Results Framework and M&E¹⁷

9. Task teams work with the borrower to structure a well-defined Program results framework, with clearly defined Program development objectives (PDOs), results, and disbursement-linked indicators (DLIs)¹⁸ that the borrower can monitor, measure, and report on routinely. In particular:

¹⁶ For more details, see the Technical Assessment Interim Guidance Note.

¹⁷ For more details, see the Technical Assessment Interim Guidance Note.

¹⁸ For more details on selection of DLIs, see Chapter Two, Disbursement-linked Indicators and Disbursement Arrangements Interim Guidance Note.

- (a) Based on the government program's expected objectives and key results, task teams work closely with the borrower to consolidate the Program's results framework (including PDOs, indicators, and relevant values to be achieved). The Program results framework is included as an annex to the PAD.
- (b) Task teams also assess the Program's implementing agency's M&E systems, including arrangements and capacity and existing reporting provisions for the Program. Functional M&E systems that are responsive to the Program's requirements are key to demonstrate, measure and where applicable to verify the achievement of results (especially DLIs) and to generate important lessons for learning and improvement. When that capacity is weak, task teams design, in partnership with the borrower, measures to strengthen it.

5. Program Economic Evaluation¹⁹

10. With support from the borrower and relevant development partners, task teams undertake an economic evaluation of the Program, and include a summary of the evaluation and findings in the PAD. Task teams have the flexibility to choose the adequate economic evaluation methodology, depending on Program characteristics and data availability. Task teams should justify their chosen methodologies. While there is flexibility on evaluation methodologies, all Program economic evaluations should address the four following key aspects:

- Rationale for Public Provision and Financing;
- Program's Economic Impact;
- World Bank Added Value; and
- Results of Economic Evaluation.

6. Inputs to the Program Action Plan

11. Task teams discuss and agree with the borrower on actions to be undertaken by the borrower to address key areas for improvement identified under the technical assessment. Such actions serve as inputs to the PAP, and are of at least four types:

- Changes to the technical dimensions of the Program and to the formal rules and procedures governing the organization and management of the systems used to implement the Program;
- Actions to enhance the capacity and performance of the agencies involved;
- Risk-mitigating measures to increase the potential for the Program to achieve its results and to address fiduciary, social, and environmental concerns; and
- An initial draft of the PAP will be developed as part of the preparation/assessment process and further refined during appraisal

¹⁹ For more details, see the Technical Assessment Interim Guidance Note.

7. Technical Risk Rating

12. Based on the technical assessment findings, and agreed-upon risk mitigation and improvement measures, task teams provide a technical risk rating, the justification for it, and relevant risk mitigation measures as input to the PforR operation's integrated risk assessment.²⁰

8. Inputs to the Program Implementation Support Plan²¹

13. Task teams work with borrowers to structure the support the Bank will be providing in the Program's technical areas during the implementation of a PforR operation. Support usually includes:

- Reviewing implementation progress and achievement of Program results and DLIs;
- Helping the client to resolve implementation issues and to carry out institutional capacity building;
- Monitoring the performance of Program systems, including the implementation of the PAP; and
- Monitoring changes in Program risks as well as compliance with the provisions of legal covenants.

²⁰ For more details, see the Program Integrated Risk Assessment Interim Guidance Note.

²¹ For more details, see the Technical Assessment Interim Guidance Note.

CHAPTER TWO: DISBURSEMENT-LINKED INDICATORS AND DISBURSEMENT ARRANGEMENTS INTERIM GUIDANCE NOTE

1. Disbursement-linked indicators (DLIs) play a critical role in Program-for-Results (PforR) operations because they are the basis for disbursement of World Bank funds under such operations. During an operation's preparation, task teams work with borrowers to identify a limited set of indicators selected from the Program's results framework and the Program Action Plan (PAP).²² These indicators will be defined as DLIs and will be included in the operation's DLI Matrix.
2. During implementation, monitoring the achievement of DLIs allows the Bank and borrowers to assess progress toward the Program development objective (PDO) and, if needed, to point toward areas where a Program needs to be redirected in order to achieve its expected results. This note provides guidance to Bank staff on the selection and verification of DLIs and the accompanying disbursement arrangements in a manner consistent with OP/BP 9.00, *Program for Results Financing*.

I. THE DLI MATRIX

3. The selection and structuring of DLIs under a PforR operation is carried out jointly between the task team and the borrower during the preparation of the operation.
4. ***Selection of DLIs.*** While DLIs will vary in nature, they should be driven by desired outcomes or outputs. They can also be intermediate outcomes, outputs, process, or financing indicators that are key actions needed to address specific risks or constraints to achieving development results. The selection of DLIs should focus on the indicators that provide evidence of continued progress toward the PDO. The choice of a DLI should be clear with respect to its signaling purpose. *Does the DLI serve the role of signaling and monitoring a critical milestone along the results chain without which the PDO could not be achieved? Or does the DLI serve the role of signaling incentives for rewarding performance (outputs, outcomes) to encourage the practice of managing for results?*
5. The selection of the DLIs should also take into consideration the practical aspects of measuring, monitoring, and verifying achievement of the results. The DLIs should be clearly defined and measurable, with clear protocols for monitoring. The DLIs should be structured taking into account the country's context and borrower capacity, and whether it is feasible to achieve the results selected as DLIs during the implementation period of the PforR operation. Since the PforR instrument supports a diverse set of programs at various stages of development, the types of acceptable DLIs are sufficiently flexible to respond to the wide range of demands. On one hand, a Program in the initial stages of implementation may have DLIs that are more focused on basic institutional capacity building actions and intermediate output indicators. On the other hand, Programs that are well advanced or "mature" in terms of their development may have a larger number of DLIs that are outcome indicators.

²² For more details on the Program Action Plan, see the Overview to these Interim Guidance Notes.

6. With this flexibility in mind, DLIs can be outcomes (e.g., infant mortality rate, literacy rates, etc.), intermediate outcomes (e.g., increase in school enrollment), outputs (e.g., kilometers of roads rehabilitated); process indicators (e.g., confirmation of substantive participation in decision-making by specified communities); or financing indicators (e.g., share of strategic projects in total expenditures). DLIs can also be key actions aiming to address specific risks or constraints to achieving the results (e.g., actions to improve fiduciary systems; environmental and social management, and/or monitoring and evaluation). What is common to all is that the selection of a DLI should be driven by the desired outputs and outcomes of the Program.

7. **Number of DLIs.** Not all indicators in the Program results framework should be selected as DLIs, though monitoring the full results framework is important for the government to keep the Program on track. By the same token, not all actions under the PAP or mitigation measures under the integrated Program risk assessment need to be reflected as DLIs. The absolute number of DLIs for an operation and the selection of specific actions, outputs, and intermediate outcomes should aim to ensure that they are the key milestones that are considered critical to (a) keep the Program, including efficiency and effectiveness, on track; and (b) ensure agreed upon improvements and mitigation measures are carried out. Equally critical is maintaining a simple design for the operation (practicality and manageability).

8. **Allocation of Bank financing under DLIs.** The financing amount allocated per DLI is determined by task teams, in discussions with borrowers, based on the relative importance of the indicator to provide the incentive needed for achieving overall Program goals and outcomes. The amount allocated to the achievement of each DLI is not attributed to specific Program expenditures, nor does it need to be commensurate to Program expenditures necessary to achieve the DLI. However, the more significant the DLI is for the achievement of the expected Program results, the more consideration should be given to assigning a higher portion of the financing amount to it. A DLI may be defined as expected to achieve only one value²³ or several values²⁴ over the Program's implementation period. In the latter case, the Bank financing amount allocation to the DLI can be broken down in sub-allocations for the various DLI values expected to be achieved.

9. **Consideration of timing for DLIs achievement.** During the preparation of a PforR operation, once the DLIs have been agreed, the task team discusses with the borrower the possible timing of disbursements taking into account considerations of the borrowers need for budget predictability and flow of funds. The most common approach is to aim for disbursements on a relatively regular basis, which requires over the Program implementation period: (i) a relatively smooth allocation of Bank financing; and (ii) DLIs that foster meaningful Program improvements while at the same time can realistically be achieved by the government with Bank support. When determining the point in time at which a specific DLI is expected to be achieved, task teams should take into account the critical paths to be followed to ensure that all DLIs are achieved by the completion of the operation, as well as the needs of the borrower in terms of flow of funds from Bank financing.

²³ For example, if the DLI is of an action type, such as "Preparation of an improved environmental and social guide by December 31, 2012".

²⁴ For example, if the DLI is of an output type, such as "Extension of paved roads rehabilitated," with 400 kilometers of roads expected to be rehabilitated each year over the Program implementation period.

10. A DLI may be defined as time bound, meaning that if it is not achieved by a specific date, the borrower will not be able to request disbursement of the financing amount allocated to that DLI. Defining time bound DLIs can be useful when the DLI is a critical action or process which needs to occur by a certain date in order to allow the Program to achieve its expected results (e.g. modernized Program procurement system in place by [date], or revised Program manual available to stakeholders by [date]).

11. Some DLIs may not need to have a firm achievement date attached to them—they are achievable at any time during the Program implementation period. In this case, the borrower can request disbursement against the achievement of the DLI at any point after its achievement has been formally verified by the Bank. Defining DLIs in this fashion can be useful when the DLI is an output or an outcome, against which gradual progress can be made and should be encouraged (e.g. kilometers of road rehabilitation completed, percentage of girls graduating from primary schools, etc.).

12. **Scalability of Bank disbursements.** In discussions with the borrower, the team may agree to make disbursements against a DLI scalable—with the disbursement of financing proceeds proportional to the progress towards achieving the DLI. The decision to define scalable disbursements for a DLI should take into careful consideration the effect of a partial achievement of the indicator on the continued progress in the Program’s results framework and on the eventual achievement of the PDO. In other words, scalability of disbursements may not apply to all DLIs. For instance, if a DLI refers to an action (e.g., modernization of procurement system in place), then it is either done or not. For each DLI with scalable disbursement, task teams agree with the borrower on the formula to determine the amount of PforR financing proceeds to be disbursed relative to the level of achievement of the DLI.

13. **DLI Matrix.** The DLIs and the financing amounts allocated to the achievement of each DLI are recorded in the DLI Matrix (see Attachment 2.1). Taking into account the number of DLIs, the expected timing of DLI achievement, and the client’s expected financing needs, the task team proposes an indicative time table for DLIs achievement and disbursement (e.g., on an annual, semi-annual, or quarterly basis).

14. This time table is part of the DLI Matrix. A DLI can be specific to one period or defined to have stepwise targets over a series of periods. If DLIs are not achieved in the period initially planned, and are not time bound, they need not expire; the financing amount allocated to those DLIs may be made available for disbursement if the DLI is realized in later periods prior to the closing date. Similarly, if DLIs are achieved ahead of the expected period, disbursements can be claimed ahead of schedule. Lastly, if a DLI is not achieved by Program completion, the financing amount allocated to this DLI is not disbursed. The DLI Matrix is attached to the PAD and is reflected in the legal agreement for the PforR operation.

II. THE DLI VERIFICATION PROTOCOL

15. During preparation of a PforR operation, the task team should work with the borrower to develop and agree upon the DLI Verification Protocol (see template and illustrative example in Attachment 2.2) that substantiate the achievement of DLIs. Verification Protocol should include, at a minimum, the following:

- Clear definition of the DLI and how it will be measured.
- Objective, detailed definition of what is required to consider the DLI as achieved.
- Indication of whether disbursements associated with the DLI will be scalable.
- Definition of the data sources that will be used to measure the DLI's achievement, including reporting frequency.²⁵
- Baseline data and expected timing of DLI achievement clearly established based on comparable data sources.
- Name of the government agency or third-party entity that will be responsible for providing relevant data and for verifying achievement of the DLI.

The DLI Verification Protocol should be an integral part of the monitoring and reporting arrangements for the PforR operation, and task teams should agree upon the process through which the achievement of each of the DLIs will be verified. The DLI Verification Protocol and related verification arrangements are to be attached as an annex to the PAD.

16. The task team should work with the borrower to review the Program's experience with internal and external verification and reporting, and agree upon appropriate arrangements that will ensure credible verification of achievement of DLIs. These arrangements could include the Program's established monitoring systems if they are assessed as having the experience and capacity to produce objective, quality, and reliable data that will allow verification of DLI achievement in a timely manner. In addition, external verification mechanisms, including the use of an independent agency in the country (e.g., the government statistics agency) or third parties (e.g., NGOs, private sector verification agencies, academic institutions), may be used. Any external institution providing verification must also be assessed to demonstrate the experience and capacity of ensuring credible verification. The primary objective is to ensure that a credible mechanism is in place for monitoring, measuring, and verifying the achievement of the DLIs.

17. Verification arrangements are DLI specific, as the verification methodology should take into account the nature of the indicator, type of data that can be used to verify the specific achievements, and the institutional arrangements needed to provide the needed verification. Under an education program, for example, the education ministry's monitoring system, if considered to have the experience and capacity to provide credible information, may be relied upon for verifying the number of teachers trained. Alternatively, for a community-driven development program with small, diverse investments in several locations, an independent, third-party verification mechanism will likely be more appropriate. In other instances, such as for an indicator that measures percent of population with increased access to water supply, credible verification may require the availability of information provided by independent agencies in government, in this case the census bureau.

²⁵ For example, DLIs that are dependent on the results of annual household surveys could suffer from delayed disbursement if the results of the household surveys are not available on schedule.

III. THE BANK DISBURSEMENT TABLE

18. Once the DLIs, Bank financing amounts allocated to the DLIs, and the DLIs Verification Protocol are defined, task teams and borrowers define, for each DLI, the formula determining the level of Bank financing to be disbursed on the basis of level of progress in achieving the DLI (see section IV below). Such formulae may be of various types, including pass/fail, linear or other types as may be agreed between the Bank and the borrower. Defining adequate formulae should take into careful consideration the effect of a partial achievement of the indicator on the continued progress in the Program's results framework and on the eventual achievement of the PDO. For instance, if a DLI refers to an action (e.g., modernization of procurement system in place), then it is either done or not. The formulae should also specify whether a specific DLI is time bound. Formulae could also specify a maximum DLI value, above which no additional Bank disbursement would be made if that is appropriate for the Program. In the same token, for some DLIs the teams may wish to identify a lower level for such DLIs, if appropriate for the Program.

19. The DLIs formulae are described in the Bank Disbursements Table. Attachment 2.3 provides the template for the Bank Disbursement Table. As relevant, the Table also identifies the specific DLIs against which the Bank and the borrower have agreed prior results and/or advance financing would be available (see paragraphs 20 to 22 below). The Bank Disbursements Table is to be attached as an annex to the PAD, and is reflected in the PforR operation's legal agreement.

20. **Prior results.** For certain Programs, some results may need to be achieved prior to the signing of the legal agreement for the operation. For example, a Program might need to put in place a system for collecting baseline data used to measure progress toward Program results or possibly a monitoring system to measure progress on its results framework. In these situations the Bank may agree to disburse up to 25 percent of the amount of the PforR financing proceeds against DLIs met by the borrower between the date of the Program Concept Review and the date of the legal agreement for the financing (dates as recorded in the Bank's Operations Portal). In reviewing the borrower's request for such financing, task teams need to ensure that such results: (a) are within the scope of the Program supported by the PforR operation; and (b) the systems used to achieve such results are assessed by the Bank in adherence with the provisions of OP/BP 9.00. In practice prior results financing should be agreed at negotiations. The DLIs against which the amount of prior results financing is defined are identified in the determination of Bank Disbursement Table.

21. **Advances.** Many programs supported by PforR operations will be existing programs with funds already appropriated in the national budgets; therefore, advances under the operation's financing agreement may not be necessary. In some situations, however, advances may be helpful, or even necessary, for the borrower to finance the activities needed to achieve the results for one or several DLIs. Such situations might occur, for example, in fragile and conflict affected states or where Bank financing is supporting the start-up of a new Program in a budget-challenged country. Advances could be considered, not only to achieve the initial set of DLIs but also subsequent DLIs during the implementation period. In these cases, the Bank may agree to make an advance payment (following the effectiveness of the legal agreement) of up to 25 percent of PforR financing for one or more specific DLIs that have not yet been met

(“advance”). When the DLIs are achieved, the amount of the advance is deducted (recovered) from the amount due to be disbursed under the DLI. The advance amount recovered by the Bank is then available, as needed, for additional advances (“revolving advances”). The Bank requires that the borrower refund, no later than six months after the legal agreement closing date, any advances (or portions of advances) if the DLIs have not been met (or have been partially met) by the Program closing date. The need for and justification of advances should be described in the PAD, and the specific amount and allocation should be specified in the financing agreement. The DLIs against which the amount of advance is defined are identified in the Bank Disbursement Table.

22. The combined amount of the prior results financing and advances referred to in paragraphs 21 and 22 above may not exceed 30 percent of the total Bank financing under the Program. In exceptional circumstances, higher limits for each of the above financing (or combination thereof) may be authorized with Management approval (in such cases, the PAD should clearly state that the higher limits have indeed been authorized).

IV. DISBURSEMENT ARRANGEMENTS

23. Disbursement of Bank financing will be made at the request of the borrower upon achievement of DLIs.

24. ***Bank’s acceptance of DLI achievement.*** Task teams should routinely monitor the borrower’s progress toward DLI achievement on the basis of the agreed monitoring and reporting arrangements, including the Program’s progress reports and the DLI Verification Protocol. When a DLI has been achieved (or partially achieved), the borrower informs the task team and provides evidence as per the Verification Protocol as justification that the DLI has been achieved. The task team reviews the documentation submitted and requests any additional information considered necessary to verify achievement of the DLI.

25. The task team and other Bank staff, as may be appropriate given the specific nature of the DLI, are responsible for making the initial decision confirming the achievement of the DLIs and for verifying the documentation submitted by the borrower and documenting its conclusion. This is described in a memorandum from the TTL to the Country Director²⁶ who will make the final decision as to whether the specific DLIs can be considered achieved. As an annex to the memorandum, the task team includes a draft official communication to the borrower informing them of the Bank’s decision as to the achievement of the DLI(s) and the level of PforR financing proceeds available for disbursement. The primary manager overseeing the operation (typically the Sector Manager) signs the official communication to the borrower.

26. If partial disbursement under a DLI is allowed against partial DLI achievement, the task team should determine the amount to be disbursed on the basis of the Program’s progress report and the DLI Verification Protocol. The Sector Manager’s notification to the borrower will advise the amount available for disbursement against progress achieved toward the particular DLI. When a DLI is deemed achieved, a clear statement should be reflected in the task team’s aide

²⁶ This workflow would be monitored during the first two years of PforR instrument use, and, as necessary, modifications would be proposed based on initial experience.

memoire and in the Implementation Status and Results Report (ISR). It is important that all the relevant documentation that the task team has used to reach its conclusions on the achievement of the DLIs is filed in the Bank's official records (WBDOcs).

27. **Disbursement requests.** Disbursement requests will be submitted to the Bank using the Bank's standard disbursement forms signed by an authorized signatory of the borrower. It is expected that the disbursement requests (Withdrawal Applications) will be submitted electronically using the e-disbursement functionality in the Bank's Client Connection system. It is recommended that disbursement requests be grouped together as sets of DLIs achieved in a period and submitted as a consolidated disbursement on an annual or bi-annual basis, or in accordance with the DLI Matrix indicative schedule provided in the PAD. Borrowers should attach (electronically) to the disbursement request a copy of the official communication that confirms that the Bank has accepted the achievement of the DLI.

28. **Grace period.** It is expected that once a DLI is achieved, the borrower will require a period of time to consolidate the necessary evidence both to justify the achievement of the result, as defined in the DLI Verification Protocol, and to request Bank disbursement. To address this, an additional period of six months after the PforR operation's legal agreement closing date may be allowed for the government to complete and submit to the Bank the verification materials and the related disbursement request (with respect to DLIs achieved prior to the closing date of the operation's legal agreement).

29. **Reconciliation.** Although PforR operations do not link disbursements to individual expenditure transactions, the aggregate disbursements under such operations should not exceed the total expenditures by the borrower under the Program over its implementation period. In most cases, Bank financing will represent a relatively small proportion of the Program's total expenditures. Task teams will ensure that the amount of Bank financing disbursed does not exceed the total amount of expenditures under the Program, taking into account contributions from other financing sources. If, by Program completion, Bank financing disbursed exceeds the total amount of program expenditures, the borrower is required to refund the difference to the Bank.

Disbursement-Linked Indicators Matrix (Template)

	<i>Total Financing Allocated to DLI</i>	<i>As % of Total Financing Amount</i>	<i>DLI Baseline</i>	<i>Indicative timeline for DLI achievement</i>				
				<i>Year or Period 1</i>	<i>Year or Period 2</i>	<i>Year or Period 3</i>	<i>Year or Period 4</i>	<i>Year or Period 5</i>
DLI 1								
Allocated amount:								
DLI 2								
Allocated amount:								
DLI 3								
Allocated amount:								
.....								
Total Financing Allocated:								

DLI Verification Protocol Table (Template)

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (yes/no)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
1						
2						
3						
.....						

Bank Disbursement Table (Template)

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement ¹	Minimum DLI value to be achieved to trigger disbursements of Bank Financing ²	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes ³	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s) ⁴
			Prior results	Advances				
1								
2								
3								
.....								

¹If the DLI is to be achieved by a certain date before the Bank Financing closing date, please insert such date. Otherwise, please insert the Bank Financing closing date.

² If the DLI has to remain at or above a minimum level to trigger Bank disbursements (e.g. DLI baseline), please indicate such level.

³ Please insert the DLI value(s) above which no additional Bank financing will be disbursed.

⁴Specify the formula determining the level of Bank financing to be disbursed on the basis of level of progress in achieving the DLI, once the level of DLI achievement has been verified by the Bank. Such formula may be of various types, including pass/fail, linear, or other types as may be agreed between the Bank and the borrower.

CHAPTER THREE: FIDUCIARY SYSTEMS ASSESSMENT INTERIM GUIDANCE NOTE

1. This note provides guidance to World Bank staff on assessing and supporting the fiduciary aspects of a Program supported by a Program-for-Results (PforR) operation in accordance with OP/BP 9.00, *Program-for-Results Financing*. Fiduciary management for PforR operations is part of an integrated approach that covers the technical, financial management (FM), procurement, disbursement, and risks aspects.
2. Information about fiduciary management is a key input to Bank Management decisions on whether a Program is appropriate for PforR financing and what capacity building and risk management measures should be included under the Program. The task team leader ensures, among other things, that fiduciary inputs are integrated into the Program's overall design, risk assessment, and, as necessary, into the Program Action Plan (PAP);²⁷ and that borrower compliance is monitored with respect to legal obligations, including in the fiduciary area. Procurement, financial management, and disbursement specialists are part of the team and provide the fiduciary inputs to the task team leader.
3. Fiduciary management is an integral part of a PforR operation throughout the operation's cycle:
 - **Identification.** Fiduciary specialists assess the state of their knowledge about the fiduciary systems for the proposed Program; identify sources of information, including diagnostics carried out by the borrower and/or development partners; and make arrangements with the borrower to ensure that sufficient information on the fiduciary arrangements by program appraisal.
 - **Assessment.** Fiduciary specialists (a) carry out an assessment of the proposed Program's fiduciary systems, including consideration of how the Program handles the risks of fraud and corruption; and (b) develop a reference against which fiduciary performance during Program implementation will be monitored. On the basis of the assessment findings, fiduciary specialists then work with the borrower to identify measures to strengthen the Program's fiduciary systems and to address gaps. These measures are an input to the PAP to be agreed, as needed, between the borrower and the Bank, containing priority actions that the borrower agrees to carry out during Program implementation. They may be considered for inclusion as disbursement-linked indicators (DLIs) for the Program, if appropriate. The final fiduciary systems assessment is disclosed at the same time as the PAD.
 - **Implementation.** As part of overall implementation support, task teams and fiduciary specialists monitor Program performance on fiduciary aspects of the Program and support the borrower in implementing agreed measures.

²⁷ For more details on the Program Action Plan, see the Overview to these Interim Guidance Notes.

I. FIDUCIARY PRINCIPLES

4. The principles governing fiduciary management for PforR are set out in OP 9.00:

[The program fiduciary systems assessment] considers whether program systems provide reasonable assurance²⁸ that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The Program procurement systems are assessed as to the degree to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide a reasonable assurance that the Program will achieve intended results through its procurement processes and procedures. The financial management systems are assessed as to the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets. The fiduciary assessment also considers how program systems handle the risks of fraud and corruption, including by providing complaint mechanism, and how such risks are managed and/or mitigated.

II. FIDUCIARY SYSTEMS ASSESSMENT

5. The fiduciary systems assessment is carried out at the Program level. It draws on knowledge of country systems and the implementing agencies using diagnostics prepared by the Bank or other donors. The nature and scope of additional analysis to support the Program design and implementation support vary among countries, sectors, levels of sub-national government, and organizations. Because fiduciary risks at the Program level may differ from those relating to general government systems, fiduciary specialists ensure that they have sufficient information for the sectors and levels of government that are involved in the Program.

6. In the fiduciary assessment, staff use risk management tools and professional judgment to assess the borrower's regulatory framework for the Program, Program procedures, and fiduciary management capacity and implementation performance. Program implementing institutions with demonstrated implementation effectiveness can be expected to manage significantly greater levels of risk, while new programs or newly organized implementing agencies warrant deeper scrutiny and may require more risk-mitigation and capacity-building activities in the PAP.

A. Cross-Cutting Considerations in Conducting a Fiduciary Systems Assessment

7. As relevant, the task team considers the following cross-cutting questions in conducting the fiduciary system assessment:

- *What issues have been raised in previous country-, sector-, or Program-level diagnostics that are likely to affect Program fiduciary performance?*
- *What is the breakdown of planned Program expenditures at national and sub-national levels (main types of expenditures and their value)?*

²⁸ "Reasonable assurance" will be determined initially by the task team with appropriate technical inputs, then reviewed and decided upon by management, and finally considered formally by the Board.

- *Would the Bank disburse on account of DLIs met by the borrower between the date of the PCN and date of the legal agreement²⁹?*
- *Does the Program implementing agency have the authority to commit resources and implement actions necessary for effective fiduciary management?*
- *Is the Program implementing agency adequately staffed in terms of skills, qualifications, and number of personnel for effective administration, planning, design, implementation, and monitoring of core fiduciary functions?*
- *Are the core fiduciary management functions supported through adequate budgetary allocations and sufficient facilities, equipment, and supplies?*
- *What is the borrower's capacity to monitor fiduciary performance of the Program?*
- *What existing country/sector fiduciary reforms are under way, and how do they affect the Program?*
- *Is the Program exposed to significant risks of fraud and corruption? If so, how will the risks be managed and/or mitigated?*

B. Procurement Considerations in Conducting a Fiduciary Systems Assessment

8. The approach to procurement under PforR operations builds on the Bank's ongoing efforts to strengthen borrowers' procurement capacity to help achieve development outcomes, and it supports the key governance and anticorruption (GAC) objective of linking these efforts with operational implementation. Once the task team identifies the profile of procurable expenditures under the Program, the Bank assesses the procurement arrangements and monitors performance in relation to the procurement of works, goods, and services under the Program.

9. As part of the fiduciary systems assessment, procurement specialists review the following procurement aspects: (a) rules and procedures applicable to the Program; (b) capacity and performance, for an existing program, focusing on the procurement performance indicators and the extent to which the capacity and performance support the Program development objectives (PDOs); and (c) risks associated with the Program and the implementing agency, to ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework. The assessment focuses on the key elements of the Program's procurement arrangements (see Box 3.1). Attachment 3.1 provides more detailed guidance on the tools available to specialists for conducting this part of the fiduciary assessment. As part of the assessment, the fiduciary staff also identifies activities that involve procurement of works, goods, and services whose estimated value exceeds specified monetary amounts.³⁰ Such activities are excluded from PforR financing. In particular: (i) at the PforR operation's Concept Review, the task team should provide an initial indication as to whether the Program is expected to include such activities; and (ii) at the PforR operation's Decision Review, the task team confirms its assessment and describes

²⁹ See Chapter 2, Disbursement-Linked Indicators and Disbursement Arrangements Interim Guidance Note.

³⁰ The amounts are those, as may be amended from time to time, that require mandatory review by the Bank's Operational Procurement Review Committee (OPRC): Currently, US\$50 million for works, turnkey, and supply and installation contracts; US\$30 million for goods; US\$20 million for IT systems and non-consulting services; and US\$15 million for consultant services.

the arrangements to be put in place during Program implementation to ensure the Program does not include any such activity during its implementation period.

Box 3.1. Procurement considerations in the fiduciary assessment

Procurement profile of the Program

- *What is the extent of procurable expenditures under the Program?*
- *What is the profile of such procurable expenditures?*
- *For any procurable expenditures under the Program, does the estimated value of the related contract exceed the OPRC review threshold?*

Procurement planning

- *Is procurement planning linked to the available budget and objective needs of end-users?*
- *Is planning realistic, and does it comply with applicable rules (e.g., procurement methods)?*
- *Is procurement of goods and services consolidated, as appropriate, for economy of scale?*

Procurement processes and procedures

- *Are procurement procedures based on clear, mandatory, and enforceable rules that are freely accessible to the public?*
- *Do procurement arrangements provide for wide advertising of bidding opportunities?*
- *Is open competition the default approach, with conditions for use of other methods clearly described?*
- *Are the qualification, evaluation, and award criteria clearly defined in bidding documents, and are they relevant and nondiscriminatory?*
- *Are contract conditions equitable?*

Controls and integrity

- *Are effective internal and external controls in place, as jointly assessed with financial management? These include internal audit, clear definition and segregation of functions relevant to procurement, clearly defined accountability, quality control processes, and availability of complete records of the procurement processes.*
- *Are procurement decisions made by competent authorities on the basis of established processes, and generally not overruled?*
- *Do bidding procedures adequately preserve the integrity of the process (e.g., there is a chain of custody of the bids, and evaluations are confidential)?*
- *Is there a functioning complaint mechanism?*
- *Are there clear ethics standards?*

Procurement capacity

- *Is there adequate staffing, in terms of numbers and experience, to implement the Program?*
- *Does the implementing agency have a satisfactory performance track record?*

Contract administration

- *Are there adequate processes and capacity for providing contract administration?*
- *Does the Program show evidence of cost and time overruns in the performance of contracts?*
- *Are there procedures to inspect for quality control of goods, works, or services delivered?*
- *Does the Program demonstrate timeliness of payment in accordance with contract provisions?*
- *Are efficient contractual dispute resolution procedures in place?*
- *Are contractual remedies enforced?*

C. Financial Management Considerations in Conducting a Fiduciary Systems Assessment

10. As part of the fiduciary systems assessment, FM specialists review the capacity of the implementing agency or agencies to record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable financial information for the borrower and the Bank. During identification, FM specialists examine whether the Program expenditure

framework is comprehensive, clearly defined, and part of the borrower's regular budget and FM processes.³¹ With regard to FM issues, the fiduciary systems assessment focuses on identifying the key strengths and weaknesses of the system which may have an impact on the achievement of the overall PDOs. The critical elements of an open and orderly FM system are as follows:

- **Planning and budgeting.** The Program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.
- **Transparency.** Program budget and financial information is comprehensive and accessible to the public.
- **Accounting and financial reporting.** Adequate Program records are maintained and financial reports produced and disseminated for decision-making, management, and Program reporting.
- **Treasury management and funds flow.** Adequate and timely funds are available to finance Program implementation.
- **Internal controls (including internal audit).** There are satisfactory arrangements to (a) monitor, evaluate, and validate Program results; and (b) exercise control and stewardship of Program funds.
- **Program audit.** Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program.

11. Box 3.2 highlights questions on some aspects of the agency FM arrangements that are usually addressed as part of the fiduciary assessment. The FM specialists customize each assessment to the Program being implemented, taking into account the country and sector factors that are relevant to the Program. (Attachment 3.3 provides more detailed guidance.)

³¹ The Program expenditure framework is discussed in the Technical Assessment Interim Guidance Note (Chapter One).

Box 3.2. Financial management considerations in the fiduciary assessment

Planning and budgeting

- *What is the relationship between strategic plans, the budget, and medium-term financial planning?*
- *Is the Program consistent with the national development strategy? Is it effectively costed? Does it feed into the national medium-term expenditure plans?*
- *Has the overall Program cost been determined?*
- *Have the sources of Program financing (government and stakeholders) been identified?*
- *Is there an effective relationship between the implementing agency and the finance ministry (or equivalent competent authority) for negotiating the annual budget?*
- *Are all Program revenues (e.g., user fees) and expenditures (e.g., donor-funded expenditures) captured on the budget in sufficient detail to provide a meaningful tool with which to monitor implementation?*
- *Does the legislature rigorously examine and debate the budget law (scope, procedures, adequacy of time)?*

Transparency

- *Is key financial information (budgets, budget execution reports, year-end financial statements, audit reports, contract awards) about the Program available to the public in an accessible form?*

Accounting and financial reporting

- *Are actual expenditures compared to the budget with reasonable frequency, and are explanations required for significant variations from the budget?*
- *Does the Program use the government classification system for budget preparation and reporting?*
- *Is the budget classification system sufficient to allow tracking of Program expenditure?*
- *Are accounting policies at the Program level consistent with national public sector policies/standards?*
- *How effective are the linkages between the Program and the sector, and between the sector and the central FM reporting systems?*
- *Is there a regular and timely two-way flow of information between the Program and the finance ministry?*
- *Do budget reports provide accurate, comprehensive, and understandable information to allow monitoring progress against the budget?*
- *What is the system for preparing annual financial statements for the Program? Do implementing agencies meet their obligations in a timely and comprehensive manner?*

Treasury management and funds flow

- *Are adequate funds made available for Program implementation?*
- *Are funds available in an orderly and predictable manner?*
- *Are the arrangements to transfer Program funding from the finance ministry to the implementing agency satisfactory?*
- *What are the arrangements for managing multi-year programs? How are unused budget allocations treated?*

Internal control (including internal audit)

- *Is there an internal control system at the Program level for which management takes full responsibility?*
 - *Are there effective cash flow planning, management, and monitoring arrangements?*
 - *Are there effective payroll controls at the Program level? Are payroll records reconciled to human resource records (“the nominal roll”)? Is there a strong system of payroll audit to identify control weaknesses and/or ghost workers?*
 - *Is there an adequate system of control over non-payroll expenditure (including a robust asset management system)?*
 - *Is a robust asset management system in place?*
 - *Are adequate monitoring and evaluation arrangements in place for the Program?*
- Is there regular review of the internal control system in the sector through an effective internal audit function? In response to audit findings?*

Program audit

- *What are the current Program audit arrangements (including scope, comprehensiveness, regularity, timeliness)?*
- *Has the Supreme Audit Institution or other auditor appointed by the government recently performed any Program-specific investigations/audit reports? If so, what were the key findings, and how are these findings being followed up? Is there evidence of changes in systems/processes at the program level in response to audit findings?*
- *Are there satisfactory arrangements in place for the legislative scrutiny of audit reports (timeliness, hearings on key findings, issuance of recommendations actions and implementation by the executive)?*

III. FORMULATING FIDUCIARY ACTIONS

12. If the assessments reveal material fiduciary weaknesses, the Bank's response depends on the severity of those weaknesses and the potential for addressing them. If the weaknesses are so severe that credible remedial measures at the Program level are judged unlikely to work, the Bank may decide not to finance the Program or to use another lending instrument that can better mitigate the risks. For less-severe weaknesses, the task team and the borrower reach agreement on measures to address and rectify those weaknesses during implementation, for example, in one or more of the following ways:

- Measures could be identified to improve capacity, systems, and procedures, and could be supported by Bank financing, or another donor, or from the client's own resources. Progress in implementing these measures would be monitored during implementation.
- The DLIs could include specific fiduciary actions that would be monitored during Program implementation.³²
- Adjustments could be made to audit terms of reference and/or Bank monitoring during implementation to focus on the areas of weakness or riskiness.

13. Where needed, fiduciary actions are an input to the PAP, which is jointly prepared and agreed on between the borrower and the Bank. The PAP is incremental and sets priorities in terms of the key performance areas needed to achieve Program results and the capacity-building effort needed to support such performance enhancement actions. The PAP can include measures that are necessary to strengthen the fiduciary capacity or specific additional measures that are necessary to mitigate identified risks associated with the program. It should be formulated with a focus on improving capacity and overall Program performance and also on identifying the specific arrangements for implementation support (discussed further in Sections IV and V below).

14. If it is proposed for the Bank to disburse on account of DLIs met prior to the date of the legal agreement, the task team, where possible, takes this into account in the scope and timing of the fiduciary systems assessment. First, the team identifies the scope of the procurable expenditures and associated systems required to achieve such DLIs. Typically, these DLIs are linked to the undertaking of focused actions to prepare for Program implementation (e.g., the set up of a Program M&E system). Second, the team works with the borrower to (a) identify fiduciary system weaknesses early on during preparation; and (b) address such weaknesses in a timely fashion. In addition the team also ensures that borrower reporting and auditing arrangements are in place over the period during which such DLIs are to be achieved, in a way commensurate to the DLI's scope, and following the guidance provided in Section V (below).

IV. MONITORING AND IMPLEMENTATION SUPPORT

15. During implementation, fiduciary specialists work with the borrower to identify underperforming areas (if any) and adjust the PAP and the technical assistance requirements to better address the constraints. Fiduciary support includes (a) reviewing implementation progress

³² As discussed in the Disbursement-Linked Indicators and Disbursement Arrangements Interim Guidance Note (Chapter Two).

and achievement of Program results and DLIs that are of a fiduciary nature or relevance; (b) providing support for implementation issues and institutional capacity building; (c) monitoring the continuing adequacy of systems through Program monitoring and audit reports, and the implementation of the PAP; and (d) monitoring changes in fiduciary risks and, as relevant, compliance with the fiduciary provisions of legal covenants.

16. As needed, fiduciary specialists participate in field visits; support the borrower in monitoring the continuing adequacy of Program performance; review financial and progress reports prepared by the borrower; and audit reports prepared by internal and external auditors. Through technical assistance work, the Bank and development partners also support the borrower in developing institutional capacity that is part of the Program design (for example, helping the client strengthen its internal control and procurement systems; enhance transparency and disclosure of financial information; support accountability and oversight mechanisms, including those related to fraud and corruption risks; and build capacity).

A. Procurement Considerations during Implementation

17. The procurement part of the Program fiduciary systems assessment provides a reference that can be monitored during implementation. If data are not available or adequate, task teams can undertake additional analysis, such as performance audit, as part of the preparation stage of the PforR operation. The performance measures should focus on critical processes that indicate the efficiency of performance with regard to timeliness, openness, cost-effectiveness, and compliance with applicable rules. Such measures or indicators, which can be quantitative or qualitative, are part of capacity building efforts. For example, this may involve developing databases to help the government better monitor procurement performance. Box 3.3 provides examples of some areas in which teams may wish to develop indicators to monitor procurement performance throughout implementation. The approach and tools available for the assessment of the Program's procurement performance are presented in Attachment 3.2.

Box 3.3. Examples of Monitoring Procurement Performance

- *Timeliness of delivery of government services to end-users.*
- *Cost-effectiveness.*
- *Effectiveness and quality of procurement planning.*
- *Competitiveness of the procurement processes.*
- *Extent of the implementing agency's compliance with applicable rules on the use of different procurement methods.*
- *Effectiveness of the complaint mechanism.*

B. FM Considerations during Implementation

18. The FM specialists, working with borrower counterparts, develop appropriate mechanisms for monitoring the performance of the Program FM system. In some cases, they may choose to adapt the Public Expenditure and Financial Accountability (PEFA) or use other indicators. Some PEFA indicators—for example, those on control, budget execution, and accounting and reporting—are particularly relevant to a sector/program. The indicators selected to assess and monitor performance under a given program depend on the characteristics of the program, taking into account country and sector specificities. Table 3.1 provides examples of possible indicators.

Table 3.1. Monitoring FM Performance – Examples of the Use of PEFA Indicators

<i>PEFA indicator</i>	<i>Description</i>	<i>Measure</i>
PI-1	Variance: Budget expenditures vs. actual expenditures over 3 years.	Variance from budget (%).
PI-2	Variance: Expenditure composition: actual vs. budget.	Deviation of expenditure composition.
PI-3	Revenues: budgeted vs. actual.	Variance from budget (%).
PI-18	Effectiveness of payroll controls.	Degree of integration and reconciliation of, and timeliness of changes to, personnel records and the payroll; internal controls on changes to personnel records and the payroll, existence of payroll audits.
PI-20	Effectiveness of internal controls for non-salary expenditure.	Effectiveness, comprehensiveness, and compliance rates.
PI-21	Effectiveness of internal audit.	Coverage, quality, and management response to internal audits; frequency and distribution of audit reports.
PI-22	Timeliness and regularity of accounts reconciliation.	Regularity of bank reconciliations and clearance of advances and suspense accounts.
PI-23	Availability of information on resources received by service delivery units.	Information on resources actually received by service delivery units.
PI-24	Quality and timeliness of in-year budget reports for sector.	Scope and coverage of reports; timeliness of reports and quality of data.
PI-25	Quality and timeliness of annual financial statements for the sector.	Completeness and timeliness of annual reports; accounting standard used to prepare statements.

V. AUDIT ARRANGEMENTS

19. Building on the findings of the fiduciary systems assessment, which identifies areas that require independent review/verification, the Bank and the borrower develop an audit approach for the Program that addresses financial, procurement, and other audits and technical reviews. Whenever possible, audit assignments are conducted by the existing government audit bodies in accordance with the country's institutional framework or arrangements. When there are concerns about the capacity of the country's supreme audit institution (SAI), the Bank adopts audit approaches that seek to build such capacity rather than creating parallel arrangements.

A. Program Financial Statements Audit

20. The Bank requires the borrower to submit annual audited Program financial statement (PFS) reports after the close of the borrower's financial year.³³ The task team and borrower agree on and confirm in the legal agreement the period for receipt of the annual audit reports (e.g., within 12 months after the close of the program financial year),³⁴ taking into consideration the country and Program context.

³³ The audit opinion can be provided either: (a) on the government/implementing entity's financial statements, incorporating appropriate notes/disclosures on the program; or (b) on the program financial statements.

³⁴ If the task team expects the audit reports to be submitted to the Bank after more than 12 months, they would need to provide the appropriate justification and solicit the adequate internal authorization.

21. SAIs or other auditors appointed by the government³⁵ generally conduct audits on the execution of the state budget, including Bank-supported programs. In some cases, supplementary measures may be needed if (a) the SAI does not issue an audit opinion on the Program; (b) there are significant delays in the issuance of the audit opinion; and/or (c) the SAI focuses its audit primarily on compliance, and does not have the capacity to conduct a PFS.³⁶ Thus many SAIs have not yet developed the capacity to do a PFS audit. In such cases, the task team works with the SAI to agree on an audit approach that provides technical support (for example, through a twinning arrangement, a private audit firm, or existing technical assistance arrangement) for completing the PFS audit in a timely manner and in accordance with sound audit practice. If the SAI is unable (because of capacity considerations) or unwilling (for example, because of independence concerns) to audit the program, the borrower and the Bank may agree on alternative audit arrangements for the program (for example, contracting the work to a private audit firm).

22. The Bank agrees with the borrower and the country's SAI on terms of reference that provide for an annual PFS audit to be completed and made public by the borrower in a timely and reliable manner. Upon formally receiving the audited program financial statement, the World Bank makes it available to the public in accordance with its Access to Information Policy.

B. Program Technical Audits/Reviews

23. Depending on the nature of the Program and the findings of the fiduciary systems assessment, the Program's annual PFS audit may need to be complemented with a range of other audits or independent reviews to (a) address identified risks that cannot be otherwise mitigated through the Program's fiduciary arrangements or (b) strengthen the Program's audit/inspection arrangements. Such audits/independent reviews might include the following:

- Procurement performance measures/indicators;
- Physical inspections assessing the quality of goods and services;
- Independent verification of results linked to disbursement, where such audits are identified as the appropriate verification tool;
- Efficiency and effectiveness of administrative activities;
- Audit of actual, suspected, or potential fraud and corruption risks and/or internal control process failures; and
- Audits designed to identify, quantify, and provide evidence of transactions involving alleged fraud and corruption.

Given the range of different audit and inspection activities that may be required in a PforR operation, the skills of a broad range of audit institutions and consultancy firms (e.g., SAI,

³⁵ In certain countries, the audit of government programs are routinely conducted by private sector auditors as part of the country system.

³⁶ Independent audits help prevent and detect fraud and corruption. A systems-based audit can be more useful than a transaction-based approach in identifying weaknesses in the internal control system that may facilitate fraud and corruption.

internal audit department, private sector audit firms, other specialist evaluators or reviewers) may be required.

VI. GOVERNANCE ISSUES³⁷

24. By providing PforR financing, which makes the performance of Program institutions central to the operation, the Bank has an opportunity to contribute to better governance. The Bank's focus is to make sure that the entire Program delivers results and manages associated risks, and not just the part of the Program associated with Bank financing. In the fiduciary area, this means making sure that acceptable financial accountability arrangements are applied to all Program finances, not just to those provided by the Bank. This provides the opportunity for the Bank to expand the impact of its fiduciary and integrity work to all Program resources.

25. The fiduciary systems assessment contributes to the integrated approach by evaluating key procurement and FM processes and systems and the related institutional arrangements. The fiduciary systems assessment also considers how Program systems handle the risks of fraud and corruption, including by providing complaint mechanisms, and how such risks are managed and/or mitigated.

26. The borrower must undertake not to allow parties on the Bank's debarment or suspension lists to be awarded contracts under, or otherwise initiate participation in, the Program during their debarment/suspension period. Attachment 3.4 provides guidance on handling governance and fraud and corruption matters as part of the preparation of the operation and provision of implementation support.

VII. PROGRAM CYCLE: BORROWER AND BANK FIDUCIARY RESPONSIBILITIES AND TASKS

27. The borrower is responsible for all aspects of the preparation and implementation of the Program, including Program definition, as well as institutional and implementation arrangements (including staffing and the integrity of fiduciary systems). The Bank's role is to, among others, (a) assess the Program's fiduciary arrangements, including identifying key risks and mitigation measures; (b) monitor Program fiduciary performance and compliance; and (c) support the borrower in addressing systemic weaknesses and developing institutional capacity. Attachment 3.1 summarizes the fiduciary roles and responsibilities of the Bank and borrower at each phase of the program cycle.

³⁷ For more details, see the attachment to the Overview of these Interim Guidance Notes.

**Fiduciary Systems Assessment
Roles and Responsibilities of the Bank and Borrowers**

<i>PforR operation stage</i>	<i>Borrower</i>	<i>World Bank fiduciary team</i>
Identification and Concept	<ul style="list-style-type: none"> • Defines the Program (existing or proposed) and associated expenditure framework. • Identifies implementing agency. • Provides necessary information for, and inputs to, the Bank's fiduciary systems assessment. 	<ul style="list-style-type: none"> • Jointly reviews the existing or proposed fiduciary arrangements. • Identifies knowledge gaps and plans to ensure that there is sufficient information on fiduciary arrangements by appraisal. • Provides inputs to the Bank's initial risk assessment.
Assessment to Approval	<ul style="list-style-type: none"> • Develops a reference to monitor fiduciary performance during Program implementation. • Defines fiduciary arrangements, including reporting, audit, independent verification, and implementation support arrangements. • Identifies system weaknesses and capacity constraints. • Provides the Bank with information necessary to conduct the fiduciary systems assessment and arrive at a risk rating, including with respect to F&C. • Further develops and agrees with the Bank on the performance reference and indicators, as well as fiduciary arrangements, including reporting, audit, independent verification, and implementation support arrangements. 	<ul style="list-style-type: none"> • Carries out the fiduciary systems assessment, including with respect to F&C. • Identifies key areas for improvement. • Provides a risk rating, in consultation with the borrower. • Finalizes fiduciary assessment. • Reaches final agreement with the borrower on performance measures, as well as on reporting, audit, independent verification, and implementation support arrangements. • Agrees with borrower on improvements to be carried out with Bank and/or other donor support, as part of the Program Action Plan, if one is required.
Implementation Support	<ul style="list-style-type: none"> • Implements the Program in compliance with applicable rules and processes. • Implements agreed PAP to carry out performance improvements and mitigate risks. • Makes records and data available and easily accessible for Program audits/reviews and for Bank spot checks. • Cooperates with the Bank in identifying causes of performance problems and adjusting the PAP. • Promptly communicates major changes in implementation arrangements that may affect the fiduciary system performance. • Provides periodic reports, as agreed. 	<ul style="list-style-type: none"> • Supports the borrower in implementing the PAP and resolving issues that arise during Program implementation. • Monitors fiduciary systems' performance and compliance with the legal agreements. • Reviews periodic fiduciary reporting agreed with borrower, including audit and verification reports. • Reviews fiduciary matters related to Program completion.

Procurement Considerations under PforR Operations

I. Arrangements under the Program

1. The task team assesses the Program's procurement arrangements to determine how they measure up in terms of the elements listed below. For each of the elements, they also identify risks. For programs involving several implementing agencies, the task team assesses the capacity of the agency that will serve as the lead or coordinator for the Program and of all (or a representative sample) of those that have a major role in procurement administration.

- Procurement procedures are based on clear, mandatory, and enforceable rules that have the following features:
 - Rules and procedures are easily identifiable and freely accessible to the public.
 - Advertising of bidding opportunities is required.
 - Open competition is the default method, and conditions for the use of all other methods are clearly described.
 - Bidding documents clearly define qualification, evaluation, and award criteria, which are relevant and non-discriminatory.
 - Bidding documents provide for equitable conditions of contract.
 - Bidders have access to a complaints-handling mechanism.
 - The outcome of the procurement process is disclosed to the public.
- Efficient planning processes exist and have the following features:
 - Procurement planning is linked to available budget and valid end-user needs.
 - Procurement of goods and services is consolidated to the extent appropriate, for economy of scale.
 - Compliance with Program rules and arrangements (e.g., procurement methods).
- Internal controls, as jointly assessed with financial management (see Attachment 3.3 for details), are effective: internal audit, clear definition and segregation of functions relevant to procurement, clearly defined accountability, quality control processes, and availability of complete records of the procurement processes.
- Staffing is adequate, in both numbers and experience, to implement the Program.
- The procurement process has the following features related to integrity:
 - Clear ethics standards.
 - Procurement decisions are made by competent authorities on the basis of established processes, and are generally not overruled.
 - Bidding procedures preserve the integrity of the process (e.g., there is a chain of custody of the bids, and evaluations are confidential).
 - A well-functioning, user-friendly complaint mechanism.

- Contract administration has sound processes and adequate capacity to deal with the following:
 - Cost and time overruns.
 - Quality control of goods, works, and services delivered.
 - Timeliness of payment.
 - Resolution of contractual disputes.
 - Application of contractual remedies.

II. Assessment of the Program's Procurement Performance

2. During the preparation of a PforR operation, the Bank and borrower develop and agree on procurement performance measures and related indicators as appropriate. Performance monitoring draws from a range of sources of data, including, among others, those generated by management information systems (MIS), information from the performance audits carried out during preparation and throughout implementation, which cover, on a sampling basis, a broad cross-section of procurement processes.

3. **Indicators.** Procurement performance measures and indicators are selected to measure a range of activities that are relevant to implementation of the Program's procurement arrangements. The country, the nature of the PforR operation, and the capacity of the implementing agency help determine the number and range of indicators that are most appropriate for a given program. Table 1 lists indicators that are intended to contribute to the assessment of the quality of procurement in terms of timeliness, openness, cost-effectiveness, competitiveness, and compliance with applicable rules; it also identifies what data are measured and what the data indicate with regard to performance.

Table 1: Indicative performance indicators

<i>Indicator</i>	<i>Measure</i>	<i>Indicator measures performance related to:</i>
Average length of procurement processes	Number of days between date of award and date of invitation to bid.	Timeliness, cost effectiveness, and quality of planning.
Time for preparation of bids	Number of days between invitation to bid and bid opening.	Sufficient time for bid preparation and whether procedures encourage competition.
Time for bid evaluation	Number of days between bid opening and publication of award.	Timeliness, efficiency, and cost-effectiveness of process.
Processes cancelled	Percent of bid processes declared null before contract signature.	Quality of planning, quality of bidding documents, and overall quality of process.
Distribution of awards by procurement method	Number of processes awarded by procurement methods.	Compliance with applicable rules, cost-effectiveness, and competitiveness.
Direct contracting	Percent of contracts (by number and value) awarded on a sole-source basis.	Cost-effectiveness and compliance with applicable rules.
Bidders participation	Average number of bidders submitting a bid in each bid process.	Quality of process, quality of bidding documents, quality of procedures, compliance with procedures.
Number of contracts with cost increases over award amount	Cost increases due to amendments and change orders.	Quality of process, documents, and specifications; quality of competition.
Quantity of processes to buy the same item	Number of procurement processes carried out to buy a given item in one year.	Cost-effectiveness, efficiency of procedures to aggregate demand; quality of planning.
Price paid for a specific item	Range of prices paid for a given item.	Cost-effectiveness; quality of procedures.

Financial Management Considerations under PforR Operations

1. As part of the fiduciary systems assessment for such operations, the financial management (FM) specialists review the Program’s FM implementation arrangements to assess the capacity of the implementing agency to record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable financial information for stakeholders.

2. The coverage of the fiduciary systems assessment depends on the nature and scope of the Program. The FM specialists customize each assessment to the existing or proposed PforR operation and to relevant country, sector, and program fiduciary issues. The fiduciary systems assessment follows a “top-down” approach, using county- and program-level information available from diagnostics conducted by the Bank or other donors,³⁸ supplemented as necessary with analysis specific to the Program. The nature and scope of this additional analysis vary among countries, sectors, levels of sub-national government, and organizations.³⁹

3. The FM assessment focuses on identifying the key strengths and weaknesses of the FM system in the achievement of the Program development objective(s). It also helps the Bank identify fiduciary-related risks that will feed into the Program’s integrated risk assessment, and selected fiduciary areas that may be considered as DLIs. The critical elements of an open and orderly program FM system are as follows:

- **Planning and budgeting.** The Program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.
- **Transparency.** Program budget and financial information is comprehensive and accessible to the public.
- **Accounting and financial reporting.** Adequate Program records are maintained and financial reports produced and disseminated for decision-making, management, and program reporting.
- **Treasury management and funds flow.** Adequate and timely funds are available to finance Program implementation.
- **Internal controls (including internal audit).** There are satisfactory arrangements to (a) monitor, evaluate, and validate Program results; and (b) exercise control and stewardship of program funds.
- **Program audit.** Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program.

³⁸ The task team draws on knowledge using the existing analytic knowledge base of the Bank and the government’s other development partners (e.g., PEFA, CFAA, ROSC-Fiscal Transparency, Gap Analysis, CPAR, PER, CPIA, sectoral fiduciary assessments).

³⁹ Certain sectors and programs (e.g., parastatals, road funds, public agencies, or local governments) may follow specific FM systems, rules, and mechanisms that are different from those of the central FM system. Assessments of such sectors/ programs are necessary in addition to the existing knowledge of the overall FM systems.

A. Program Planning and Budgeting

<i>Overall FM element objective</i>	The Program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.
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4. Proposed programs are included in the annual budget approved by the legislature and implemented through program systems. In reviewing the expenditure budget, fiduciary specialists assess whether (a) the budget adequately reflects the resources required to achieve the expected results; (b) the medium-term budget is sustainable; and (c) there are no major discrepancies between the budget allocation, releases, and actual expenditures.

<i>Key issue</i>	<i>Possible sources of information/performance indicators</i>
Adequate appropriation for the Program in the annual budget.	Dimension (i) of PEFA Indicator (PI) 12 deals with the preparation of multiyear sectoral estimates and subsequent setting of annual budget ceilings. PI 11 deals with the orderliness of participation in the annual budget process. Other useful sources are the PER and CPIA Question 13 Dimension (a), relating to comprehensiveness and credibility of budget linked to policy priorities.
Timely approval of the annual budget.	Dimension (iii) of PI 11 on the timeliness of budget approval by Parliament is a useful indicator.
Budget appropriations are not being diverted to other activities/programs during the year.	Two useful indicators are Dimension (iii) of PI 16, dealing with the frequency and transparency of adjustments to budget allocations, and Dimension (iv) of PI 27, dealing with the role of the Parliament for in-year amendments to the budget. In addition, at the aggregate level, the difference between actual primary expenditure and original budgeted primary expenditure (PI 1) and deviations between budget and actual expenditures at the ministry level (PI 2) can point to the risk of diversion of budgeted funds.
Adequate transparency in the budget process.	PI 6 deals with the comprehensiveness of information included in budget documentation. In addition, useful information can be obtained from the IMF's Fiscal Transparency ROSC report .
Appropriate and effective scrutiny over budget proposals by the legislature.	PI 27 relates to legislative scrutiny of the annual budget law.

B. Transparency

<i>Overall FM element objective</i>	Program budget and financial information accessible to the public.
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5. FM specialists review the accessibility of Program financial information to the general public, or at least the relevant interest groups. Transparency will depend on whether information on fiscal plans, positions and performance of the Program are easily accessible to the general public or at least the relevant interest groups. They review the quality of information made available (e.g. understandable language and structure, appropriate layout, summarized for large documents) and the means used to facilitate public access (such as the press, websites, and notice boards). The extent to which the means are appropriate depends on the nature of the documentation and the characteristics of the relevant interest or user groups, such as access to different media.

<i>Key issue</i>	<i>Possible sources of information/performance indicators</i>
A complete set of budget documents can be obtained by the public through appropriate means when it is submitted to the legislature	PI-6 addresses the comprehensiveness of information included in budget documentation. PI-10 addresses the public's access to key financial information. In addition, useful information can be obtained from the IMF's Fiscal Transparency ROSC report .
In-year execution reports, year-end financial reports and external audit reports are routinely made available on a timely basis	PI-10 addresses the public's access to key financial information. In addition, useful information can be obtained from the IMF's Fiscal Transparency ROSC report .

C. Program Accounting and Financial Reporting

<i>Overall FM element objective</i>	Adequate Program records and information are produced, maintained, and disseminated for decision-making, management, and Program reporting purposes.
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6. FM specialists review the FM architecture (budget classification and Program structure, including the Program's financing scheme and flow of funds that comprises transfers and payments system) to document the expenditure monitoring system and the existing Treasury reporting system. They review the Program expenditures framework⁴⁰ to ensure that Program expenditures are clearly defined (i.e., comprehensive and realistic in their coverage of revenues and proposed spending) and identifiable in the budget classification system (e.g., the budget classification system should cover the whole Program budget and track expenditures on the Program, subprograms, projects, and activities levels in line with the Government Finance Statistic Manual [GFSM] 2001 and Classification of the Functions of Government [COFOG]). In addition, the team should ensure that budgetary information is available on the economic and composition of expenditures (i.e., the share of the Program's expenditures that is allocated to salaries, operating and capital spending in the Program), as well as the programmatic composition of expenditures. A key feature of the assessment is to ensure that the Program uses the existing budgetary accounting policies, procedures, and systems to ensure that all procedures and controls are adequately documented and that contract monitoring and invoice payment procedures are consistently adhered to and documented. The FM specialists examine the information system and determine any enhancements needed.

7. In line with the PforR approach, the government's/implementing agencies' existing reporting system should be used to the extent possible. During the preparation of an operation, the FM specialists assess whether the borrower's Program reports (including reports on physical, financial, and procurement status) fulfill their intended purpose, and whether the associated reporting arrangements allow for the information contained in the reports to be objective, credible, and timely. If borrower Program reports are not satisfactory, the task team agrees with the borrower on improvements to be made during the preparation and/or implementation of the operation (for example, making specific improvements to the existing reporting systems or establishing initially simple data collection and management processes with the objective of

⁴⁰ For more information on the program expenditure framework, refer to Chapter One, Technical Assessment Interim Guidance Note.

engendering a culture of monitoring, measurement, and replication). Fiduciary specialists give particular attention to those elements of Program progress reports that will serve as the basis for auditing (including the annual Program Financial Statements audit).

8. In some cases, borrower Program reports may need to be complemented by customized reports that will fill information and monitoring needs specific to the borrower Program. For example, the verification of certain disbursement-linked indicators may require relatively sophisticated surveys whose progress and findings would be set out in a customized report. The task team works with the borrower to assess the need for such reports.

<i>Key issue</i>	<i>Possible sources of information/performance indicators</i>
Inaccurate and timely recording of transactions in the accounting system.	Although no specific PEFA indicator measures timeliness in recording transactions. PEFA indicator (PI) 24, Dimension (ii) on timeliness of report and Dimension (iii) on quality provide an alternative measure since good-quality and timely in-year reports are difficult to prepare unless transactions are recorded on time.
Flexible chart of accounts which allows additional codes to keep track of Program-related transactions.	PI 5 provides information on the classification system used for formulation, execution and reporting of the budget. Another source of information are existing reports and experience from other programs/sectors. The chart of accounts should have the flexibility to accommodate the requirements of the Program.
Ability to keep track of resource transfers and expenditures of service delivery units.	Dimension PI 23 provides information on the reliability of data collection and accounting systems used for front-line services. Also, CPIA Question 15 Dimension (b) provides useful information on service delivery and operational efficiency, and the Public Expenditure Tracking Survey, if available.
Accounting system which is capable of preparing timely and reliable financial reports (both management reports and the annual program financial statements).	PI 24 relates to the quality and timeliness of in-year budget reports. Dimension (iii) of PI 25, relating to use of accounting standards, is a useful indicator. Another source of information is the annual audit report of the SAI. In addition, CPIA Question 13 Dimension (c) provides useful information on the timeliness and accuracy of accounting and fiscal reporting.

D. Treasury Management and Funds Flow

<i>Overall FM element objective</i>	Adequate and timely funds are available to finance Program implementation.
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9. The FM specialists review existing state budget funds flow mechanism to ensure adequate understanding of the different roles played by different agencies that could affect the Program capacity to achieve its expected results.

10. PforR operations support existing and new borrower programs. As existing government programs are generally part of the general budget process, when a DLI is achieved and verified the Bank will disburse an agreed amount as a contribution to the Program that underpins the results. The government can either request that the Bank financing proceeds be disbursed into the government's account at the Central Bank or into the separate account of the relevant entity (in situations where the Program is defined to be outside the government's general budget or part of a stand-alone revolving road fund, a state-owned entity, or a municipality).

<i>Key issue</i>	<i>Possible sources of information/performance indicators</i>
Adequate funds will be made available for Program implementation.	PI 16 discusses the availability of funds for commitment of expenditures.
Budget funds are available on a predictable and timely basis in order to meet Program commitments.	Dimension (ii) of PI 16, regarding the reliability and horizon of periodic in-year information to ministries, departments, and agencies on ceilings for expenditure commitment, is a useful indicator. In addition, CPIA Question 13, Dimension (b) provides useful information on whether budgets are implemented as intended in a controlled and predictable way. Experience in the availability of counterpart funds for ongoing programs should also be considered.

E. Program Internal Controls (including Internal Audit)

<i>Overall FM element objective</i>	There are satisfactory arrangements for the exercise of control and stewardship of Program funds.
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11. The efficacy of internal controls is a key determinant of the effective and efficient use of resources. Weak internal controls are susceptible to leakages, creating conditions for diversion and misuse of funds. In assessing these arrangements, the first step is to determine the level of reliance that can be placed on the existing public sector internal control framework. To ensure transparent financing, the fiduciary specialists also assess the commitment and expenditure controls and reporting of the Program. Modernized FM information systems and reliable, timely, and accurate information are essential to support policies and processes and increase the capacity for strategic decision-making for the Program.

12. While there are certain basic principles which underpin the appropriateness or otherwise of the system of Program internal control the focus of the assessment will vary, depending from program to program. In a roads program, for example the focus is likely to be on controls related to the procurement and management of contracts; in a health program the main focus may be on controls over inventories of medicine and vaccines.

13. The internal audit, coordinated with the external audit, reviews internal controls and the overall management of Program expenditures. It may also have a role in the review of fiduciary arrangements, assessment of fraud and corruption risks and remedial actions taken, review of the M&E process, and support of the verification of some of the Program DLIs as needed. The capacity and independence of the internal audit function varies significantly between countries, sectors, and programs. PforR operations should make use of the existing Program internal audit function as much as its capacity allows, and could support the development of an institutional strengthening plan if one is not already in existence. In general, the nature and scope of the Program determines the usage of internal audit. In a cash transfer program, for example, the focus could be on reviewing (including through field visits), classifying (intentional versus unintentional, fraud/corruption versus mistake), and giving recommendations to enhance the system to ensure over- or under-payments are dealt with. The Bank should assess this aspect of the Program's arrangements as part of its appraisal.

14. In addition, the government’s capacity to monitor, evaluate, and validate Program results is an important aspect of the overall fiduciary framework for PforR operations. Functional M&E systems (including arrangements and capacity) that are responsive to the Program’s requirements, taking into consideration its complexity and scope, are needed to demonstrate the extent to which program results are achieved; in addition, they provide useful information for accountability purposes and for reporting on the use of public resources. Carefully designed evaluations can also provide useful inputs into budget and resource allocation decisions.

<i>Key issue</i>	<i>Possible sources of information/performance indicators</i>
Internal control system is effective in preventing and detecting irregularities, misuse, and inefficient use of Program funds.	PEFA indicator (PI 20) relates to the effectiveness of internal controls for non-salary expenditures. Also, annual reports of the SAI, internal audit reports, and CPIA Question 16 Dimension (a).
Adequate IT security and back-up arrangements.	Reports on IT security audit, if available, provide useful information. Other sources of information are annual SAI audit reports or reports by the internal audit department.
Internal audit is able to provide reasonable assurance on the robustness of and compliance with internal controls.	PI 21 measures the effectiveness of the internal audit function.
Adequate payroll controls.	PI 18 (effectiveness of payroll controls). Another source of useful information is the annual SAI audit report.
Timely and regular account reconciliations.	PI 22, regarding timeliness and regularity of accounts reconciliation, and CPIA Question 13 Dimension (c).
Program has capacity to effectively monitor, evaluate, and validate Program results.	No specific indicators. Experience of implementing agency in monitoring and evaluating program implementation and reviewing existing reports.

F. Program Audit

Overall FM element objective	Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program.
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15. As part of the preparation of a PforR operation, taking into consideration the findings of the fiduciary systems assessment, which identifies areas that require independent review/verification, the Bank and borrower review the audit arrangements for the Program. For a new program, as necessary, they agree on an approach to the Program audit, one that addresses both Program financial statements and other audits and technical reviews. Wherever possible, the existing government audit bodies conduct audit assignments in accordance with the country’s institutional framework. When there are concerns about the capacity of a country’s supreme audit institution, the Bank focuses on audit approaches that build on existing capacity rather than creating parallel arrangements.

1. Program Financial Statements Audit

16. The Bank requires the borrower to submit annual audited PFS reports after the close of the borrower’s financial year. As laws of the country and actual submission dates of audit reports to

the parliament vary between countries,⁴¹ the task team and borrower agree on, and confirm in the legal agreement, the period for receipt of the annual audit reports, (e.g., within 12 months after the close of the Program financial year) taking into consideration the country and Program context.

17. The SAIs generally conduct audits on the execution of the state budget, including Bank-supported programs. In some cases supplementary measures may be needed if (a) the SAI does not issue an audit opinion on the Program, (b) there are significant delays in the issuance of the audit opinion; and/or (c) the SAI focuses its audit primarily on compliance, and does not have the capacity to conduct an PFS.⁴² During preparation of a PforR operation, the task team works with the SAI to agree on an audit approach that might include capacity-building measures (for example twinning arrangements with a private audit firm) that support the SAI in conducting the PFS annual audit.

18. In general, during the preparation of a PforR operation, the Bank reaches agreement with the borrower and the country's SAI on terms of reference that provide for an annual PFS audit to be completed and made public by the borrower in a timely and reliable manner. Upon formally receiving the audited PFS, the Bank makes it available as the public in accordance with its Access to Information Policy.

<i>Key issue</i>	<i>Possible sources of information/performance indicators</i>
SAI is able to prepare and submit an audit report within a reasonable period after the close of the financial year.	The laws of the country and actual submission dates of audit report to the Parliament are relevant in assessing this risk. In addition, PI 26 Dimension (ii) and CPIA Question 13 Dimension (c) are useful indicators.
SAI has independence, capacity, resources, and skills to perform PFS audits.	Some useful sources of information are the CFAA, PI 26 Dimension (i), and SAI audit reports.
Scope, content and quality of external audit	PI 26 Dimension (i) addresses the scope/nature of audit work performed (including adherence to auditing standards). Other sources will include reviews of audit reports on other programs.
Satisfactory response to, or follow-up on, audit findings and recommendations by the executive.	Useful sources of information include PI 26 Dimension (iii), CFAA, and SAI audit reports (which may summarize the status of past audit queries and recommendations), and PI 28 which addresses the timeliness and extent of examinations by the legislature and implementation by the legislature.

⁴¹ Some country laws allow the SAI a longer period to complete the audits, or require that all audit reports be first submitted to the parliament for adoption.

⁴² Independent audits help prevent and detect fraud and corruption. A systems-based audit can be more useful than a transaction-based approach in identifying weaknesses in the internal control system that may facilitate fraud and corruption.

Governance, Fraud and Corruption – A Fiduciary Perspective⁴³

A. Governance and Anticorruption

1. By supporting government programs through PforR operations—which makes the performance of program institutions central to each operation—the Bank has the opportunity to contribute to better governance.⁴⁴ The Bank’s focuses on ensuring that the entire Program delivers results and manages associated risks. In the fiduciary area, this means making sure that acceptable financial accountability arrangements are applied to all Program finances, not just those provided by the Bank. In this way the Bank can expand to all Program resources the impact of its fiduciary, including integrity, work. Thus, fiduciary specialists focus primarily on the performance of fiduciary systems, while allowing for enhanced attention to individual high-value or high-risk transactions (or groups of transactions) as necessary.

2. The primary objective of governance and anticorruption (GAC) work at the program level is to improve the development impact of programs. While it is not feasible to protect programs completely against risks of fraud and corruption, task teams are expected to identify and mitigate risks that are likely to have a material impact on Program outcomes and to act in response to indicators of corruption. The particular responsibility of fiduciary specialists is to help ensure that Program funds are used for the intended purposes, with economy and efficiency. With broad knowledge of local financial management (FM) and procurement systems, Program funding and accountability arrangements, and the capacity of local institutions, fiduciary specialists provide useful advice to borrowers and task teams on GAC-related risks and mitigation measures.

3. In particular, the primary responsibility for managing F&C risks rests with the implementing agency. Where appropriate, programs should incorporate governance and capacity-building components to strengthen the client’s own ability to manage and monitor risks, for example, through improved internal controls, automation of transaction processing, and internal audit.

4. Tools and techniques for addressing GAC, and more specifically F&C, risks follow three main principles: transparency, accountability, and participation.

- **Transparency** implies openness and visibility. It is the foundation on which both accountability and participation are built. Information in the public domain is the “currency” of transparency and, together with open and visible decision-making processes, signals that there is really nothing to hide. Transparency facilitates good governance; its absence provides cover for conflicts of interest, self-serving deals, bribery, and other forms of corruption.

⁴³ For more details, see the attachment to the Overview of these Interim Guidance Notes.

⁴⁴ The contents of this attachment are based on “GAC - Good Practice Notes for Financial Management Specialists (Project Preparation and Implementation Support)” issued by OPCFM in September 2010.

- **Accountability** has both internal and external dimensions. Internal accountability implies probity in how resources are mobilized and used, and for what ends. It involves issues of financial accountability, efficiency, and effectiveness in the collection of taxes and other revenue, in the creation of public goods, and in the delivery of basic services. External accountability refers to public officials' responsiveness to the citizens for the delivery and quality of such basic services as health care, education, water, and sanitation, and for stewardship of public funds and other public assets.
- **Participation** is the “demand side” of good governance. It implies that people should have a voice in the decisions that may affect them, and that they should be treated fairly and equally. The benefits of participation in public governance are well documented. In the context of programs, participation is important in decisions on the type of investment projects to be done, their design and implementation, and their operation and maintenance. The involvement of civil society organizations, consumer groups, project beneficiaries, and affected communities in all stages of Bank-financed programs can simultaneously improve development outcomes and reduce the scope for fraud and corruption.

5. Effective supervision of F&C risks is best integrated into the Program design. Where practical, monitoring and supervision of governance and corruption risks should be built into the Program, in the form of internal systems operated and maintained by the borrower. If key borrower systems are not adequate, support to agencies (e.g. through consultants) could enhance assurance mechanisms. Typical features of smart program design that contribute to effective fiduciary supervision are (a) strengthened internal audit and inspection functions, (b) grievance redress and complaints-handling systems, and (c) strengthened ethics and integrity processes.

B. F&C Risk Assessment

6. During preparation of a PforR operation, task teams use the integrated risk assessment to identify and manage the key risks to achieving the Program development objective(s) and expected results.

7. The fiduciary assessment of F&C risks should take into account risk factors that are specific to the Program concept; the Program may be implemented through decentralized bodies or nongovernmental organizations, for example, which may have variable capacity or their own specific fraud and corruption risks.

8. Since patterns of F&C vary from sector to sector, it is important to understand the sector-specific nature of the risks. In this respect, value chain analysis may be helpful. It is a systematic approach to identifying F&C risks at the sector and subsector level, analyzing the various decision points and expenditures involved in program implementation and service delivery. In addition, sector specialists and monitoring and evaluation (M&E) specialists can draw on their knowledge and experience to provide guidance on the nature of risks. Moreover, the risk analysis can be guided by other knowledge, such as: (a) entity audit reports and management letters, (b) any previous FM assessments of the implementing agencies, and (c) information provided by the Integrity Vice Presidency (INT). Fiduciary specialists can also make use of guidance on

indicators of possible corruption (red flags). The fiduciary risks should be integrated into the integrated risk assessment for a PforR operation.

9. Fiduciary specialists identify gaps or weaknesses in internal controls that create opportunities for F&C. In making this assessment, fiduciary specialists collect available information not only on the design of internal controls but also how they operate in practice. A simple, but effective, technique for identifying governance weaknesses and F&C risks is to organize consultations with client staff and external stakeholders. The procedures developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) have proved useful for task teams to work with the borrower to identify and evaluate Program F&C risks.⁴⁵ Anonymous voting is a key feature of COSO that results in more candid assessment. Client participation in the process of risk identification and evaluation is critical in securing ownership and implementation of risk mitigation and oversight measures.

C. F&C Risk Mitigation

10. Programs with high or significant F&C risks require more intensive design and preparation work. Therefore, fiduciary specialists consider, as needed, whether they need to incorporate additional types of work such as (a) further assessment of client capacity and systems, to ensure that the main F&C risks related to procurement and financial management are identified and assessed, (b) design of capacity-building components to address governance weaknesses, and (c) independent assurances and monitoring arrangements.

11. A common problem in implementation is that key F&C risk mitigation measures, such as enhancements of internal controls, are not completed until well into Program implementation, and sometimes not at all. In high-risk Programs, fiduciary staff clearly flags the risk mitigation measures that should be addressed before Program implementation, and ensure that the other members of the task team and management are aware of them. Early involvement of fiduciary specialists in Program preparation is important, so that there is time to implement whatever mitigation measures are required, thus minimizing possible delays to the Program. Lessons learned from INT investigations may also prove useful in terms of the design of mitigation measures.

D. Ensuring Effective Implementation Support

12. Well-designed Programs integrate F&C monitoring and oversight arrangements—such as social audit, complaints handling, and additional assurance—into the Program design. Nevertheless, high-risk Programs generally require more intensive and targeted implementation support and oversight by Bank staff. Implementation support plans should take into account the level and nature of risks.

13. When the client identifies F&C issues, fiduciary staff have a critical role in following up on these issues, especially in terms of helping the client correct systemic weaknesses.

15. When anti-corruption efforts are being mainstreamed by strengthening the borrower's systems, an important part of fiduciary implementation support activities is to review the client's

⁴⁵ For more details, please see <http://www.coso.org>

progress in setting up systems for monitoring and responding to fraud and corruption risks. As relevant, the fiduciary specialists provide advice and support to the client to make these systems operational. Once they are working smoothly, the role of fiduciary specialists is to review system performance, evaluating the information being generated and following up on implementation issues, including red flags.

E. Roles and Responsibilities

16. When relevant, fiduciary specialists provide professional advice to the client, the task team, and Bank Management on potential implementation risks related to weaknesses in internal controls, funds flow, financial reporting, and audit arrangements. Fiduciary specialists also assist in identifying measures to mitigate significant risks. Such measures may be contained within the Program or dealt with as part of another activity, such as a development policy loan, investment lending, or analytic and advisory activities

17. Investigations are carried out, where needed, by clients and/or INT. Fiduciary specialists may, however, be involved in supporting the client in carrying out further investigations, for example, by helping to prepare terms of reference for a forensic audit or other in-depth reviews. Also, on occasion, INT may, in consultation with the relevant manager, ask fiduciary specialists to assist in obtaining additional information from the client.

F. Dealing with Suspected F&C Cases

18. Circumstances can vary widely, depending on the client's own response and on whether or not INT decides to follow up with an investigation of its own. Although INT retains information on all reported cases for future reference and analysis, it uses a triage system to prioritize cases for investigation. As a result, in many cases the task team and the client have to decide what further action to take. When in doubt on the best course of action, fiduciary specialists should consult their managers. INT is also available to provide advice on follow-up actions short of an investigation. The following points should be considered:

- ***All suspected cases of fraud and corruption should be dealt with in accordance with the ACGs.***
- ***Fiduciary staff should not initiate investigative work to substantiate allegations.*** This could compromise the investigation and even place staff in danger. The client and/or INT should take the lead in carrying out investigations.
- ***Fiduciary staff should not normally lead the dialogue with the client on fraud and corruption cases.*** Fiduciary staff are sometimes asked to advise the client on follow-up investigations or to assist an INT investigation. In such cases, staff should consult with country management and the Regional fiduciary managers who decide, in consultation with INT, who is best placed to lead such a dialogue.
- ***Fiduciary staff assigned to the Program should, on request, provide all relevant information to the investigators,*** whether they are appointed by the client or INT. It is important to bear in mind, however, that fiduciary staff have no access to any Program transactional or contract documentation during implementation of a PforR operation.

G. Red Flags

19. This section lists some possible warning signs of situations that may require further attention during the fiduciary systems assessment. These red flags have been identified through the work on investment lending operations and will be updated over time to take into account PforR specific features and lessons:

- Facilities financed under the Program that are located far from beneficiaries or are not needed.
- Over- or under-specified needs.
- Technical specifications directed to a particular supplier, or not appropriate for the intended use of the goods.
- Unreasonable or excessively subjective qualification and selection criteria.
- Inflated costs estimation.
- Large unallocated funds or funds directed to special projects without clear processes for their use.
- A large number of individual consultants not clearly related to the Program's objectives.
- Sector studies making unsupported recommendations affecting procurement of goods or works or prepared by consultants who appear to be in conflict of interest.
- Concentration of excessive discretionary authority with insufficient oversight, description of implementation arrangements, or management accountability.
- Lack of capacity of works supervisors/inspectors, widespread failure to report on substandard goods or works, or significant failure to distribute goods to beneficiaries in a timely fashion.
- Excessive delivery charges.
- Excessive agent commissions.
- Conflict of interest in evaluation committees.
- Unlimited executive decision to approve spending outside budget cycle without reporting.
- Payment of large amounts in cash.
- Under- or over-invoicing or multiple invoices for the same payments.
- Significant delays in payments to suppliers and contractors.
- Unusually high operational expenses not related to Program needs.
- Widespread splitting of contracts.
- Potentially extortive conditions in bidding documents (e.g., excessively high securities, onerous penalties, excessively strict delivery terms).
- Inadequate advertisement or misleading/unavailable information on how to participate in the process.
- Insufficient time for bid preparation.
- Apparent rotation of bidders (as suggested by bidding patterns).
- Frequent cancellation of processes followed by direct contract negotiations.

- Excessive front-loading of cost and frequent change orders.
- Wholesale subcontracting.
- Unqualified staff in key FM posts without prior approval.
- Resources diverted from Program to operating expenses or unapproved uses.
- Unexplained deviations from planned expenditure targets.
- Many or large transactions flow outside the normal system and controls, without justification.
- Unexplained delays in the release or transfers of funds to implementing units.
- Payments to suppliers made unduly early, delayed, or duplicated.
- Payments made to individuals instead of companies as contracted.
- Large cash payments made with no audit trail and documentation.
- Unexplained, incomplete, or irregular items on reconciliations.
- Two sets of accounting books and records.
- Inventories or equipment not reconciled with asset registers.

**Program Fiduciary Systems Assessment
Indicative Outline⁴⁶**

A. Introduction

1. A Fiduciary Systems Assessment Interim Guidance Note has been prepared to assist World Bank staff in assessing the fiduciary aspects of a program financed under PforR operations in accordance with OP/BP 9.00. To complement the information in that note, this attachment provides fiduciary staff with an indicative outline of the content of the fiduciary systems assessment.

2. Fiduciary systems assessments are carried out at the Program level and build on the Bank's existing knowledge of country and Program systems and of the Program implementing agencies. The assessment also builds on specific analysis carried out during the preparation of a PforR operation. As the case may be, such analysis can be carried out in partnership with other development partners and/or the borrower. Fiduciary systems performance at the Program level may differ from that of country systems, and fiduciary specialists will typically focus on knowledge gaps as part of the assessment process.

3. Fiduciary specialists assess the Program's institutional framework, procedures, fiduciary capacity and overall performance as part of the preparation of the PforR operation. The fiduciary assessment:

- Includes an executive summary, with an overall assessment of the Program fiduciary system in line with the principles set out in OP 9.00 and the Guidance Note;
- Provides a brief background and summary of the Program's institutional arrangements;
- Describes and assesses the Program's fiduciary performance and significant fiduciary risks;
- Establishes a reference for monitoring fiduciary performance, necessary mitigation measures and matters to be addressed in the PAP (if one is needed); and
- Describes the fiduciary elements of the Program Implementation Support Plan (ISP).

4. The assessment is formatted and written so that it can be read both as a stand-alone document and as the basis of the fiduciary sections of the Program Appraisal Document (PAD). It also facilitates appropriate inputs to the Program's legal agreement, as needed. The length of the report will vary but is generally the minimum amount required to adequately describe and assess the Program fiduciary systems. The contribution to the main text of the PAD is generally a couple of paragraphs and the PAD annex summarizing the fiduciary systems assessment is normally two to three pages in length. The fiduciary systems assessment is disclosed at the same time as the PAD.

⁴⁶ The outline is indicative of the typical content and issues to be addressed in a typical fiduciary systems assessment, however the actual format may be modified to reflect the circumstances of each PforR operation.

5. The fiduciary systems assessment is an integrated document. Hence, staff should not prepare this as an accumulation of two assessments--one for FM and one for procurement--but rather should be carried out and conducted in an integrated manner.

B. Indicative Outline of Fiduciary Systems Assessment

1. Executive summary

6. The executive summary fulfils two purposes; (a) it summarizes the findings of the assessment, and, (b) it provides input to the PAD, including an overall assessment of the adequacy of the fiduciary system. Therefore, this section should record the information required to be disclosed in the main body of the PAD.

2. Background and the Program's institutional arrangements

7. This section provides a brief overview of the national and Program specific fiduciary framework and institutional arrangements; providing the context for an informed assessment of the performance of the system. The section would typically include:

- A description of the Program, incorporating an overview of the expected activities to be conducted;
- A description of the Program's institutional framework and implementation arrangements, including a description of the Bank's past experience of the fiduciary performance in other relevant or similar activities;
- A summary of the proposed Program's fiduciary arrangements, incorporating an overview of the financial management, procurement, governance and accountability arrangements.
- A summary of the Program's expenditure framework in sufficient detail to identify those activities, which are included in the Program.⁴⁷

3. Describe and assess Program fiduciary performance and significant fiduciary risks

8. This section provides an analysis of fiduciary performance, and the strengths and weaknesses of the Program's fiduciary arrangements. It is used to inform judgments about the levels of risk in national PFM and Program systems, and how risks are being managed under the Program. It draws on existing national, sub-national, sector or Program specific diagnostics prepared by the Bank and/or its partners, supplemented, as necessary, with additional analysis specific to the planned operation. The section has two closely inter-related parts:

a. An assessment of Program fiduciary performance, incorporating;

- The key elements of the Program's procurement arrangements in terms of timeliness, cost-effectiveness, competitiveness and compliance with applicable rules, including the handling of complaints⁴⁸;
- The performance of the Program financial management system against the critical elements of an open and orderly financial management system⁴⁹;

⁴⁷ Fiduciary staff work in collaboration with the rest of the Task Team and the borrower on any financial analysis required.

⁴⁸ See Box 3.1 and Attachment 3.2 of the Fiduciary Systems Assessment Interim Guidance Note.

⁴⁹ See Box 3.2 and Attachment 3.3 of the Fiduciary Systems Assessment Interim Guidance Note.

- A summary of the adequacy of institutional capacity (staffing, budgeting etc.) to carry out the fiduciary responsibilities set out under the Program;
- The effectiveness of coordination between agencies where multiple agencies or tiers of government are involved.

b. An assessment of fiduciary risk, which establishes:

- A snapshot of the fiduciary risk of each element of the Program’s fiduciary system⁵⁰;
- The overall fiduciary risk⁵¹ for the Program.

Based on this work the fiduciary team’s risk assessment feeds into the Program integrated risk assessment.

4. Establishment of status and reference for monitoring fiduciary performance, and identification of fiduciary measures which are to be addressed in the PAP, included as DLIs, where applicable, and/or addressed in legal documents⁵²

9. This section identifies (a) the specific measures needed to improve the performance of procurement and financial management processes over the duration of the Program; and (b) more immediate fiduciary weaknesses identified in Section C (above). Typically this section will address:

- The establishment of the reference to monitor fiduciary performance over the life of the Program;
- Measures which have been identified to mitigate fiduciary risks and/or improve capacity, systems and procedures, and;
- Measures to be covered in auditors’⁵³ terms of reference and Bank monitoring during Program implementation.

This section establishes whether recommended actions are to be undertaken prior to implementation, or whether they are intended as capacity-strengthening measures that can be introduced during Program implementation.

5. Describe the fiduciary inputs to the Implementation Support Plan⁵⁴

10. This section identifies how the fiduciary team will work with the borrower to monitor implementation progress and address underperforming areas identified in the PAP. Fiduciary support includes:

⁵⁰ Section II of the Fiduciary Systems Assessment Interim Guidance Note provides overview of cross-cutting, procurement and financial management issues to consider in each element of the fiduciary system. Attachment 3.3 and 3.4 of the Interim Guidance Note describe typical program fiduciary risks that are encountered however this needs to be tailored, in light of the specifics of the country or program.

⁵¹ The risk that financing proceeds will not be used for the purposes intended, with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability.

⁵² See Fiduciary Systems Assessment Interim Guidance Note, paragraphs 12 and 13.

⁵³ Both financial and technical audits (see Section V of the Fiduciary Systems Assessment Interim Guidance Note)

⁵⁴ See Fiduciary Systems Assessment Interim Guidance Note, paragraphs 15 and 16.

- Reviewing implementation progress and work with the task teams to examine the achievement of Program results and DLIs that are of a fiduciary nature;
- Helping the client to resolve implementation issues and to carry out institutional capacity building;
- Monitoring the performance of fiduciary systems and audit reports, including the implementation of the PAP; and
- Monitoring changes in fiduciary risks to the Program and, as relevant, compliance with the fiduciary provisions of legal covenants.

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CHAPTER FOUR: ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

INTERIM GUIDANCE NOTE

1. This note provides guidance to World Bank staff on how to assess the arrangements, within a Program, for managing environmental and social effects⁵⁵ in a manner consistent with Operational Policy/Bank Procedure (OP/BP) 9.00, *Program for Results Financing*. This policy sets out core principles and key planning elements intended to ensure that PforR operations are designed and implemented in a manner that maximizes potential environmental and social benefits, while avoiding, minimizing, or otherwise mitigating environmental or social harm.
2. The principles incorporated into OP 9.00 are similar in substance and purpose to those guiding environmental and social aspects of standard investment lending and are intended to achieve similar outcomes. In terms of environmental and social management, PforR employs a risk management approach, in which process requirements are adapted to the Program context. For each proposed PforR operation, the Bank assesses—at the Program level—the borrower’s authority and organizational capacity to achieve environmental and social objectives against the range of environmental and social impacts that may be associated with the Program. If, in the judgment of the Bank, the borrower’s management system lacks the regulatory authority or organizational capacity to effectively manage environmental or social effects, supplementary actions to strengthen Program performance may be required, or it may be decided that the proposed Program or specific Program activities are not suitable for PforR. The Bank provides implementation support as warranted, evaluating progress toward Program objectives and any agreed actions.
3. Management of environmental and social effects in a PforR operation requires specific actions during preparation and implementation stages. These actions include:
 - **Preparation** entails (a) the undertaking of a system assessment against OP/BP 9.00 core principles and key planning elements and, if necessary, the formulation of measures for inclusion in the overall Program Action Plan⁵⁶ to enhance environmental and social management and outcomes in a manner agreed on with the borrower during implementation.
 - **Implementation** entails (a) implementation of the agreed actions, if any are required, including implementation of agreed capacity-building activities and implementation of any specified environmental or social mitigation measures; (b) monitoring the system’s performance and completion of the necessary agreed actions; and (c) adapting management practices as may be necessary in response to poor performance or unanticipated challenges to effective implementation.

⁵⁵ “Effects” is used throughout this note to refer collectively to benefits, impacts, and risks. The subsumed terms are used where necessary to focus on specific topics or issues. The term “benefits” include positive impacts, and the term “impacts” refer to adverse or negative consequences.

⁵⁶ For more details on the Program Action Plan, see the Overview to the Guidance Notes.

I. CORE PRINCIPLES AND KEY PLANNING ELEMENTS

4. The core principles and key planning elements incorporated into OP/BP 9.00 establish the policy and planning elements generally necessary to achieve outcomes consistent with PforR objectives.⁵⁷ These principles and elements are intended to guide assessment of existing borrower Program systems as well as their capacity to plan and implement effective measures for environmental and social risk management. They also serve as a basis for provision of Bank implementation support. The core principles and key planning elements are summarized in Table 4.1 a, b, and c below.

Table 4.1a. General Principle of Assessment and Management

<i>Core Principle</i>	<i>Key Planning Elements</i>
Environmental and social management procedures and processes are designed to (a) promote environmental and social sustainability in the program design; (b) avoid, minimize, or mitigate against adverse impacts; and (c) promote informed decision-making relating to a program's environmental and social effects.	<p>Whether for design of new programs or program activities, or for support to existing programs or activities, the Bank will confirm that, as relevant, Program procedures do the following:</p> <ul style="list-style-type: none"> ▪ Operate within an adequate legal and regulatory framework to guide environmental and social impact assessments <i>at the Program level</i>. ▪ Incorporate recognized elements of environmental and social assessment good practice, including (a) early screening of potential effects; (b) consideration of strategic, technical, and site alternatives (including the “no action” alternative); (c) explicit assessment of potential induced, cumulative, and trans-boundary impacts; (d) identification of measures to mitigate adverse environmental or social impacts that cannot be otherwise avoided or minimized; (e) clear articulation of institutional responsibilities and resources to support implementation of plans; and (f) responsiveness and accountability through stakeholder consultation, timely dissemination of program information, and responsive grievance redress measures.

Table 4.1b. Environmental Considerations (as relevant)

<i>Core Principle</i>	<i>Key Planning Elements</i>
Environmental and social management procedures and processes are designed to avoid, minimize, and mitigate against adverse impacts on natural habitats and physical cultural resources resulting from the program.	<p>As relevant, the Program to be supported:</p> <ul style="list-style-type: none"> ▪ Includes appropriate measures for early identification and screening of potentially important biodiversity and cultural resource areas. ▪ Supports and promotes the conservation, maintenance, and rehabilitation of natural habitats; avoids the significant conversion or degradation of critical natural habitats, and if avoiding the significant conversion of natural habitats is not technically feasible, includes measures to mitigate or offset impacts or program activities. ▪ Takes into account potential adverse impacts on physical cultural property and, as warranted, provides adequate measures to avoid, minimize, or mitigate such effects.

⁵⁷ The general guidance provided in this note is supplemental; the contents should not be construed as establishing policy beyond, or in contradiction to, provisions included in OP/BP 9.00. Also, the guidance provided is general in nature. Supplementary technical guidance materials will be developed as relevant.

<i>Core Principle</i>	<i>Key Planning Elements</i>
Environmental and social management procedures and processes are designed to protect public and worker safety against the potential risks associated with (a) construction and/or operations of facilities or other operational practices developed or promoted under the program; (b) exposure to toxic chemicals, hazardous wastes, and otherwise dangerous materials; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.	<ul style="list-style-type: none"> ▪ Promotes community, individual, and worker safety through the safe design, construction, operation, and maintenance of physical infrastructure, or in carrying out activities that may be dependent on such infrastructure with safety measures, inspections, or remedial works incorporated as needed. ▪ Promotes the use of recognized good practice in the production, management, storage, transport, and disposal of hazardous materials generated through program construction or operations; and promotes the use of integrated pest management practices to manage or reduce pests or disease vectors; and provides training for workers involved in the production, procurement, storage, transport, use, and disposal of hazardous chemicals in accordance with international guidelines and conventions. ▪ Includes measures to avoid, minimize, or mitigate community, individual, and worker risks when program activities are located within areas prone to natural hazards such as floods, hurricanes, earthquakes, or other severe weather or climate events.

Table 4.1c. Social Considerations (as relevant)

<i>Core Principle</i>	<i>Key Planning Elements</i>
Land acquisition and loss of access to natural resources are managed in a way that avoids or minimizes displacement, and affected people are assisted in improving, or at least restoring, their livelihoods and living standards.	<p>As relevant, the Program to be supported:</p> <ul style="list-style-type: none"> ▪ Avoids or minimizes land acquisition and related adverse impacts; ▪ Identifies and addresses economic and social impacts caused by land acquisition or loss of access to natural resources, including those affecting people who may lack full legal rights to assets or resources they use or occupy; ▪ Provides compensation sufficient to purchase replacement assets of equivalent value and to meet any necessary transitional expenses, paid prior to taking of land or restricting access; ▪ Provides supplemental livelihood improvement or restoration measures if taking of land causes loss of income-generating opportunity (e.g., loss of crop production or employment); and ▪ Restores or replaces public infrastructure and community services that may be adversely affected.
Due consideration is given to cultural appropriateness of, and equitable access to, program benefits giving special attention to rights and interests of Indigenous Peoples and to the needs or concerns of vulnerable groups.	<ul style="list-style-type: none"> ▪ Undertakes free, prior, and informed consultations if Indigenous Peoples are potentially affected (positively or negatively) to determine whether there is broad community support for the program. ▪ Ensures that Indigenous Peoples can participate in devising opportunities to benefit from exploitation of customary resources or indigenous knowledge, the latter (indigenous knowledge) to include the consent of the Indigenous Peoples. ▪ Gives attention to groups vulnerable to hardship or disadvantage, including as relevant the poor, the disabled, women and children, the elderly, or marginalized ethnic groups. If necessary, special measures are taken to promote equitable access to program benefits.

<i>Core Principle</i>	<i>Key Planning Elements</i>
Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.	<ul style="list-style-type: none"> ▪ Considers conflict risks, including distributional equity and cultural sensitivities.

II. EXCLUSION AND SCREENING FOR ENVIRONMENTAL AND SOCIAL ACTIVITIES/RISKS

5. The PforR financial instrument does not support programs or activities within programs that could cause significant harm to the environment or which would have significant adverse social consequences (see paragraph 7). All PforR operation proposals will be screened for such adverse impacts at an early stage of preparation. If such activities are likely to occur within a program as defined, they should be excluded from PforR support or, alternatively, if included be subjected to investment lending policies.

6. The review of proposed Program activities against exclusionary criteria at or near the initial Concept Review meeting provides a necessary but not sufficient basis for Program screening. This is because application of exclusionary criteria cannot ensure that all potentially significant adverse impacts that may arise in a particular program context will be identified. Bank task teams should supplement application of the mandatory exclusionary criteria with an additional, context-specific environmental and social (E&S) risk screening exercise (see Attachment 4.2 for the suggested risk screening exercise). This supplemental environmental and social risk screening will be an input to the overall integrated risk assessment and may change the scope of the Program coverage to better manage these risks or lead to a Management decision to not consider the use of the PforR instrument.

7. PforR excludes programs or activities that pose a risk of potentially significant and irreversible adverse impacts on the environment and/or affected people. Excluded from PforR financing would be investments in new, or major expansion of, large-scale infrastructure or other investment activities that would normally be considered Category A-type investments under investment lending policies. Examples include, but are not limited to, the following:

- Power plants;
- Transport infrastructure such as highways, expressways, urban metro-systems, railways, and ports;
- Investments in extractive industries;
- Commercial logging;
- Water (surface and groundwater) resource infrastructure, including dams, or projects involving allocation or conveyance of water, including inter-basin water transfers or activities resulting in significant changes to water quality or availability; and
- Construction of manufacturing or industrial processing facilities.

The identification of potential Category A-type activities should take place as soon as the Program scope is defined and as part of the supplemental E&S risk screening exercise.

8. The supplemental E&S tool for initial screening of types of risks is one approach that is recommended for use by teams to assess each specific program context using five categories to initially determine the range of associated environmental and social effects. These are: (a) likely social and environmental effects, (b) environmental and social context; (c) sustainability, (d) institutional complexity and capacity, and (e) reputational and political risk.

9. The purpose of this supplemental initial screening is to identify potential risks (as well as opportunities) that may be associated with the Program that warrant further analysis through the environmental and social systems assessment or that require Management attention at the Concept Review stage. Some examples of such activities are those which may potentially lead to significant conversion of natural habitats; economic displacement as a consequence of involuntary resettlement; imposition of non-consensual adverse impacts upon Indigenous Peoples; and activities that lead to or exacerbate disputes or conflicts over land or resources. Overall, the risk screening is expected to also help teams focus on priority areas for further attention in the environmental and social system assessment.

10. The results of the E&S initial screening will feed into the integrated risk assessment that will be done for all PforR operations at the Concept Stage, based on which Bank Management will decide, for instance, whether or not to proceed with using PforR instrument for a proposed operation. Once a decision is made to proceed using the PforR instrument, detailed technical, fiduciary, and environmental and social systems assessments are undertaken and measures to address weaknesses and to enhance performance will be identified, incorporated into a Program Action Plan, and implemented as described in the following sections.

III. STEPS IN ADDRESSING ENVIRONMENTAL AND SOCIAL ISSUES

11. Below are three key major steps related to the approach to environmental and social management under the PforR instrument. In all three steps, the scope of activity is adapted to the program context:

- ***System assessment.*** The Bank task team prepares assessments of the proposed Program, including an environmental and social systems assessment (ESSA). The ESSA reviews existing regulations and policies, their legal and practical applicability at the program level, institutional capacity, and the effectiveness of implementation in practice. The ESSA is the Bank task team's responsibility using empirical information and data to be provided by the existing Program agency (or new program proponent) and supplemented with information from other stakeholders and other available sources. The Bank and borrower together identify and consider the potential range of environmental and social effects that may be relevant to the Program. The Bank task team then assesses the capacity for effective environmental and social management, in light of performance to date (or proposed arrangements and resource availability for new programs) and in light of potential effects. An indicative ESSA outline is in Attachment 4.1. Findings of the ESSA are subsequently factored into the overall integrated risk assessment which will be revised at appraisal stage and which is an input into Bank Management decision-making.
- ***Identification and, as needed, agreement with the borrower on measures to enhance environmental and social management capacity and performance.*** Based on the assessment findings, measures to strengthen institutional capacity, as well as

any measures to generate the desired environmental and social effects, if required, will be agreed. The key measures are incorporated into the overall Program Action Plan, which is then discussed and agreed with the borrower. No actions would be necessary if the assessment concludes that Program capacity is adequate given the risks to be managed. If strengthening measures are deemed necessary, they may include either specific measures to strengthen organizational performance or specific environmental or social mitigation measures consistent with OP/BP 9.00.

- ***Performance monitoring and implementation support.*** The borrower and the task team collaborate in monitoring Program performance, especially with regard to any specific organizational improvements or mitigation or enhancement measures agreed with the borrower. Program performance is monitored against a set of mutually agreed on quantitative or qualitative indicators devised for Program purposes, and against regular periodic review of complaints registered through established grievance procedures. The task team supplements monitoring information with periodic field visits to Program activities and offers any further implementation support that may be agreed on between the borrower and the Bank.

A. Environmental and Social Systems Assessment

12. Whether for existing or new programs, the ESSA focuses both on institutional, organizational, and procedural considerations that are relevant to environmental and social management as well as environmental and social performance considerations that are more technical in nature. The scope and depth of the systems assessment, as relevant, should be tailored to the country and Program context. The assessment will typically include reviews of the rules and procedures applicable to the Program to manage environmental and social risks and impacts on organizational authority and capacity (including staffing, budgeting, and availability of implementation resources); any inter-agency coordination arrangements if there are shared implementation responsibilities; and effectiveness of environmental and social management in practice.

13. The ESSA uses a risk management approach, in which judgment is applied in assessing both Program management capacity and the significance of potential environmental and social effects. The assessment will be conducted based on a consideration of the key planning elements as set out in BP9.00 (and for easy reference described in Table 4.1a). Other relevant social and environmental aspects may also be taken into account as part of the assessment as relevant to the Program scope and objectives. The system assessment presents an opportunity to engage in mutual dialogue about Program design and implementation to encourage more effective environmental and social management practices, including those that would maximize environmental and social benefits. The Bank also applies judgment in assessing the borrower's Program rules and procedures and implementation performance against the core principles and key planning elements. Program implementing institutions with demonstrated implementation effectiveness can be expected to manage significantly greater levels of potential impact and risk, whereas new programs or implementing agencies will warrant deeper scrutiny and, depending on program context, agreement on more detailed or stringent mitigation measures or limitation in the scope of acceptable Program activities.

14. There are few empirical and reliable indicators by which to assess management capacity; application of judgment by the Bank is especially necessary in assessing the commitment of

potential borrowers to implement new programs effectively, or to strengthen or broaden effectiveness of existing programs during the course of program implementation. The ESSA necessarily includes direct communication with borrower agencies and relevant Program stakeholders, but also may be based on information obtained from other sources. This may include assessments relating to other Bank activities (e.g., investment lending projects, development policy lending, country studies, technical assistance); assessments undertaken by other development agencies associated with the Program; or other relevant national, regional, or sectoral assessments or analyses. In keeping with the risk management approach, the level of new or additional information required might be minimal with regard to previous or current borrowers, whose system performance may already be well documented and well understood.

1. Relevant organizational and procedural considerations in the ESSA

15. Wide-ranging organizational and procedural factors are potentially important in effective environmental and social management. As relevant in the particular program context, the ESSA considers the following questions:

(a) Organization and program structure

- *Does the Program implementing agency have the legal or regulatory authority to commit resources and implement actions necessary for effective environmental and social management? If not, are critical changes to the legal or regulatory framework needed? If a new program is being proposed, is legal and regulatory authority clearly established?*
- *Is the Program implementing agency adequately staffed, in terms of skills, qualifications, and number of personnel for program administration, planning, and design, implementation, and monitoring functions? If the Program does not build sufficient in-house capacity, what reliable alternative arrangements (e.g., coordination with other agencies, use of qualified consulting services) are available to promote effectiveness?*
- *Are environmental and social management agents or units adequately supported through budgetary allocations and provision of necessary facilities, equipment and supplies? If not, is there a need for supplementary support?*
- *If the Program will depend on inter-agency collaboration for delivery of services or for managing environmental and social effects, or if the multi-jurisdictional reach or scope of the Program creates divided responsibilities for implementation, what structural arrangements are in place to ensure effective and timely coordination? Is there a coordinating body empowered to resolve coordination issues or delays in required actions? Does the Program consider activities and interests of other stakeholders that may affect environmental or social management?*
- *Does Program structure promote credibility and accountability of environmental and social management, through independent review of plans, external monitoring of implementation, or other forms of oversight?*

- *As relevant for environmental and social management, does Program structure include arrangements to discourage and detect conflicts of interest, extortion, collusion, bribery, or other fraudulent practices? Further questioning:*
 - *Are the entities in charge of identifying Program environmental and social impacts independent or autonomous from the implementing entity?*
 - *Is supervision of mitigation of identified impacts undertaken objectively, and are related issues freely reported to the management of the Program's implementing agency?*
 - *Does the management of the implementing agency act upon identified issues in a consistent and objective manner?*

(b) Program procedures and processes

- *In the broad country context, are processes and procedures relating to environmental and social protection routinely, effectively, and equitably implemented? Do they require environmental and social screening or assessment, as well as mitigation of environmental and social impacts for areas that present such risks under the PforR operation? Will these requirements clearly apply to a program proposed for support by a PforR operation?*
- *For some programs, it is likely that environmental rules and procedures will be relatively stringent and will be subject to implementation by dedicated units with qualified staff, while the regulatory foundation and rules and procedures for dealing with social issues may be deficient. If special measures are necessary to strengthen social management capacity, how are they to be devised, resourced, and implemented?*
- *Is screening for, and estimation of, environmental and social effects a part of initial Program design? Is this screening sufficient in scope and scale, conducted at a time when it can influence Program design, and focused specifically on the environmental and social implications of the PforR operation? Does this screening process consider opportunities to enhance the range and reach of Program benefits? Can environmental and social screening be done in an integrated manner, so that interactions and cross-cutting issues are identified and considered?⁵⁸*
- *Does the borrower consult with stakeholders on various aspects of Program design and operation? Does Program implementation include arrangements for responsive communications on relevant environmental and social concerns?⁵⁹ Is*

⁵⁸ The scope and depth of environmental and social screening are determined in each program context. In simple programs, screening simply establishes that there are few and minor social or environmental implications. In programs with complex or potentially significant environmental or social implications, the screening process includes assessing potential effects in a manner consistent with international practice.

⁵⁹ PforR adopts a context-specific approach to consultation processes; no uniform consultation structure or protocol is imposed. In all cases, however, the ESSA includes review of arrangements for consultations with, and disclosure of information to, stakeholders. Effective consultation may include or promote stakeholder participation in decision-making, especially when responsive behavior is essential to achievement of program objectives.

information relating to environmental and social effects made available to those people or communities potentially affected?

- *Does the Program have accessible grievance redress mechanisms, with established procedures for submission of grievances? Do established grievance procedures accept and process grievances relating to environmental and social management issues? Are there established routines and standards for responding to grievances received? Are records available?*⁶⁰
- *Does the system consider the environmental and social implications of all proposed Program activities prior to their implementation?*
- *Do monitoring arrangements specifically include all relevant aspects of environmental and social management? Do screening and design processes yield appropriate information for establishing social and environmental reference points for performance comparison purposes? Is there a need to formulate Program-specific quantitative or qualitative monitoring indicators? What monitoring processes can be utilized as a means to enhance validity and credibility? Are there any disbursement-linked indicators relating to environmental or social effects that need to be considered as part of the Program particularly if they are of fundamental importance to Program performance?*
- *Do Program arrangements authorize and identify contingency funds available for environmental and social management purposes? Are there “adaptive management” processes in place to respond to unanticipated environmental or social management issues that may arise?*

2. Environmental and social considerations in the ESSA

16. The organizational capacity for environmental and social management can only be determined by reference to the range of environmental and social tasks to be undertaken, and in light of the scope and scale of potential social effects. Judgment is necessary in assessing potential significance of effects and the appropriateness of existing or proposed management measures. As relevant in the particular Program context, the ESSA considers the following questions:

(a) Key environmental factors

- *A key to avoidance and minimization of impacts and risks is systematic consideration of strategic, technical, and site-selection alternatives – including a “do nothing” option. Does Program design consider relative environmental costs and benefits from feasible strategic alternatives? Do procedures for site-specific investments require consideration of technical and site selection alternatives?*
- *Is the scope of Program screening broad enough to cover all potentially significant environmental issues? Does the system of screening and scoping result in environmental analysis and assessments, which are proportional to the expected impacts and risks? While Tables 4.1a, b, and c list PforR principles and*

⁶⁰ Regular review of grievance procedures is an important source of information during Bank Implementation Support.

key environmental elements, other factors may be highly significant in a particular program context. These could include pollution prevention or abatement, construction and waste management practices, occupational safety and health concerns, and road safety, among others. *Where relevant, are such concerns addressed in a manner consistent with commonly accepted good practice?*⁶¹

- *Will screening identify, when relevant, potential impacts on forests and other natural habitats? Are arrangements in place to ensure that significant conversion or degradation of critical natural habitats does not occur and that Program activities do not otherwise contravene international environmental agreements relating to natural habitats or forests? If Program activities may cause conversion or degradation of non-critical natural habitats, does screening or assessment include consideration of any viable alternatives? Do plans require appropriate conservation and mitigation measures to be in place, including those required to maintain ecological services?*
- *If the Program involves any support to forest plantation establishment or other forest management activities for conservation, forest regeneration or non-timber forest production purposes, does it do so in a manner consistent with internationally recognized standards of responsible (sustainable) forest management and use? If programs support community-based forest management, does the Program provide sufficient opportunity for community participation in planning and implementation of Program activities?*
- *Do program activities promote use of integrated pest management practices to manage or reduce pests or disease vectors? Does the Program promote reduction in hazardous synthetic chemical pesticides? Does the Program include appropriate technical guidelines and training for the safe production, storage, transport, use and disposal of hazardous pesticides or other chemicals in accordance with international conventions?*⁶²
- *Does the Program include adequate measures to protect people and the environment from the effects of hazardous or toxic materials that are used in construction, production processes or wastes that are generated as a by-product of construction or facilities operations?*
- *Does the Program include safety measures and standards for emergency preparedness for pre-existing civil works, or works under construction that pose potential hazards to people or the environment? Are emergency preparedness plans implemented and periodically reviewed? If deficient, can safety measures or remedial works be undertaken? If the Program contracts for construction of potentially hazardous physical infrastructure, are qualified technical experts engaged for design, construction supervision, operation and maintenance (including periodic safety inspections)?*

⁶¹ For example, the World Bank Group Environmental Health and Safety Guidelines should be consulted when significant pollution or occupational health and safety issues arise.

⁶² See Recommended Classification of Pesticides by Hazard and Guidelines to Classification (World Health Organization), and International Code of Conduct on the Distribution and Use of Pesticides (United Nations Food and Agricultural Organization).

- *As relevant, does the Program include measures to ensure that people or the environment would not be put at increased risk due to natural hazards such as flooding, earthquakes, landslides, severe weather or climatic events, or other disasters?*
- *Is Program screening and design attentive to risks to, or impacts upon, physical cultural resources? Do procedures require the use of authoritative source materials or field based surveys to identify existing physical cultural resources before commencement of works? Does the screening review involve careful attention to avoiding impacts on resources of archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance? Do Program manuals or construction contracts establish “chance find” procedures to take effect whenever Program activities result in discovery of, or disturbance to, physical cultural resources?*

(b) Key social factors. The programs to be supported through PforR will vary widely by their socioeconomic objectives. Many will deliver services directly to target beneficiaries (e.g., most education and health programs). Many other programs are intended to benefit the public more indirectly or in a more dispersed manner, as in infrastructure rehabilitation. Some programs have objectives that cannot be attained without changes in social behavior or attitudes. Other programs may have little direct or immediate social effects at all (e.g., in financial and administrative management, or investment in technology). Because social contexts vary greatly among countries and programs, the relevance of social factors also varies widely. In the ESSA, however, it is appropriate to assess management capacity with regard to these key considerations, as relevant to the specific Program context, leading to the following questions:

- *Is there consideration of distributional equity, affordability, and cultural or gender constraints to access or participation? Does the incentive structure within Program agencies promote outreach measures to encourage equitable and affordable access to Program benefits? Does it consider how to alleviate cultural, financial, or physical barriers that hamper participation of socially marginalized or disadvantaged groups (e.g., the poor, the disabled, children, the elderly, Indigenous Peoples, or religious or ethnic minorities)?*
- *Do consultation processes promote communication and informed decision-making? Do those who may be potentially affected have prior access to information about the topics for consultation? Are consultations conducted in a manner that encourages an open exchange of views? Are consultations conducted early enough that stakeholder feedback can be considered in the design of new or changing Program activities? Do consultations include a representative cross-section of groups affected by the Program (including women, Indigenous People or other ethnic minorities, the poor or other groups who might otherwise be under-represented)? Does sampling capture jurisdictional or geographic diversity? Do Program agencies regularly review and consider consultation results so as to obtain or broaden community support?⁶³*

⁶³ Consultations conducted in the above manner are consistent with present Bank practice regarding consultations with Indigenous Peoples.

- *As relevant, does screening consider variations in property regimes, including common property resources, customary or traditional rights to land or resource use, and Indigenous Peoples' rights?*
- *Does the Program screen all planned activities to determine whether they may require involuntary taking of land, relocation of residences or businesses, or restrictions on access to natural resources? Do Program processes require identification and mitigation of all significant impacts (including those affecting informal users or occupiers of land or other resources)?*
- *Does screening and design of Program activities consider risks of creating or exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial or jurisdictional dispute? Are program agencies open to discussion with the Bank and consultation with stakeholders on potentially sensitive issues? (Assessment of social conflict potential is likely to be politically sensitive precisely in Program areas in which it is likely to be most relevant.)*

17. The Bank consults with stakeholders as warranted during the ESSA process. Before PforR appraisal, the task team makes the draft ESSA publicly available. The task team subsequently consults with Program stakeholders on the draft ESSA. The Bank makes the final assessment publicly available, including any agreed actions to strengthen or improve environmental and social management capacity. Further guidance on consultation and disclosure is provided in attachment 4.4. Because the ESSA is the responsibility of the Bank, there is no requirement for the borrower to consult with stakeholders on its findings or to make the assessment publicly available separately.

B. Considerations in Determining the Need for Actions to Strengthen Environmental and Social Management Capacity

18. If the ESSA process concludes that present capacity is sufficient to deliver environmental and social benefits, that there are no significant impacts or risks, or that management capacity is sufficient to handle impacts or risks that may be involved, there is no need to devise and agree upon measures to further strengthen environmental or social management capacity (though the Bank and borrower may nonetheless agree to do so as a Program objective). If the ESSA process concludes that capacity-building measures are necessary to strengthen environmental and social performance, or concludes that new or strengthened measures are necessary to mitigate specific environmental or social impacts associated with the Program, then specific actions are devised between the borrower and the Bank and are provided as an input into the Program Action Plan, which would be agreed on with the borrower.

19. The type and content of agreed actions is determined by reference to ESSA findings and should be commensurate to the significance of environmental and social issues associated with the Program. Highly significant impacts or risks are not likely to be present in PforR operations, so formulation of extensive actions is not likely to be necessary. However, even less significant risks may warrant some measure of attention, especially if Program management capacity has not been demonstrated. Even when capable Program agencies are involved, supplemental actions may be needed to mitigate impacts for which they lack prior experience, or if mitigation of specific impacts has not previously been required.

20. The scope for necessary actions may require more work when a new program is proposed, or when a new program agency is to be established as there is no track record or performance to review. Supporting a new program can also present opportunities to incorporate sound environmental and social practices into its design. Although an ESSA is still necessary for all programs proposed for PforR operations, it is likely that existing and experienced program agencies will have greater familiarity with environmental and social issues and have established procedures for their management. There is a greater likelihood that existing program capacity will be sufficient to manage minor impacts and risks. Conversely, it is less likely that the ESSA process will be able to identify all issues in untested program agencies and untried procedures, making it more likely that periodic review of performance against specific actions will be necessary. Nevertheless, even though a program may be new, the agency or ministry implementing it may have experiences from other programs on which to base the ESSA.

21. In incorporating necessary actions into the overall Program Action Plan, the Bank and borrower agree on the timing for implementation (e.g., whether action is required prior to a particular Program step, or whether the specified actions are intended to support incremental systems improvement). In line with system assessment conclusions, the Program Action Plan establishes arrangements for periodic performance review, for monitoring and reporting, and for adaptation based on implementation experience. If action is to be coordinated among more than one agency, the Program Action Plan clarifies responsibilities and financial obligations and describes available means to address failures to act in a timely manner or to resolve interagency disputes.

22. The Program Action Plan can also establish Program-specific arrangements for Bank implementation support, including any necessary monitoring or reporting requirements and frequency of Bank field visits, and identify priority areas in which Bank involvement may be useful in enhancing the effectiveness or sustainability of environmental and social management practices. Agreed actions related to the environmental and social systems assessment are included in the final version of the ESSA, which is made publicly available.

C. Program Monitoring and Implementation Support

23. During the Program implementation phase, the borrower monitors Program effectiveness and shares monitoring information with the Bank task team. This includes monitoring against Program capacity-strengthening measures as well as the effectiveness of any agreed impact mitigation measures identified in the Program Action Plan.

24. Bank implementation support may take many forms, depending on the nature of the Program and the environmental and social effects associated with it. During implementation, the Bank task team seeks opportunities to improve environmental and social management capacity through dissemination of comparative information, sponsoring training activities or workshops, or through other means. The Bank task team, in collaboration with the Program agency, should also promote partnership with other donor agencies in pursuit of enhanced environmental and social management capacity or in promoting harmonization in policy or practice.

25. If specific E&S actions are devised and agreed in the Program Action Plan, they become a primary focus of implementation support. The Bank team works closely with the borrower to

review progress against all agreed actions, including both measures to strengthen organizational capacity and any measures to mitigate specific impacts.

26. Because the potential range of environmental and social effects is large and because the relevance of potential impacts can be context specific, no uniform or standard set of environmental and social performance monitoring indicators is envisaged. As warranted, however, the Program Action Plan would include quantitative or qualitative indicators to monitor implementation effectiveness. Program performance data relating to specified monitoring indicators is reported to the Bank task team in a form that is mainstreamed into the Program's own reporting requirements.

27. In the process of finalizing the systems assessment, the Bank and the borrower jointly agree on aspects of Program implementation that may require independent review or verification. In programs involving substantial capacity-building measures or involving relatively widespread potential impacts requiring mitigation, it may be appropriate to establish arrangements for independent monitoring (e.g., hiring an external monitoring agency, panel of experts, community participatory monitoring) to promote collection of information from more than one source and to establish independent validation of results. In all programs, complaints, which are submitted to established grievance redress mechanisms, should be part of the Program's progress reports and reviewed by the relevant implementing agencies as well as the Bank task team. This review should analyze the extent to which the Program is responsive to complaints and include whether effective steps are taken in a timely manner to address specific instances of Program failure and whether Program design or procedural changes are considered when recurring or systemic issues are identified.⁶⁴

28. The Bank task team undertakes periodic field visits to assess the effectiveness of Program interventions, placing particular emphasis upon any environmental or social impact mitigation measures that have been incorporated into the Program Action Plan. Since there can be many Program sites dispersed across large areas, the Bank team should consider developing a site visit strategy as part of implementation support so that sampling over several years of Program implementation includes sites with relatively significant impacts or relatively complex implementation issues. This strategy also allows for consideration of potentially important environmental or geographic variables that may affect implementation, jurisdictional differences in implementation responsibility, and socioeconomic or cultural factors that may affect distributional equity or effectiveness of mitigation measures. Site visitations should also be responsive to any patterns that may emerge from periodic review of grievance procedures.

29. Consistent with a risk management approach, PforR recognizes the need to allow for adaptive management—the ability to modify Program procedures in response to changing or unanticipated circumstances in an effort to more effectively or efficiently achieve established objectives. To facilitate adaptive management during the implementation phase, the borrower and Bank task team can jointly agree to delete, substitute, or otherwise alter specific provisions relating to environmental or social management in the Program Action Plan, as long as the plan remains consistent with PforR principles.

30. The Bank task team notifies Bank Management if environmental or social mitigation measures are not being fully implemented as agreed upon or if implementation is not successful

⁶⁴ For more details, see also attachment to the Overview of these Interim Guidance Notes.

in alleviating risks. Under such circumstances, the Bank task team works with the borrower to identify steps to address implementation problems.

31. In many instances, observed Program deficiencies (including those reflected in local grievances) may reflect client capacity issues, which then may be best addressed through proactive implementation support. Some cases, however, may reflect recurring or sustained implementation failure, which may require stronger measures to improve performance. As warranted, corrective measures can be taken by agreeing on time-bound actions that would be closely monitored. If no steps are taken to correct the problem, then a remedy can be invoked.

IV. PROGRAM CYCLE: BORROWER AND BANK RESPONSIBILITIES AND TASKS

32. PforR promotes generally flexible processes, involving collaboration between the borrower and the Bank in assessment and planning, and adapting as necessary to each program context. Nonetheless, the PforR structure distinguishes specific roles and responsibilities regarding major steps and tasks. Specific roles and responsibilities relating to environmental and social management for the World Bank and the program counterparts are spelled out in Attachment 4.1 according to the phases of the program cycle.

Environmental and Social Systems Assessment Roles and Responsibilities of the Bank and Borrowers

<i>PforR operation phase</i>	<i>Borrower / Counterpart</i>	<i>World Bank</i>
Identification	<ul style="list-style-type: none"> • Provide initial definition of scope of proposed Program. • Present initial briefing on existing environmental and social management systems, regulatory frameworks, system capacity as relevant and applicable to the proposed program as requested by Bank task team. • Share information with Bank task team on system performance, provide examples of current operational experience and the state of the art with respect to environmental and social assessment. • Facilitate initial discussions with Bank team and key stakeholders in the environmental and social management process. • Agree with Bank task team on scope, timeframe, key milestones, public availability, and consultation requirements for the Bank's environmental and social systems assessment. 	<ul style="list-style-type: none"> • Conduct initial screening of Program proposal for potential environmental and social effects and to determine whether there are any Category A-type activities under the program which would not be eligible for PforR. • Inform counterparts about all environmental and social aspects involved in PforR preparation and implementation phases. • Conduct meetings with counterpart agencies and key stakeholders to develop initial understanding of strengths and weaknesses of existing environmental and social management systems. • Agree with borrower on all processing steps required during remaining preparation phase.
Assessment	<ul style="list-style-type: none"> • In collaboration with Bank task team, identify and document potential environmental and social effects of the Program, and how the system handles those effects, particularly for any impacts that cannot be avoided. • Facilitate Bank consultation on the draft ESSA. 	<ul style="list-style-type: none"> • Carry out the ESSA; • Meet periodically with environmental and social management counterparts to develop understanding of procedures, standards, and approach. • Working with borrower, identify in greater detail the potential scope and scale of associated environmental and social effects, and ascertain whether present system has resources and authority necessary to mitigate unavoidable impacts. • Identify gaps and measures to enhance the system and its performance; • Together with borrower develop and agree to specific measures (if needed) to improve system performance during implementation period. • Prior to appraisal, disclose draft ESSA and establish a specified period in which comments are to be received and considered. • Prior to appraisal, disclose PID summarizing ESSA findings and recommendations. • Before or during appraisal, consult with relevant stakeholders regarding draft ESSA (and proposed specific actions, if necessary).

<i>PforR operation phase</i>	<i>Borrower / Counterpart</i>	<i>World Bank</i>
Appraisal	<ul style="list-style-type: none"> • Collaborate with Bank task team in finalizing the ESSA and in devising any necessary measures to improve Program performance. 	<ul style="list-style-type: none"> • If not done earlier, consult on the draft ESSA. • Finalize ESSA, including incorporation of agreed actions. • Agree on measures for monitoring environmental and social management performance. • After appraisal, disclose final ESSA, including all agreed actions.
Implementation Support	<ul style="list-style-type: none"> • Implement agreed actions; • Carry out periodic monitoring, performance evaluation, and audits of system performance; • Regularly review performance of grievance redress mechanisms, and Program responsiveness to grievances received; • Confer with the Bank on proposed changes to applicable systems during implementation. 	<ul style="list-style-type: none"> • Carry out regular implementation support for the Program, including monitoring of Program performance, providing technical support for systems improvement, and monitoring implementation of any agreed actions to improve Program performance. • Review Program monitoring results and/or system audits periodically in conjunction with key counterparts and stakeholders. • Conduct periodic site visits to review Program implementation under field conditions. • Regularly review performance of grievance redress mechanisms, and Program responsiveness to grievances received. • Evaluate proposed changes to systems during implementation that may be necessary to adapt to changing circumstances or unforeseen conditions.

* No ISDS is required for PforR operations, instead the Program Information Document (PID) provides the needed information about environmental and social issues.

Environmental and Social Systems Assessment Indicative Outline

Introduction

1. The Environmental and Social Systems Assessment Interim Guidance Note has been prepared to provide Bank staff, development partners and borrowers a framework to conduct the environmental and social systems assessment (ESSA) for a program proposed for Bank financing using the PforR instrument in accordance with Operational Policy/Bank Procedures 9.00, *PforR Financing*. It also serves as a reference guide for Bank staff in providing technical advice to the borrower during the preparation and implementation phases of a PforR operation.

2. The ESSA is carried out at the Program level, and builds on the Bank's, development partners' and borrower's existing knowledge, as well as on specific analysis carried out during the preparation of a PforR operation. As the case may be, such analysis can be carried out in partnership with other development partners and/or the borrower.

4. The suggested outline for an ESSA report includes the following sections: (a) Program Description; (b) Description of Applicable Environmental and Social Management Systems; (c) Program Capacity and Performance Assessment; (d) Assessment of Program Systems Relative to Core Principles; (e) Inputs to the Program Action Plan; (f) Recommendation for Program Risk Rating; and (g) Inputs to the Program Implementation Support Plan. The depth and scope of coverage on each of these issues would vary depending on the complexity of the scope, location, and institutional requirement of the Program. For each section there is a short guidance on the expected scope of coverage.

Section I: Program Description

5. Section I should include a clear description of the scope of the proposed Program and the institutional context, including:

- Description of the scope of the Program and details on what activities will be included, including a description of the expected physical works, policy actions, services, etc., provided under the Program;
- Description of the geographic scope of the Program;
- List of the key implementing agencies and partners involved in the Program;
- Description or assessment of the likely environmental and social risks associated with the Program; and
- Description of the borrower's past experience in the Program, including a brief consideration of other activities undertaken by the same Program agencies that may have impacts associated with the Program.

Section II: Description of Program Environmental and Social Management System

6. Section II should describe the Program's environmental and social management systems. The description of the Program system should be carried out in relation to the core principles and key planning elements described in the Program Management of Environmental and Social Effects Guidance Note. This section could be based on existing analytical work such as Use of Country System assessments, ESMF, or assessments carried out by other development partners.

7. More specifically,

Environment: the institutional responsibilities, which include the division of responsibilities among different levels of government, for implementing environmental management, including carrying out environmental and social analysis; internal review and clearance procedures such as licensing; consultation processes required; information disclosure; grievance redress mechanisms; supervision and oversight, monitoring, evaluation, and so on; and the relevant rules and procedures and, as needed relevant regulatory framework, applicable to the Program.

Social: the institutional responsibilities for implementing social management, which include the roles and responsibilities for areas applicable to the Program which could include resettlement/land acquisition; procedures for resettlement planning; scope of social assessment and/or social analysis; eligibility for compensation under resettlement and land acquisition programs; supervision; consultation requirement; stakeholder involvement in planning and implementation; communications and information disclosure strategies; grievance redress mechanisms; oversight and monitoring, including indicators and funding of resettlement; Indigenous Peoples rights, procedures and requirements; vulnerable people such as landless or informal settlements; social conflict; international social agreements and treaties; and the relevant legal and regulatory framework and procedures applicable to the Program.

Section III: Program Capacity and Performance Assessment

8. Working from the system description provided in Section II, Section III should summarize the assessment of the capacity of Program institutions to effectively implement the Program environmental and social management system as defined in various rules, procedures, implementing guidelines and so on. Information should be provided which assesses:

- Adequacy of institutional organization and division of labor and the likelihood that objectives of the applicable environmental and social management systems can meet their goals;
- Adequacy of institutional capacity (staff, budget, availability of implementation resources, training, etc.) to carry out defined responsibilities under the applicable Program system;
- Effectiveness of inter-agency coordination arrangements where multiple agencies or multiple jurisdictions are involved; and
- Performance of the implementing agency in ensuring that the rules and procedures are being followed.

Section IV: Assessment of Program System

10. Section IV provides the team's assessment of the extent to which the applicable systems are consistent with the core principles and key planning elements. This section should provide an assessment of where the Program system is inconsistent with relevant core principles and the significance of these gaps. This section would also provide an assessment of the client's intention/commitment to undertake measures to address key gaps.

Section V: Inputs to the Program Action Plan

11. Section V includes a summary of the key measures needed to be taken during implementation. Recommended measures would include, as necessary, helping the counterparts to improve their system performance within their own defined procedures. This may include specific mitigation measures to address particular impacts, or organizational measures to improve overall implementation effectiveness. This could also include recommendations for addressing significant key gaps between the counterpart systems and the PforR core principles and key elements. Recommendations are expected to be incorporated into the Program Action Plan and should be detailed and specific with respect to institutional responsibilities, timeline, and indicators for completion of actions.

Section VI: Environmental and Social Risk Ratings

12. Based on the ESSA findings, and agreed-upon risk mitigation and improvement measures, task teams provide an environmental and social impacts risk rating, the justification for the rating and relevant risk mitigation measures as input to the operation's integrated risk assessment.⁶⁵

Section VII: Inputs to the Program Implementation Support Plan

13. Task teams will work with borrowers to structure the Bank-provided support in the Program's environmental and social areas during the implementation of a PforR operation. Implementation support usually includes:⁶⁶

- Reviewing implementation progress and achievement of Program results and DLIs;
- Helping the client to resolve implementation issues and to carry out institutional capacity building;
- Monitoring the performance of Program systems, including the implementation of agreed E&S strengthening measures in the Program Action Plan; and
- Monitoring changes in Program risks as well as compliance with the provisions of legal covenants.

In collaboration with the client, adapting management practice in a manner consistent with PforR principles as necessary to improve program implementation or to respond to unanticipated implementation challenges.

⁶⁵ For more details, see the Program Integrated Risk Assessment Interim Guidance Note (Chapter Five).

⁶⁶ For more details, see Section VII of the Technical Assessment Interim Guidance Note (Chapter One).

Supplemental Environmental and Social Risk Screening Worksheet

Program definition and scope: *(This section provides a Program definition and describes the scope of the proposed Program, including its major investments, activities, and geographic coverage. One objective of program screening is to determine whether the Program has been defined appropriately – e.g., whether all activities undertaken by Program agencies that may have impacts associated with the Program have been identified and considered.)*

Risk	Assessment
<p><i>Associated or Likely Social and Environmental Effects</i> <i>(This section describes the potential benefits, impacts and risks that are likely to be associated with the Program.)</i></p> <ul style="list-style-type: none"> • Environmental effects: <ul style="list-style-type: none"> ○ Potential loss or conversion of natural habitats? ○ Potential pollution or other project externalities? ○ Changes in land or resource use? • Social effects: <ul style="list-style-type: none"> ○ Nature/scale of involuntary resettlement or land acquisition required? ○ Potential impacts on vulnerable communities? ○ Changes in resource access? ○ Are Indigenous Peoples affected? 	<p><i>Initial risk assessment for environmental effects:</i></p> <p><i>Initial risk assessment for social effects:</i></p>
<p><i>Environmental and Social Context</i> <i>(This section describes the geographical coverage and scope of the Program and environmental and social conditions in the Program area that may have significance for Program design and implementation.)</i></p> <ul style="list-style-type: none"> • Environment: <ul style="list-style-type: none"> ○ Does the environmental setting of Program pose any special challenges that need to be taken into account? ○ Program activities in or near sensitive habitat areas? ○ Potential cumulative or induced effects? • Social: 	<p><i>Initial environmental risk assessment:</i></p> <p><i>Initial social risk assessment:</i></p>

<ul style="list-style-type: none"> ○ Area of social sensitivity such as Indigenous Peoples; vulnerable groups; conflict zones? ○ Potential cumulative or induced effects? 	
<p><i>Program Strategy and Sustainability</i> <i>(This section situates the Program, and its environmental and social management systems, within the country’s broader development strategy, with particular emphasis on identification of factors that may impede successful Program management over time.)</i></p> <ul style="list-style-type: none"> • Strategic context: What is the long-term vision of this Program in relation to the country’s development strategy? • Does it include explicit environmental and social management objectives? • Do Program activities commit, constrain or alter decisions of future generations? • Are there any potential roadblocks to ensuring the environmental and social sustainability of the Program after implementation? 	<p><i>Initial environmental and social risk assessment:</i></p>
<p><i>Institutional Complexity and Capacity</i> <i>(This section describes organizational, administrative and regulatory structures and practices, as they relate to environmental and social assessment, planning and management.)</i></p> <ul style="list-style-type: none"> • Does the Program involve multiple jurisdictions or implementing partners? • Capacity or commitment of counterpart to implement regulations and procedures? • Is there a track record of commitment and implementation experience on environment and social aspects? • Are there any known institutional barriers that would prevent the implementation of this Program? • Is there sufficient institutional capacity to address the environmental and social impacts of this Program? 	<p><i>Initial environmental and social risk assessment:</i></p>
<p><i>Reputational and Political Risk Context</i> <i>(This section describes environmental and social issues, trends or other factors that may cause the</i></p>	

<p><i>program, the country, or the Bank to be exposed to significant reputational or political risk.)</i></p> <ul style="list-style-type: none"> • Potential governance or corruption issues • Are there any political risks associated with this sector or proposed Program? • Is the sector or Program known to be controversial? 	<p><i>Initial environmental and social risk assessment:</i></p>
<p><i>Overall Assessment:</i> <i>(This section describes the overall risk profile for the Program, based on the team’s subjective weighting and aggregation of all factors identified above. Environmental and social risk factors should be summarized separately).</i></p> <p>Is the proposed Program suitable for PforR or would it be better suited to a specific investment loan?</p>	<p><i>Overall initial environmental risk assessment:</i> <i>Overall initial social risk assessment:</i></p>

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Guidance to Teams Regarding Bank-Managed Consultation and Disclosure

Background and Rationale

1. Consultations with stakeholders and the broader public are required for the Program-for-Results (PforR) financing instrument, just as they are under Investment Lending (IL) operations. Many of the purposes of consultation are basically the same in PforR operations as in IL operations.⁶⁷ However, a key difference is that in PforR, the Bank itself is responsible for managing a consultation process, limited in scope to the Bank's own assessment of the Program's environmental and social systems, whereas the client bears full responsibility for managing all consultations during the preparation of an IL operation.
2. This shift in partial responsibility for consultations to Bank teams reflects the fundamental changes incorporated into the PforR approach. Under IL operations, the client prepares environmental and social impact assessments, as well as any necessary environmental or social mitigation plans, with an objective to fully incorporate the entire range of Bank policy prescriptions across all project locations, activities and transactions. In the PforR approach, the Bank relies on client Program rules, policies, and practices to the extent that they are consistent with PforR principles and requires measures to strengthen Program capacity for environmental and social risk management, if significant shortcomings are identified. This approach requires the Bank to base its decisions to provide support on its own assessment of Program capacity (rules/procedures, resources, and performance in practice) against the range of risks or impacts that are likely to be associated with the Program. As the Bank bears responsibility for conducting this environmental and social system assessment (ESSA), the Bank is also responsible for ensuring that relevant stakeholders are consulted regarding the Program's environmental and social risks and impacts and the capacity of Program agencies to manage them effectively. Just as it would be inappropriate to expect a potential client to objectively and thoroughly assess its own capacities, it would be inappropriate to expect a potential client to objectively and thoroughly convey to the Bank results of consultations regarding client capacity.
3. Because PforR operations are assessed against a specific program context, the Bank's approach to consultation must also be adapted to the specific context. This requires:
 - a) Devising a consultation strategy tailored to the specific program and country context;
 - b) Paying attention to the quality of both formal and informal communication processes; and
 - c) Meeting (and documenting) formal consultations and, as appropriate, ensuring that results or consultations are reflected in the final ESSA.

⁶⁷ For further elaboration on objectives and purposes of consultation, see: "Stakeholder Consultations in Investment Operations: Guidance Note," (World Bank, 2012), "Public Consultation in the EA Process: A Strategic Approach," *Environmental Assessment Sourcebook* (World Bank Environment Department Update No. 26, May 1999); *Involuntary Resettlement Sourcebook: Planning and Implementation in Development Projects* (World Bank, 2004); *The World Bank Participation Sourcebook* (World Bank: 1996).

- d) Disclosing the ESSA in draft, and providing a period for public comment prior to ESSA finalization.

Each of these aspects is considered below.

A. Devising a Consultation Strategy

4. Fitting the consultation process to a program context, including the social and political environment in which the program must operate, is a key consideration in meeting the Bank's consultation responsibilities. Bank teams will not be able to rely upon a standard or generic consultation protocol because the programs and the capacities of program agencies will vary widely in PforR operations. Bank teams should formulate an explicit consultation strategy at the start of the ESSA process. Factors that should be included in the strategy include those listed in Box 1 below.

Box 1: Factors to be consider in formulating a consultation strategy

- a) *Who are the key stakeholders and how are they to be affected by the proposed Program?*
- b) *What are the potentially most significant issues to be addressed in the ESSA?*
- c) *Which stakeholders can be consulted informally, and which stakeholders should be involved in formal consultations?*
- d) *Are there political or social sensitivities or constraints to timely and open consultations? Are any key stakeholder groups unable or unlikely to participate in consultations because of exclusionary practices, language, or other reasons?*
- e) *Are there legal issues that may constrain the Bank in conducting formal or informal consultations? If so, how can they be overcome or circumvented so that necessary communications can ensue?*
- f) *What methods will be utilized in consulting with various stakeholders? Consultation can be taken to include informal one-on-one discussions as well as more structured meetings with focus groups or formal public gatherings at various levels of social or political organization. Assuming that the number of potential stakeholders will be large and that they will be dispersed across a wide area, what sampling strategy will be employed to ensure equitable and inclusive consultation?*
- g) *When and how will the consultation process unfold, so that results can be considered in the ESSA drafting and review process? What direct role will the Bank team (or Bank country office) have in arranging and conducting formal aspects of consultation?*
- h) *What facilitating role, if any, will the client (i.e., Program agencies) play in the consultation process? For instance, the Bank team may require logistical support, assistance in identification of interpreters, or other forms of facilitation. If Program agencies are fully open to dialogue, it may be desirable to encourage their presence at or jointly convene the formal consultation meeting. In any case, it will be useful to keep Program agencies informed about the evolving ESSA process, so that they are not caught by surprise when critical findings and recommendations are disclosed to the public.*
- i) *How will the consultation process be brought to the attention of stakeholders, how will their participation be facilitated, and how will the results be documented and reported?*
- j) *What resources are necessary to support consultations?*
- k) *How will the draft ESSA be disclosed?*

5. It is important to distinguish between ESSA consultations, which are the responsibility of the Bank, and the consultation (and disclosure) practices of Program agencies. The Bank is responsible for consultation with regard to the ESSA process only, particularly with respect to environment and social aspects of program activities, as the ESSA is the only output that is the responsibility of the Bank. The client bears responsibility for other consultation processes that may be necessary to inform other aspects of Program design and implementation. The scope of the ESSA includes review of existing consultation (and disclosure) practices and constraints within the client's Program. For a new program, this would include review of proposed program agency arrangements for consultations in program design and implementation of activities. As may be necessary, the ESSA identifies aspects of the Program agencies' consultation practices that require strengthening. In devising its own consultation strategy and scope of the ESSA, the Bank team should ensure that Program agency consultation practices are included within the scope of review.

B. Qualitative Aspects of Formal and Informal Consultations

6. Communicating effectively with stakeholders requires attention to qualitative aspects of the consultation process. Effective consultations are largely subjective in nature; it is not usually possible to determine with precision who should be consulted at what time and in what manner, and what precisely they should be consulted about. However, conducting the consultation process in a pro-forma manner will foreclose opportunity to meaningfully communicate with Program stakeholders and may unnecessarily expose the Bank and Program agency to performance and reputational risks.

7. During the course of preparation, and prior to the finalization of the ESSA, the Bank task team should consult, at least informally, with Program affected people and intended beneficiaries as key stakeholders. These consultations need not be universal or exhaustive in scope but should normally be conducted with a representative sample of affected people or beneficiaries who have either been affected (positively or adversely) from previous Program activities or who would be affected by future operations. These informal consultations are not expected to be conducted on the ESSA document itself (as it may still be under preparation) but rather to help the Bank team assess the operational aspects of the Program. Among other issues which would be discussed with affected people and beneficiaries: (i) understanding of the Program and its intended benefits and potential adverse environmental and social effects; (ii) quality of consultations conducted by Program officials; (iii) availability of Program information; (iv) concerns relating to environmental or social sustainability of the Program; (v) recommendations for mechanisms for communications with Program officials and opportunities for expressing concerns or grievances; (vi) experience with key elements of social and environmental principles articulated in this guidance note; and (vii) recommendations for Program scope or design.

8. Consultation methodologies may be diverse and flexible, using a range of modalities and approaches. However, consultations are expected to be meaningful and credible. The Bank should ensure that any consultation meetings provide adequate notification and lead time to attend meetings; that information is provided in a language and form accessible to those being consulted; that people are provided ample opportunity to express views or concerns; and that minutes and recommendations resulting from those meetings be recorded and properly

documented by the Bank team. A task team seeking to promote an effective communication process with stakeholders during ESSA preparation and review should be attentive to the following considerations:

- a) **Timing:** The Bank’s informal consultation process—meetings, interviews, informal group discussions—should be initiated at an early stage, as part of the preparation of the draft ESSA, so that information obtained can be considered during ESSA finalization. Even when a large volume of secondary source data or Program records are available, direct communication with key stakeholders (which could be experts, critics, or others) is important for validation and updating;
- b) **Scope:** The focus of informal and formal consultation processes should be limited to obtaining and validating information necessary for the ESSA itself; the process may become wasteful or unproductive if topics extend beyond the Program itself, or step into detailed aspects of Program design better left to Program agencies.
- c) **Prior Information:** Those being consulted should have relevant information presented to them in advance so that they are not misinformed and have opportunity to formulate their views.
- d) **Open:** Venues and methods should encourage frank and honest expression of views, preferences and concerns.⁶⁸
- e) **Inclusiveness:** While some form of sampling very often is necessary, the sampling should aim to get a representation of key stakeholder groups. Attention should be paid to geographic dispersion, work patterns, language use and other variables that could unduly limit the ability of groups to participate in consultations. Special effort may be necessary to ensure participation of Indigenous Peoples or other groups who may be politically or socially marginalized, and caution may be necessary in assessing the validity of individuals or groups claiming to represent the interests of others.
- f) **Responsiveness:** The results of informal consultation measures should be considered in ESSA preparation and, as appropriate, discussed with Program agencies. If an immediate response to issues raised by stakeholders is not practicable, some form of follow-up response to stakeholders may be advisable after further consideration of the issues.
- g) **Sequencing and iteration:** Formal and informal steps in the consultation process should be undertaken in a logical manner. Informal measures (such as simple interviews or discussions) may be more appropriate at early stages of ESSA preparation, whereas a formal consultation is required to present draft ESSA findings. Where appropriate, it may be useful to consult with some key stakeholders more than once, to initially obtain their views and suggestions and subsequently to ask whether a draft ESSA responds adequately to their concerns.

⁶⁸ Ensuring that stakeholders are provided sufficient information before consulted, and ensuring that consultation processes allow for frank and open discussion, is consistent with guidance regarding “free, prior and informed consultations” under IL operations.

C. Formal Consultation Requirements

9. Formally, the PforR review and approval process requires that the Bank team consult with key stakeholders on the draft ESSA, including proposed measures to strengthen Program risk management capacity if any have been identified prior to or at appraisal. There is no specific method for identifying “key” stakeholders; each team should determine which stakeholders should be involved in formal consultations. Groups or individuals with whom informal communications have occurred in the course of ESSA preparation need not necessarily be involved in formal consultations. But the overall consultation process (informal and formal) should ensure that views and concerns of intended beneficiaries, groups that may be subjected to risks or impacts, and those with sufficient influence or resources to alter or obstruct Program performance are heard and documented.

10. The form and modality of formal consultation on the draft ESSA may vary depending on the Program context, but should be designed and conducted in a manner consistent with the qualitative guidance provided above. The team should record the issues raised in formal consultations, as well as comments received following public disclosure, in a consultations matrix, identifying date, location, attendance, issues raised, and response provided.

11. For formal consultations, it also is important that arrangements are made to facilitate the involvement of key stakeholders. These arrangements should ensure that:

- a) Announcement or issuance of invitations occurs well before formal consultation dates, so that key stakeholders have ample opportunity to plan for their participation.
- b) If not disclosed before, or at the same time of, the consultation announcement, the draft ESSA is made available to key stakeholders (and the public) with sufficient time to read and consider prior to formal consultations.
- c) The time and venue for formal consultation is reasonably convenient for key stakeholders. If stakeholders are widely dispersed, more than one date and venue may be necessary.
- d) Consultation is conducted in the language in prevalent use among key stakeholders; if more than one language is in prevalent use, interpretation services are provided.

D. ESSA Disclosure Requirements

12. As the consultation process is targeted primarily at key stakeholders, the Bank team also is required to publicly disclose the draft ESSA prior to appraisal so that views of interested members of the broader public may also be considered before all Program decisions are made final. Recommended actions relating to disclosure include:

- a) The Bank team discloses the draft through the Infoshop or country public information center (if available) and through the Bank country office website (if available). If the Bank cannot arrange in-country disclosure through the Bank’s own resources, the Bank team seeks assistance from Program counterparts in assuring in-country disclosure.

- b) The Infoshop discloses the draft ESSA in English. In-country disclosure should be in the national language and, as may be warranted, in languages in prominent use in the program implementation area.
- c) The Bank team establishes a set period of time for which comments will be received and considered before the ESSA is finalized. Under normal circumstances, the comment period should not be less than two weeks.
- d) The Bank team takes appropriate steps to publicize disclosure of the ESSA (including the accessible location of the document and the period it will be available for review).
- e) After the comment period is expired, the Bank team and program counterparts consider comments received. Re-disclosure of the final ESSA is also required through the Infoshop and in-country, but no formal consultation with stakeholders on the finalized ESSA is necessary.

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CHAPTER FIVE: INTEGRATED RISK ASSESSMENT INTERIM GUIDANCE NOTE

1. This guidance note describes the purpose and function of the risk assessment framework for a Program supported by a Program-for-Results (PforR) operation, answering the question as to its objectives and application. It also sets out the framework, prescribes the process in applying the framework, and concludes with its use in decision-making and disclosure.

I. PURPOSE AND FUNCTION OF THE INTEGRATED RISK FRAMEWORK

2. Risk assessment is a key input to (i) the Bank's decision whether or not to go forward with the preparation of a PforR operation, (ii) the appraisal of the Program, and (iii) Bank and borrower monitoring of Program implementation. In preparing the various assessments in the technical, fiduciary, and environment and social areas, task teams assess how well the Program systems are working and identify the areas with performance gaps, including those related to governance, a cross-cutting theme across each of the assessment areas. Each of these assessments provides inputs to the Program integrated risk assessment, which in turn is a key tool for defining (a) the Program Action Plan (PAP)⁶⁹ with specific risk mitigation measures as well as capacity-building and system enhancement activities that the borrower can realistically commit to execute during the implementation of the Program; and (b) the scope and nature of Bank implementation support, taking into account Program risks.

3. Risk assessment is an important aspect of PforR operations. For each operation, a Program integrated risk assessment will be carried out, building on the work done in the various assessments outlined above. The assessment will focus primarily on the risks to achieving the Program development objective(s) (PDO) and results. The risk assessment is a dynamic process starting in early stages of preparation through implementation. This assessment will be an important input for Bank Management to determine and maintain an adequate balance between expected Program results and related risks. It will also help to continuously monitor the evolution of risks; to identify the emergence of new risks; to assess progress in implementing risk management measures and their impact; and, as necessary, to devise appropriate adjustments to support the achievement of Program results. The results of the risk assessment are a key input to the Bank's decision whether or not to go forward with the preparation of a PforR operation, to authorize the operation's appraisal, and to determine the level of Bank implementation support to a Program. If the overall Program risk is deemed to be high, Management may decide not to move ahead with preparation of the operation or raise the decision to the corporate level.

4. The risk assessment also helps ensure consistency across the actions proposed by the various assessments, and that the risk mitigation measures are achieved in a manner that is consistent across the board. Consolidating the risk-related inputs from other assessments, the risk assessment helps ensure that the identified risk management measures, the capacity-building activities and the systems performance measures form a coherent whole to ensure the Program can achieve expected results and that Program risks can be managed. Additionally, the risk assessment provides valuable inputs to the identification of high-risk activities (including those discussed in para. 14 below), which may need to be excluded from PforR support or any adjustments to scope of the government program to be supported.

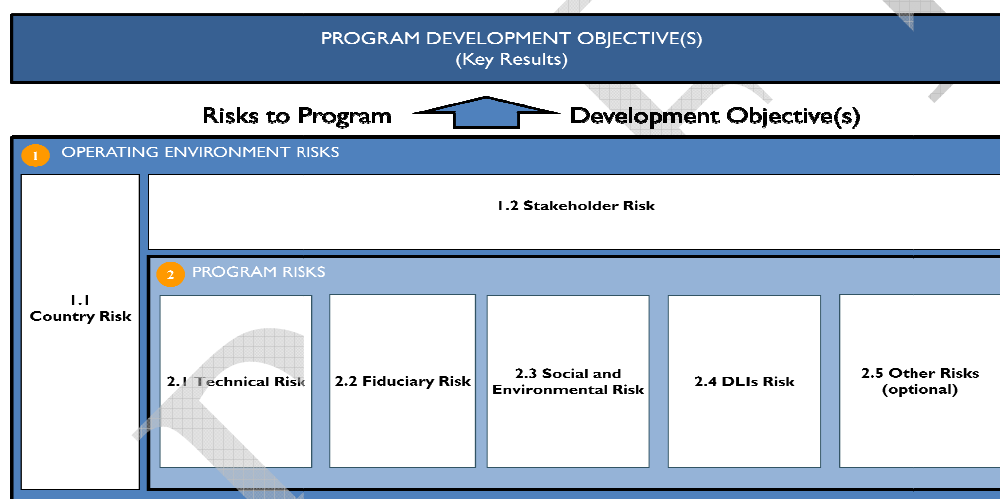
⁶⁹ For more details on the Program Action Plan, see the Overview to the Interim Guidance Notes.

5. Risk assessment is a dynamic process starting with preparation and continuing through implementation completion. Throughout the preparation and implementation of a PforR operation, the risk framework is used in monitoring the evolution of risks; identifying the emergence of new risks; and assessing progress in implementing risk management measures and their impact, working with the authorities and, when feasible, partners to make adjustments as necessary.

II. INTEGRATED RISK ASSESSMENT FRAMEWORK

6. The tool used in risk assessment of PforR operations is a comprehensive, integrated, and nested risk framework that pulls together key risk areas that affect the achievement of the PDO and the related disbursement-linked indicators (DLIs). The framework includes key categories of risks such as the ones presented in Figure 5.1, followed by their descriptions:

Figure 5.1. Integrated Risk Framework



A. Operating environment risks

- *Country risk (1.1).* Country risks include a range of issues. In most cases, country risk cannot be managed at the Program level, but the task team takes them into account as it assesses specific Program risks. For instance, it will examine the extent to which macroeconomic conditions may impact prospects for implementation of the Program and consistency with the government's overall fiscal program. It will also look at issues like political economy, governance (including fraud and corruption), and the independence of civil society. The Country Management Unit (CMU) takes the lead in assessing and rating the country risk, normally in consultation with the country team.
- *Stakeholder risk (1.2).* This risk relates first to stakeholders who are not directly affected by the Program, including the borrower, the government, the general public, key donors, development partners, or influential stakeholders inside or outside the country. The risk could also emanate from vested interests that could be affected by the Program. The risk also relates to directly and indirectly affected operational stakeholders. These types of risks related especially to directly affected stakeholders

(including beneficiaries) might be subject to management in Program design, up front or over time. Some indirect stakeholder risks may not be susceptible to mitigation; these are taken into account and monitored if important. Task teams assess and rate the level of stakeholder risk, and propose risk management measures if the risks can indeed be mitigated under the Program.

B. Program risks

7. At the Program level, there is the most scope for management of risk through *mitigating* and *controlling* risk levels through Program design and *monitoring* and *adjusting* based on continued risk analysis during implementation. Task teams take the lead in assessing and rating Program risks across five dimensions, as well as in proposing risk management measures as appropriate. As governance is a cross-cutting theme, risk evaluation under each of the dimensions takes into account governance risks pertaining to that dimension. Once each risk dimension is rated, task teams derive one overall Program risk rating, which is used in information provided to the public on the program before Bank Board approval.

- *Technical risk (2.1)* relates to the Program’s economic rationale, technical soundness, institutional capacity, implementation arrangements, related governance issues, sustainability, and M&E arrangements.
- *Fiduciary risk (2.2)* relates to the Program’s fiduciary systems arrangements (including fiduciary-related integrity issues) and capacity, including for performance monitoring. It also relates to internal and external controls, as well as audit capacity and arrangements.
- *Environmental and social risk (2.3)* relates to the potential environmental and social impacts of the Program; the system in place; and capacity for avoiding, mitigating, or managing those impacts and risks, including for performance monitoring.
- *DLI risk (2.4)* relates to the Program’s result framework, the selection and level of the DLIs and related risks. The risk assessment will also include assessment of risks associated with the verification arrangements for DLIs.
- *Other risks (2.5)* is an optional Program risk dimension. If task teams feel that there is an important Program risk dimension not covered by the other four areas, they can include it in the integrated risk assessment framework. An example may be the alignment of various programs supported by development partners.

8. **Rating scale and aggregation.** In rating each risk category, the raters take into account two dimensions—likelihood and impact. Using those dimensions, they provide an overall linear rating of “low”, “medium”, “substantial”, or “high”. There is no formula for arriving at the overall Program risk rating and finally at an overall operation risk rating—taking into account Program and operating environment risks. Raters use their judgment based on collective team expertise. It is possible, for example, that one particular category assessed as a high risk makes the overall Program high risk in the estimation of the task team. In other cases, several categories assessed as medium or high might be judged as not seriously endangering the achievement of the Program’s key results and PDO and not taking the Program out of the medium or even low risk

category. A Program in a high-risk country, for another example, may be low risk because of a simple and straightforward design implemented by a well-performing agency.

9. ***Relevant information across stages of application of the risk framework.*** The first risk assessment is prepared for use in decision-making in the Program Concept Note (PCN). In preparing for the PCN, there are two main sources of relevant information:

- *The first is the knowledge of recent operations in the country:* country and sector team knowledge and experience; history and performance of Program implementing agencies; relevant recent economic and sector work; and the compilation of country knowledge that may be documented in, for example, Country Assistance Strategies, governance and anticorruption work, Country Procurement Assessment Reviews, Country Financial Accountability Assessments, and the Country Policy and Institutional Assessment.
- *The second source comes from preliminary technical, fiduciary, and environmental and social effects assessments.* Early findings under each of these assessments are used as inputs to the PCN integrated risk assessment. At the Decision Review stage, the draft assessments are key inputs, as well as other information the task team may gather during Program preparation. During implementation, task team findings from the implementation support process, other information from the borrower, and program audits are key inputs to regular risk assessments.

III. INTEGRATED RISK ASSESSMENT PROCESS

10. The risk assessment process is dynamic. It starts before the Program Concept Review and evolves during preparation and into implementation as new information becomes available and is factored in. Below is a brief description of the process. Attachment 5.1 provides more details on the respective responsibilities of the borrower and the Bank through the life of a PforR operation.

11. ***Initial risk assessment before PCN.*** The risk assessment is based on the task team's joint identification and assessment of the risks that could affect the achievement of the PDO and key results in a manner consistent with the requirements set forth in OP/BP 9.00. It draws on the knowledge and expertise of each task team member and the CMU for country-level risks. Members of the task teams and representatives from the CMU are involved in preparing the integrated risk assessment. A key element to be discussed is whether the risks are balanced with the Program results as initially defined prior to the PCN. If such risks are found to be excessive relative to the expected results, the task team may consider modifying such results, with the objective of presenting in the PCN an adequate balance between Program results expected to be achieved and the risks from not achieving them.

12. ***Views of the borrower and relevant partners in preparing the integrated risk assessment.*** As a means at arriving at a common understanding of the key risks to the PDO and key results (including DLIs), the team dialogue also brings in the views of the borrower and relevant partners. The team discusses the risk assessment process and solicits borrower and partner views and shares the general outcome of the assessment with the borrower and partners, notably in the context of formulating risk management measures.

13. ***Risk ratings based on conditions at time of the assessment.*** The team should select the risk ratings that reflect the situation at the time of the assessment, taking into account only controls, policies, approaches, or borrower's risk management measures that are currently in place and functioning. Ratings can be changed once mitigation measures have been carried out. Since the risk assessment is a dynamic process, teams are encouraged to update the assessment throughout the lifecycle of a PforR operation.

14. ***Excluded high-risk activities.*** The risk assessment process during project preparation includes scanning for activities that are judged to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people and activities that involve procurement of works, goods, and services under contracts whose estimated value exceeds specified monetary amounts (high-value contracts). Such activities should be handled in accordance with the provisions of paragraph 5 of BP 9.00.

15. ***Risk assessment at PCN stage.*** In preparing for the PCN, after completing the initial risk assessment, task teams identify (in consultation with the borrower and relevant partners) the key risk management measures planned to be undertaken during the (a) preparation and (b) implementation periods of the PforR operation. A necessary condition for the success of such measures is ensuring that the borrower is committed to their execution and has the necessary capacity to do so. Not all risks can be mitigated. The focus in risk management is on those risks that have the potential to derail Program implementation and could affect achievement of the key results and that have real potential for mitigation. Some measures may go beyond mitigation to also include capacity building and system enhancements to reduce the risks not only for the duration of the PforR operation but also to prepare the borrower for better dealing with such risks following the conclusion of the operation. The agreed risk mitigation measures will then feed into the PAP and capacity building. At the PCN stage, the risk assessment is one of the key elements in making decisions regarding whether or not (a) to go ahead with the preparation of the operation; (b) to adjust the scope of the Program to manage risks and align with institutional capacity; and (c) to increase the level of corporate review that is needed.

16. ***Updating the integrated risk assessment during preparation.*** As preparation proceeds, the task team updates the risk assessment, taking into account new information and the outcome of risk management measures planned for the preparation period. The task team also defines with the borrower the proposed capacity-building and systems' performance improvement measures to be undertaken during the PforR operation's implementation. The team submits an updated risk assessment and the proposed risk mitigation measures (as part of the PAP) ahead of the Decision Review. At this stage, the risk management measures identified for preparation should have been mostly completed and dropped from the assessment. Risk management measures planned for implementation will be recorded and transferred to the Implementation Status and Results (ISR) Report template for monitoring at least annually. Where key development partners are also engaged with the Program, task teams consult with major partners to ensure that there is one risk framework, as deemed feasible, for the Program and to identify any stakeholder risks that may influence the Program. Teams also discuss the updated risk assessment with the borrower. At the Decision Review, the risk assessment is a key element in decision-making regarding whether or not to proceed with the PforR operation's submission for Board approval and any adjustments that may be needed in terms of scope or action. At that time, it is also important to have an Implementation Support Plan for the operation prepared that takes the risk profile into account.

17. **Updating the integrated risk assessment during implementation.** Given the dynamic nature of risks, task teams (in consultation with the borrower and partners) carry out a comprehensive risk scan using the risk framework at least annually and report the outcome in the ISR. As part of that process, teams monitor the implementation of risk management measures and report whether the planned management measures were implemented and to what extent they were effective. Teams upgrade risk ratings when evolutions under the Program or progress on implementation of risk management measures justify doing so. When a risk management measure is not working, the team consults with and supports the borrower in adjusting the measure or replacing it, possibly restructuring the PforR operation. During implementation, the risk assessment is used by Management to (a) decide, in consultation with the borrower, on potential adjustments to the program, restructuring or closing if needed; and (b) adjust the scope and budget for Bank implementation support.

18. **Emergence of significant risks or significant increase in risk ratings.** During the preparation or implementation of a PforR operation, task teams may come across the emergence of new important risks or sudden and large increase in risk ratings of already identified risks. In such cases, task teams notify Sector and Country Management promptly. They, in turn and when appropriate, may decide to alert Regional Management. If a PforR operation involves other development partners, task teams should also include them in the discussion and updating of the risks.

19. **Risk events.** Risk represents the potential for an undesirable outcome. The risk framework is designed to measure that potential. When that potential becomes actual, Management action moves beyond risk assessment. While not a requirement under the risk assessment framework for PforR operations, teams are encouraged to prepare, jointly with the borrower, a risk event management plan for one or two of the risks that they judge as potentially most damaging. This plan is reviewed at the Decision Review; in certain cases, the Decision Review Chair may instruct the team to prepare a risk event management plan with the borrower and submit it for approval by the Chair following the meeting. In all cases, when a major risk event occurs, the team immediately alerts Sector and Country Management and works with them to prepare and implement a response.

IV. RECORDING THE WORK: RISK ASSESSMENT TEMPLATE

20. Risk assessment work is systematically recorded starting prior to the PCN meeting. After the team discussion (including CMU and SMU representatives), the team uses the PforR Integrated Risk Assessment Template in the PCN, the PAD, and the ISR for recording the pertinent data for all risks at the relevant stages of Program preparation and implementation. As a rule of thumb, the risk assessment for a given PforR operation should not be more than three pages in length.

21. The template is in the form of a matrix with four columns. For each risk assessment category, teams will provide:

- **Risk rating.** Only one rating for each assessment category (including the aggregate Program risk rating): “low”, “medium”, “substantial”, or “high”.

- ***Risk description.*** Teams succinctly describe the risk in a form they find suitable for wider distribution. The description is drawn from the explanation (and does not repeat the definition of the risk dimension in the guiding questions). Teams can identify more than one issue for a specific risk dimension, if needed.
- ***Proposed risk management measures.*** These measures do not affect the risk ratings; the ratings precede risk mitigation. These are carefully and selectively chosen—no more than two measures per risk dimension without justification.
- ***Timing for risk management.*** Task teams decide on risk ratings taking into account when a given risk might be better mitigated (or during the preparation, or during the implementation of a PforR operation).

22. The template also has a space for the teams to record their assessments of the overall Program risk and their overall reasoning. Finally, the template used during implementation will also include a section on experience with the implementation of the risk management measures that Management and the team have identified and flagged for monitoring.

Program Integrated Risk Assessment

Roles and Responsibilities of the Borrower and the World Bank

<i>PforR operation stage</i>	<i>Borrower</i>	<i>World Bank</i>
Identification and Concept	<ul style="list-style-type: none"> ▪ Provide the Bank with relevant information. ▪ Work with the Bank on balancing risks with results, and designing risk mitigation measures. 	<ul style="list-style-type: none"> ▪ Identify and assess risks of the Program not to achieve its expected results in a manner consistent with the Bank's OP/BP 9.00. ▪ Consult recent country/sector operations, ESW, CAS, GAC, etc. to inform assessment, as well as initial work under the technical, fiduciary and environmental and social impact assessments. ▪ Focus on risks that could derail Program implementation and affect the achievement of the Program's key results and that have real potential for mitigation. ▪ Build consensus with borrower risks to results, identify appropriate risk management actions (as feasible at the PCN stage). ▪ Present initial risk assessment as part of the PCN.
Assessment and Appraisal	<ul style="list-style-type: none"> ▪ Inform Bank regarding shifts in existing key risks or emergence of new risks. ▪ Implement risk management measures for preparation with Bank support. ▪ Inform Bank of actual impact of risk management measures implementation. ▪ Begin work on measures to be carried out during implementation. 	<ul style="list-style-type: none"> ▪ Update the risk assessment, taking into account new information (including from the various Program assessments) and outcomes of mitigation measures planned for the preparation period. ▪ Include an updated risk assessment in the draft PAD for the Decision Review, dropping the risk management measures already carried out, and including additional ones as necessary.
Negotiations	<ul style="list-style-type: none"> ▪ Review disclosable version of the risk assessment as part of project negotiations. 	<ul style="list-style-type: none"> ▪ Include the disclosable version of the risk assessment in the PAD included in the negotiations package. ▪ Include a final disclosable version of the risk assessment in the final Board package.
Implementation Support	<ul style="list-style-type: none"> ▪ Inform the Bank regarding shifts in existing key risks or emergence of new risks. ▪ Participate to the Bank's regular scan of risks. ▪ Agree with the Bank on any additional mitigation measure needed to be carried out. 	<ul style="list-style-type: none"> ▪ Transfer the risk assessment into the ISR. ▪ Scan for new risks at least annually and provide update on implementation status and impact of risk management measures. ▪ Inform Bank Management of substantial increase in the risk of the Program not to achieve its expected results, resulting from, among others, emergence of unanticipated events.