AFRICAN DEVELOPMENT BANK GROUP

OPERATIONAL GUIDELINES ON THE IMPLEMENTATION OF THE BANK GROUP’S RESULTS-BASED FINANCING POLICY

STRATEGY AND OPERATIONAL POLICIES DEPARTMENT (SNSP)

November 2017
OPERATIONAL GUIDELINES ON THE IMPLEMENTATION OF THE BANK GROUP’S RESULTS-BASED FINANCING POLICY

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RBF
Results-Based Financing
African Development Bank Group
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<th>Abbreviation</th>
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<tr>
<td>AAA</td>
<td>Accra Agenda for Action</td>
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<td>ADB</td>
<td>African Development Bank</td>
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<td>ADF</td>
<td>African Development Fund</td>
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<td>AfDB</td>
<td>African Development Bank (Bank Group)</td>
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<td>AsDB</td>
<td>Asian Development Bank</td>
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<td>BDEV</td>
<td>Independent Evaluation Department</td>
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<td>CES</td>
<td>Climate, Environment and Social Safeguards</td>
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<td>CFRA</td>
<td>Country Fiduciary Risk Assessment</td>
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<td>COs</td>
<td>Country Offices</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
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<td>CSS</td>
<td>Climate Safeguards System</td>
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<td>DLIs</td>
<td>Disbursement-Linked Indicators</td>
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<td>DPs</td>
<td>Development Partners</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ESW</td>
<td>Economic and Sector Work</td>
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<td>FM</td>
<td>Financial Management</td>
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<td>FMS</td>
<td>Financial management specialist</td>
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<td>FSF</td>
<td>Fragile States Facility</td>
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<td>GCI</td>
<td>General Capital Increase</td>
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<td>IADB</td>
<td>Inter-American Development Bank</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IFIs</td>
<td>International Finance Institutions</td>
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<td>Interim Financial Reports</td>
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<td>IL</td>
<td>Investment Lending</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPF</td>
<td>implementation progress and results report</td>
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<td>ISS</td>
<td>Integrated Safeguards System (ISS)</td>
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<td>LICs</td>
<td>Low Income Countries</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>Multilateral Development Banks</td>
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<td>MICs,</td>
<td>Middle Income countries</td>
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<td>MTEF</td>
<td>Medium Term Expenditures Framework</td>
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<td>NDP</td>
<td>National Development Plan</td>
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<td>PAR</td>
<td>Program Appraisal Report</td>
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<td>PAP</td>
<td>Program Action Plan</td>
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PB          Programmatic Budgeting
PBA         Performance-Based Allocations
PBOs        Program-Based Operations
PCN         Program Concept Note
PCR         Project Completion Report
PDLs        Performance-Driven Loans
PDO         Program Development Objectives
PFM         Public Financial Management
PforR       Program for Results
PFS         Program Financial Statement
PRS         Poverty Reduction Strategy
PRSPs       Poverty Reduction Strategy Paper
RBF         Results-Based Financing
RBL         Results-Based Lending
RDGs        Regional General Directorate
RMCs        Regional Member Countries
SAI         Supreme Audit Institution
SDGs        Sustainable Development Goals
SMCC        Senior Management Coordination Committee
SWAPs       Sector-Wide Approaches
TMs         Task Managers
WB          World Bank
# TABLE OF CONTENTS

**ACKNOWLEDGEMENTS** ....................................................................................................................................... 1

**PURPOSE OF THE GUIDELINES** ........................................................................................................................... 1

**A. RESULTS-BASED FINANCING CONTEXT** ...................................................................................................... 3

1. **INTRODUCTION** ........................................................................................................................................... 3

2. **RATIONALE FOR RESULTS-BASED FINANCING** ........................................................................................ 3

   2.1. Increased Development Effectiveness ........................................................................................................ 3

   2.2. Shift in Development Paradigm ................................................................................................................... 4

3. **RESULTS-BASED FINANCING IN MULTILATERAL DEVELOPMENT BANKS** ............................................. 4

   3.1. RBF in MDBs ................................................................................................................................................ 4

   3.2. World Bank’s Program-for-Results financing (PforR) .................................................................................. 5

   3.3. Asian Development Bank’s Results-Based Lending (RBL) ........................................................................ 6

   3.4. Inter-American Development Bank’s Performance Driven Loans (PDLs) .................................................... 6

   3.5. African Development Bank’s Results-Based Financing (RBF) .................................................................. 7

**B. OPERATIONS CYCLE MANAGEMENT OF RESULTS-BASED FINANCING** ............................................ 10

4. **ROLE OF COUNTRY STRATEGY PAPERS** .................................................................................................. 10

   4.1. Decision to use RBF .................................................................................................................................... 10

   4.2. Determining Eligibility ................................................................................................................................. 11

   4.3. Strengths of the RBF Operation .................................................................................................................... 11

   4.4. Assessing Potential Risks .............................................................................................................................. 11

   4.5. Defining the Program .................................................................................................................................. 12

   4.6. Estimated Cost ............................................................................................................................................. 12

5. **IDENTIFICATION** .......................................................................................................................................... 12

6. **PREPARATION/ASSESSMENTS** ................................................................................................................... 13

   6.1. Key Assessments .......................................................................................................................................... 13

   6.2. Technical Assessment ................................................................................................................................... 15

   6.3. Fiduciary Systems Assessment .................................................................................................................... 24

   6.4. Climate, Environmental and Social Impacts Assessment .............................................................................. 28

   6.5. Integrated Risk Assessment .......................................................................................................................... 35
6.6. Strengthening Institutional Capacity ................................................................. 36
6.7. Supporting Capacity Building and Technical Assistance .................................... 36
6.8. Addressing Material Weaknesses Revealed by the Assessments ......................... 37
6.9. Finalizing Preparation/Assessments ................................................................. 38

7. APPRAISAL AND APPROVAL OF RESULTS-BASED FINANCING OPERATIONS .... 38
7.1. Appraisal/Program Appraisal Report .............................................................. 38
7.2. Program Action Plan .......................................................................................... 39
7.3. Disbursement-Linked Indicators ....................................................................... 39
7.4. Economic Justification ....................................................................................... 48
7.5. Overall Judgment in Determining the Fit of an RBF operation ........................... 49
7.6. Finalizing Appraisal ......................................................................................... 49

8. NEGOTIATIONS, APPROVAL AND SIGNING ................................................... 49
8.1. Negotiations ..................................................................................................... 50
8.2. Approval .......................................................................................................... 50
8.3. Signing and Effectiveness ................................................................................. 51

C. IMPLEMENTATION OF RESULTS-BASED FINANCING .................................... 51

9. OVERALL GOVERNMENT AND BANK RESPONSIBILITIES. .............................. 51
9.1. Government’s Role ........................................................................................... 51
9.2. Bank’s Role ...................................................................................................... 51
9.3. Performance Management ............................................................................. 52
9.4. Reviewing Progress ......................................................................................... 52
9.5. Capacity-Building Support ............................................................................. 52
9.6. Achievement of Results .................................................................................. 53
9.7. Monitoring Risks .............................................................................................. 53
9.8. Restructuring .................................................................................................... 53
9.9. Remedies .......................................................................................................... 53
9.10. Additional Financing ....................................................................................... 54
9.11. Program Completion ....................................................................................... 54

D. CONCLUSION AND RECOMMENDATION ......................................................... 55
ANNEX 1: DEFINING THE RBF PROGRAM ................................................................. 56
ANNEX 2: PROGRAM ASSESSMENTS ................................................................... 58
ANNEX 3: THE PROGRAM ACTION PLAN (PAP) ............................................... 60
ANNEX 4: ASSESSMENT OF BENEFITS AND RISKS .......................................... 61
ANNEX 5: PERFORMANCE ISSUES AND REMEDIES ........................................ 62
ANNEX 6: ROLE OF CORPORATE OVERSIGHT UNITS .................................... 63
ANNEX 7: SOME EXAMPLES OF RESULTS-BASED FINANCING SCHEMES ....... 64
ANNEX 8: INDICATIVE OUTLINE FOR STRATEGIC ENVIRONMENTAL AND SOCIAL ASSESSMENT (SESA) OF RBF OPERATIONS ........................................... 67

List of Tables
Table 1: Main Features of MDBs Results Based Financing instruments ....................... 8
Table 2: Summary of Assessments by Key Processing Stages ..................................... 14
Table 3: Assessing incentives for Program stakeholders: Indicative questions .......... 16
Table 4: Illustrative Indicators for Assessing Government Commitment ................. 17
Table 5: Indicative Questions for the Expenditure Review ..................................... 19
Table 6: Results Definitions for RBF Operations .................................................... 20
Table 7: Illustrative Examples of Results Indicators for Select Sectors .................... 21
Table 8: Illustrative Questions on Program Results Framework .......................... 22
Table 9: Illustrative Questions on Program Results Framework .......................... 22
Table 10: Summary of Approaches for M&E Systems Strengthening ..................... 23
Table 11: Cross-Cutting Considerations in Conducting a Fiduciary Systems Assessment 26
Table 12: Fiduciary Systems Assessment ............................................................... 27
Table 13: Recommended considerations in SESA ................................................ 31
Table 14: Key CES Actions during Program Cycle .................................................. 33
Table 15: CES Systems Assessment Roles and Responsibilities of the Bank and Governments 34
Table 16: Roles and Responsibilities vis-à-vis Program Integrated Risk Assessment .......... 37
Table 17: DLI Verification Protocol .................................................................... 42
Table 18: Disbursement – Linked Indicators Matrix ............................................. 44
Table 19: Bank Disbursement Table .................................................................. 47
ACKNOWLEDGEMENTS
These Guidelines have been prepared by the Strategy and Operational Policies Department in close collaboration with various departments across the Bank, primarily the General Counsel and Legal Services Department, Operations Committee Secretariat, Procurement & Fiduciary Services Department, and the Departments in charge of Results as well as Climate, Environment and Social Safeguards. The Guidelines have drawn upon broad consultations with Bank staff in the field/regional offices and Headquarters, as well as benefitted from numerous discussions with, and contributions received from, external stakeholders. The guidelines have also drawn extensively upon best practices and guidance from sister multilateral development banks (MDBs), notably the Asian Development Bank, Inter-American Development Bank and the World Bank. Staff of these MDBs have also played a major role in shaping the guidelines based on their lessons learnt thus far from implementing results-based financing instruments. As Guidelines, this is a “living document” that will periodically be subjected to improvements and modifications, as and when necessary, in response to evolving needs of Regional Member Countries (RMCs) and lessons learnt from the Bank’s operations and international best practice. Thus, comments, questions and suggestions relating to these Guidelines are keenly welcome, and should be sent to k.kapoor@afdb.org or m.diene@afdb.org or n.alhassanalolo@afdb.org.

PURPOSE OF THE GUIDELINES
These Guidelines complement the Results-Based Financing (RBF) Policy and provide practical guidance on the design and implementation of RBF in the Bank. As such, the Guidelines, to the extent possible, do not repeat what is already in the Policy, and should therefore be used in tandem with the RBF Policy. In this regard, the Guidelines are intended to promote internal consistency and clarity of approach in the design and implementation of RBF operations, while providing the required operational flexibility to meet the dynamic and diverse situations in RMCs. The Guidelines are not supposed to provide binding rules but are intended to highlight good practice and extract lessons learned from the operationalization of the RBF instrument by other multi-lateral development Banks. It is recognized that, as Guidelines, there may be need to use them in different ways by Bank staff involved in various stages of the RBF program cycle. However, no matter how the Guidelines are used, it is crucial to use them in a collaborative manner involving major stakeholders in RBF, especially the RMCs and development partners (DPs). These Guidelines will also be used, as necessary, in conjunction with other key Bank Group operational guidance documents such as the Staff Guidance on Quality at Entry Criteria and Standards (2010) and relevant Presidential Directives.

TARGET USERS OF GUIDELINES
These Guidelines are designed for staff involved in the identification, preparation, appraisal, negotiation/approval and implementation and review of operations using the RBF instrument. This includes Task Managers (TMs) in sector departments and other staff involved in Task Teams, peer reviewers, country team (CT) reviewers and compliance reviewers of the Bank’s operations; as well as staff of country offices (CO) and Regional General Directorates(RGDs) who will be actively involved in the design and
implementation of RBF operations. A new template for appraisal has been developed and appended to these Guidelines. RBF operations will use the Bank’s existing templates for Project Concept Note (PCN) and Project Completion Reporting (PCR) because they are fairly generic to capture the key information required by the Bank at these stages of the program cycle. Detailed guidance on implementation progress and results report (IPR) and program completion will be developed in collaboration with the Department in charge of Results and other relevant Bank Units. The relevant department in charge of Quality assurance will lead in the alignment of the Bank’s quality assurance tools (such as QE standards) with the RBF instrument. Once completed, such guidance will be appended to the Guidelines as annexes.
A. RESULTS-BASED FINANCING CONTEXT

1. INTRODUCTION

1.1. The Bank has proposed to the Board the introduction of a new lending instrument – Results-Based Financing (RBF) – to support government programs. When approved, RBF will support government-owned sector programs and link disbursements directly to the achievement of program results (See Annex 1 for the definition of a program). Designing and implementing RBF supported programs will involve ex-ante assessments of the program and its systems, ex-post (independent) results verification, and systematic institutional development. RBF will primarily aim at increasing accountability and incentives to deliver and sustain results, improving the effectiveness and efficiency of government-owned sector programs, promoting institutional development, and enhancing development effectiveness. RBF will further seek to support coordination and harmonization with other development partners involved. It will also seek to explore collaborative opportunities with emerging donors and other new actors on the development landscape, such as Foundations.

1.2. In this regard, once the Board approves the RBF Policy, these guidelines will be used to operationalize the instrument in terms of designing and implementing RBF operations. Therefore, these guidelines have been structured to provide guidance about RBF program cycle and highlight its defining features in terms of linking payments with results.

2. RATIONALE FOR RESULTS-BASED FINANCING

2.1. Increased Development Effectiveness

2.1.1. As afore-mentioned, RBF aims to strengthen incentives and accountability for results. Payments are based on what is delivered, rather than on evidence of expenses incurred. Essentially, the achievement of results is directly financed, not the inputs by an implementing entity to achieve the results. The lack of results can lead to either reduced, delayed, or no payments to those responsible for delivering the results. Thus, RBF helps to strengthen accountability for results and align the incentives of people responsible for delivering results with those who will benefit from the results.

2.1.2. There are calls globally for governments and development partners to deliver measurable results, as better results are fundamental to fiscal sustainability, poverty reduction, and inclusive/transition to green growth. RBF provides opportunities to enhance the achievement of development results.

2.1.3. Additionally, the pursuit of enhanced institutional development is driving the growing use of RBF among development partners. Development effectiveness hinges both on the availability of resources and
the soundness of RMC institutions to develop and implement policies, and manage public resources. RBF emphasizes the importance of public institutions in achieving and sustaining development results by supporting the development of sound institutions and delivering development results, which are two essential complementary elements of sustainable development.

2.1.4. Recent reviews by the World Bank and the Asian Development Bank (AsDB) reveal that the RBF is well suited to both infrastructure and non-infrastructure sectors. It could also be suitable for new sectors and themes, as they emerge. Climate change and carbon finance interventions, for instance, could easily lend themselves to results-based approaches, through disbursements for carbon emission reductions, energy efficiency improvements, or increased use of renewable energy. Since international negotiations on climate change focus more on measurable, reportable, and verifiable results, the adoption of RBF in climate change mitigation operations will be increasingly relevant.

2.2. Shift in Development Paradigm. Since the 1990s, development finance has been characterized by evolving dialogue on improving results and development effectiveness, which has led to consensus at various fora, including the Monterrey Consensus in 2002, the Rome Declaration on Harmonisation in 2003, the Marrakesh Roundtable on Managing for Development Results in 2004, the Paris Declaration on Aid Effectiveness in 2005, the Accra Agenda for Action in 2008, and the Busan Partnership for Effective Development Co-operation in 2011. The major international development partners, including the Bank Group, have committed to measuring development effectiveness by achieving results, supporting institutional development, strengthening partnerships, enhancing country ownership, and harmonizing development initiatives. The RBF instrument provides the modality for partners to scale up their commitments on these.

3. RESULTS-BASED FINANCING IN MULTILATERAL DEVELOPMENT BANKS

3.1. RBF in MDBs
Results-based financing approaches have been popular with bilateral agencies for some time now, although multilateral development banks (MDBs) are only introducing RBF as a financing modality in recent years.1 The Inter-American Development Bank (IADB) introduced its results-based financing instrument - called performance-driven loans (PDLs) - in 2003 as a pilot and approved its second pilot RBF instrument in December 2016 which it calls Loan-Based on Results (LBR). The World Bank introduced its own version of RBF in 2012, called Program-For Results (PforR), while the Asian Development Bank introduced its Results-Based Lending (RBL) in 2013. (see Annex 7 for examples of RBF schemes).

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1 Note that various bilaterals and MDBs have different names for the results-based financing instrument.
3.2. World Bank’s Program-for-Results financing (PforR).

The World Bank approved the Program-for-Results financing instrument in January 2012\(^2\) to support government development programs, using results as the basis for disbursements, and promoting institutional development in the process. As of April 2017, the World Bank had approved 57 PforR operations totaling $13.8 billion. An early stage assessment of the PforR instrument by the Independent Evaluation Group (IEG) of the World Bank reveals the following:

- **The structure of assessments for the PforRs has proven to be appropriate.** The technical, fiduciary, and environmental and social assessments have generally been credible and comprehensive. The results frameworks, disbursement-linked indicators (DLIs), and program action plans (PAPs) are often reasonably coherent, and risks related to PforR operations have generally been well identified and assessed.

- **It is too early to derive conclusions about the efficiency of PforRs relative to other Bank Instruments.** Countries have been eager to rely on their own financial management systems and procedures. There may be increased positive externalities/public good aspects from strengthened country systems. Overall, however, there is not yet sufficient evidence to derive any conclusions about the overall efficiency of PforRs.

- **The high environmental and social risk exclusion has sometimes been interpreted in an overly cautious manner.** This has led to the avoidance in PforRs of investments that would normally be integral to the supported government programs. This which raises a concern of how such investments will be handled if they are not subject to the oversight associated with Bank involvement.

- **Implementation performance has been uneven.** One reason may be that there is in practice no penalty for slow or poor implementation of Program Action Plan (PAP) items, except for the actions linked to DLIs and effectiveness conditions. Both in the country monitoring processes and in some aide-memoires, there is a tendency to focus on the DLIs, with less systematic attention to the PAP items and also to the indicators in the results frameworks.

- **The DLI indicators are not always well integrated with results frameworks.** In order to ensure a higher likelihood of achieving the ultimately desired developmental results, more consistent linking of the DLIs to the results frameworks and a clearer line of sight to the longer term objectives will be required.

- **PforRs appear to be making progress with the management of all kinds of program risks.** The Implementation Status and Results reports (ISRs), however, do not adequately reflect the frequency of delays, and they provide no information on the environmental and social effects of the operations.

- **DLIs try to achieve several partially offsetting objectives**, including as triggers for disbursements, with a need for predictability, and as incentives for performance towards targets. There is an inherent tendency to shift the balance towards the disbursement objective. It is therefore essential to strike the right balance between the disbursement and incentive objectives of DLIs.

- **Ownership and partnership have been well addressed in the program documents.** There is a considerable degree of government ownership of the programs under implementation. However, there is no evidence yet that the instrument has encouraged a broader use of the strengthened

country systems beyond the programs supported by the PforRs, or mobilized much additional financing by other donors.

The above findings from the IDG evaluation has led the Board of Executive Directors of the World Bank to amend a number of PforR policy provisions, including the procurement exclusion policy which has now been revised to allow for the inclusion of high value contracts when these are critical in the results-chain pathway and the overall monetary value of the contracts are deemed modest in relation to the overall value of the loan.

3.3. Asian Development Bank’s Results-Based Lending (RBL)

The Asian Development Bank (AsDB) also introduced its Policy on RBL, with similar features as the World Bank. As of June 2016, ADB had approved nine operations totaling USD$1.9 billion in lending. The initial set of operations tended to be in the social sector, but newer operations have expanded to other sectors such as energy, transport and urban development. Demand for the instrument is increasing with about 24 RBL programs worth over USD$8 billion in the pipeline.

Preliminary results from AsDB’s mid-term review\(^3\) of its RBL instrument in 2016 revealed the following:

- Jointly defining disbursement-linked indicators with government has contributed to establishing more realistic targets for RBL programs.
- Focus during implementation has shifted from day-to-day transactional issues to a broader engagement of technical issues, which has contributed to strengthening planning and implementation processes.
- RBL operations have tended to have faster programming and disbursement when compared to other financing instruments. The approved operations took on average 6.7 months for approval (compared to the overall ADB 7.0 month average). However, although less time was needed, more specialists participate in the design of the project, particularly for conducting the necessary assessments. The ADB average time from approval to first disbursement of RBLs was 6.4 months compared to 13.9 months overall. Implementation requires shifting the dialogue from contract and procurement supervision to more technical and policy discussions. This led to more staff time being required during implementation.

Thus far, AsDB is not expected to change the key features of its instrument for its second pilot phase. However, from the lessons learned during the first three years of implementation, AsDB is recommending the following: (a) to increase the use of DLIs that refer to institutional strengthening (systems and institutions); (b) increase harmonization with other development partners through the adoption of common results-areas; (c) increase training and knowledge sharing for staff preparing this type of loans, and (d) review the procurement contract thresholds.

3.4. Inter-American Development Bank’s Performance Driven Loans (PDLs)

The IADB adopted its policy on PDLs in 2003 as a six year pilot instrument, with key features including: (i) disbursement based on meeting results targets; (ii) results defined by outcomes; (iii) results audited by independent performance reviewers; and (iv) use of country systems for procurement. Only 19 operations were approved during the pilot phase (of 13 years) in agriculture, technological development, education, governance, health and infrastructure (Figure 1). The underlying principle of the PDL was to promote the achievement of development results. However, the instrument also required verification of eligible

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\(^3\) See AsDB (2016), \textit{Midterm Review of Results-Based Lending for Programs}. Manila, Philippines.
expenditures in addition to the independent verification of the agreed-upon development results. This created a double burden for the government compared to a regular investment loan and partially explains the low demand for the instrument. The second shortcoming of the IADB’s first pilot phase instrument was the definition of final results that took too long to be achieved and where the attribution to IADB financing proved to be challenging. 4 Findings and recommendations stemming from the lessons learnt during the first pilot phase included:

- The double burden of verification of results and expenditures translates to unnecessary transaction costs for both the IADB and the governments which is not consistent with the principle of results based financing.
- The need to have well-defined operational guidelines that provide guidance to Bank’s personnel on how to conduct the required assessments (technical, fiduciary, procurement, legal, etc.), the process for defining the indicators linked to disbursements and guidelines and terms of reference for conducting the assessment and verification of results.
- The institutional capacity of the executing agencies is crucial for the implementation of projects of this type of financing mechanism. Actions that promote institutional capacity should be included as part of the loan – particularly when such actions contribute to achievement of results.

In December 2016, the IADB approved its Loan-Based on Results as a second pilot for six years, taking into account the lessons learned from its own implementation of PDLs in the first phase and those of other MDBs.

3.5. African Development Bank’s Results-Based Financing (RBF)

Shaped by its commitment to development effectiveness, the Bank Group has laid out its strategic framework, through its Ten-Year Strategy (TYS 2013-22) and the President’s High-Fives5, to chart the course for Africa’s socio-economic transformation. These provide the required impetus to transform the Bank’s core business model, underpinned by higher level commitments to values such as, responsiveness to RMC needs, recognition of country ownership, commitment to development partnerships, and accountability and focus on results. With its ambitious reform agenda, as outlined in the TYS, the Bank is poised to become a more effective, responsive, relevant, and results-focused organization.

3.5.1. Through its Development Effectiveness Review, the Bank is able to track, annually, the achievements in meeting its results targets. Recent reviews have revealed both successes and opportunities for improvement in Bank operations, especially in delivering outcomes. Therefore developing new and innovative financing modalities and improving operational efficiency are integral to the Bank’s reforms to increase development effectiveness.

3.5.2. Operations. Despite not having a dedicated RBF policy instrument, the African Development Bank collaborated with other development partners to incorporate RBF components into some of its investment lending and grant financed projects. Such projects included, the Water and Sanitation Project in Liberia (2010), and the Three Towns Water and Sanitation Project in Sierra Leone (2010), where Social Revolving

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4 See IADB (2016) “Proposal To Establish The Bank’s Sovereign Guaranteed Loan Based On Results.
5 Five priorities that will drive the Bank’s work as it implements its current 2013-2022 Strategy: “Light up and Power Africa; Feed Africa; Integrate Africa; Industrialize Africa; and Improve quality of life for the people of Africa.”
Funds (SRF) were established to pre-finance water connections as a pro-poor strategy to extend access to clean water. Such projects had specific features that linked the Bank’s disbursements directly with clearly defined DLIs. The basic concept that underpinned the RBF parts of these projects was “cash transfers”, output-based aid, and performance-based contracts.

3.5.3. Lessons. The Bank’s experience has revealed lessons attesting to the need for a dedicated policy framework on RBF. In fact, the Bank has missed out on a number of opportunities to the lack of an enabling policy framework. This was the case when Coca Cola, for instance, expressed interest to partner with the Bank to promote clean water and decent sanitation for sustainable communities in targeted African countries through the Replenish Africa Initiative. Thus, in the absence of clear policy and guidelines, operations involving RBF were processed differently for each project. Because disbursements were often linked with both results and expenditures for inputs under such “hybrid” projects, it limited the Bank’s impact and timely contribution to government programs due to lengthy and complex procedures.

3.5.3.1. Just as with the other MDBs, the Bank has learnt fundamental lessons from mixing RBF features into investment lending projects. These have included:

- **High transaction costs.** This involves a double layer of controls often required to ensure that the operations comply with both government and the Bank requirements, thereby imposing additional transaction costs without additional value. Internal processing costs became excessive, and diverted time and attention away from substantive matters.

- **Inconsistency.** The process is characterized by confusion and inconsistency in its application because of the lack of clear policies and guidance.

- **Missed opportunities to improve government programs.** Operations were designed in a biased manner towards activities that were easier to accommodate within investment lending procedures rather than those driven by delivering results. Hence, there was limited opportunity to partner with a country to improve the effectiveness and efficiency of its entire program.

The main features of MDB’s current results-based financing instruments are highlighted in Table 1 below vis-à-vis the Bank’s proposed instrument.

<table>
<thead>
<tr>
<th>Institution:</th>
<th>AsDB</th>
<th>IADB</th>
<th>World Bank</th>
<th>Proposed for AfDB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting year:</td>
<td>2013</td>
<td>2016</td>
<td>2012</td>
<td>October 2017</td>
</tr>
<tr>
<td>Exclusions/Exceptions:</td>
<td>Social &amp; Environment Category A excluded.</td>
<td>Same as AsDB.</td>
<td>Same as AsDB.</td>
<td>Same as AsDB (Category 1 excluded).</td>
</tr>
<tr>
<td>High value contracts excluded.*</td>
<td>High value contracts can be included if deemed necessary to achieve the program results and are less than 25% of the total lending.</td>
<td>High value contracts excluded but exceptions given if adequately justified.</td>
<td>High value contracts – but exceptions will be given if adequately justified.</td>
<td></td>
</tr>
</tbody>
</table>

*High value contracts are considered to be greater than 25% of the total lending.
<table>
<thead>
<tr>
<th>Total Resource allocation for RBF programs:</th>
<th>Limited to 5% of total Ordinary Capital Resources (OCR) and Asian Development Fund (ADF) resources for the first 3 years, from the date of policy effectiveness.</th>
<th>Limited to no more than 10% of Bank resources allocated for the financing of investment lending operations in a given programming year.</th>
<th>Initially limited to 5% of IBRD/IDA commitments for the first two years from Board approval. Recently revised to 15% to accommodate increased demand for the instrument.</th>
<th>Limited to 5% total ADB/ADF resources for stand-alone operations and additional 5% if co-financed with other development partners during the pilot phase.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessments</td>
<td>Technical Fiduciary Systems Social &amp; environment safeguards.</td>
<td>Same as AsDB.</td>
<td>Same as AsDB.</td>
<td>Same as AsDB.</td>
</tr>
<tr>
<td>Scope</td>
<td>Programs can be new, on-going, sectoral, multi-sector, sub-sector, national or sub-national.</td>
<td>Same as AsDB.</td>
<td>Same as AsDB.</td>
<td>Same as AsDB.</td>
</tr>
<tr>
<td>Levels of results indicators</td>
<td>Outputs, intermediate outcomes, outcomes, impact, Process, and financing indicators.</td>
<td>Outcomes and Intermediate Outcomes**</td>
<td>Same as AsDB</td>
<td>Same as AsDB</td>
</tr>
<tr>
<td>Theory of change analysis</td>
<td>Not required.</td>
<td>Required for staff to determine the theory of change that leads to results, estimating costs, identifying indicators, setting targets and defining the result verification process as well as managing risks.***</td>
<td>Not required</td>
<td>Not required</td>
</tr>
<tr>
<td>Financing prior results (retroactive financing):</td>
<td>Up to 20% of total loan/grant amount can be used to finance results (DLIs) achieved before the effectiveness of the operation.</td>
<td>Up to 15% of total loan/grant amount can be used to finance results achieved between the approval date of Project Profile and loan eligibility date.</td>
<td>Up to 25% of total loan/grant amount can be used to finance DLIs met between date of the Program Concept Review and legal agreement date.</td>
<td>Up to 25% of total loan/grant amount can be used to finance DLIs met between date of the Program Concept Review and the date of signature of the legal agreement based on a prior agreement between Bank/Fund and the Borrower/Recipient.</td>
</tr>
<tr>
<td>Advance disbursement</td>
<td>25% of total loan amount.</td>
<td>Up to 15% of total loan amount.</td>
<td>Up to 25% of total loan amount.</td>
<td>Up to 25% of total loan amount.</td>
</tr>
<tr>
<td>Cumulative upfront disbursement</td>
<td>Both advances and retroactive financing must not exceed 30%</td>
<td>Both advances and retroactive financing must not exceed 25%</td>
<td>Initially both advances and retroactive financing were not to exceed 30%.</td>
<td>Both advances and retroactive financing must not exceed 30% of...</td>
</tr>
</tbody>
</table>
3.5.4. Incorporating lessons. Incorporating these lessons into the proposed Bank instrument on RBF, the Bank will build flexibility into program design and implementation for continuous improvement. As a new lending instrument to be positioned between the Bank’s investment instrument and program-based operations (PBOs), the RBF modality would fill the gaps and complement, not replace, the existing instruments. The instrument will provide the Bank with unique opportunities to address sector-wide challenges more effectively, and broaden the choice of instruments for both the Bank and RMCs, tailored to country needs and challenges.

3.5.4.1. Furthermore, the RBF instrument will be suitable for supporting delivery of results in a sector program, and using and improving the program’s institutions and systems to bring about the behavioral and institutional changes necessary for delivering and sustaining results. A program will require expenditures to deliver results, which the Bank’s financing will support. The cornerstone of RBF will be the achievement of results and institutional development.

B. OPERATIONS CYCLE MANAGEMENT OF RESULTS-BASED FINANCING

4. ROLE OF COUNTRY STRATEGY PAPERS

4.1. Decision to use RBF

4.1.1. The decision to extend an RBF instrument will originate from the RMC’s request to use RBF as its preferred financing instrument. This request will be initiated during or prior to the preparation of a Country Strategy Paper (CSP) or Joint Assistance Strategy (JAS). The request may also come during the mid-term review (MTR) of a country strategy paper. Upon request, the first and foremost consideration for the Bank’s task teams should be whether the proposed RBF falls within the financing ceiling established for the instrument. In order to mitigate risks on this new instrument while, at the same time, ensuring that there are sufficient resources available to meet the envisaged demand for RBF, there will be a cap of 5% ceiling on the total African Development Bank (ADB) and African Development Fund (ADF) resources for Bank-only financed RBF operations. If the Bank is co-financing with other development partners, such as the World Bank, this ceiling can be extended by an additional 5%. Cumulatively, both AfDB stand-alone

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* High value contracts are activities above set procurement thresholds. The amount for High value contracts are: $50 million for works, turnkey and supply, and installation contracts; $30 million for goods; $20 million for information technology systems and non-consulting services; and $15 million for consulting services.

** This has made it difficult for IADB to use RBF for new programs because of the emphasis on outcomes.

*** This has posed a number of challenges in the design of LBR operations and IADB management is considering an addendum to the Board to revise this requirement.

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6 Where the Bank is co-financing with the World Bank or other partners, staff should ensure that the program development process is done simultaneously with the partner to enhance learning. This will include joint
operations and AfDB co-financed RBF operations should not exceed 10% of the total ADB and ADF resources during the pilot phase of 5 years.

4.1.2. Following determination that the proposed RBF is within the financing ceiling, the CSP, MTR or JAS (henceforth summed as CSP) task team will then determine the appropriateness of an RBF to a country and set the strategic context for the Bank’s operation, as well as define the expected results from the Bank’s assistance. Staff should note that the Bank can still extend an RBF even if it was un-programmed in the CSP as long as there is adequate justification approved by Management, through the Operations Committee or any relevant body. The CSP team’s decision to choose between RBF and other instruments will be based on:

✓ **The objectives of the proposed operation.** The operation must seek to support the performance/delivery of a government program *(see Annex 1 for definition of a government program)* using the RMC’s program systems. The proposed program must be aligned with the Bank’s strategic objectives or operational areas, outlined in the TYS or the High Fives, or the prevailing operational priorities at any given time.

✓ **Existence of an expenditure framework.** An RBF supported program must have an expenditure framework because delivering on the results will require expenditures. Without an expenditure framework, investment lending or a PBO should be considered *(details below)*.

✓ **The major risks to the achievement of results.** The major risks to achieving the program’s results must relate to the capacity and performance of the program systems – i.e. weighing the perceived benefits and costs, compared to alternative ways of providing the resources *(e.g. project finance)*. RBF should be proposed by the team where the potential benefits exceed the costs.

4.2. **Determining Eligibility.** The CSP team will consider the eligibility for RBF, as outlined, in the RBF Policy, namely: (i) Government commitment to delivering results and improving systems towards poverty reduction, inclusive growth and transition to green growth; (ii) satisfactory fiduciary systems assessment; (iii) satisfactory safeguard systems assessments, and (iv) harmonization *(see attached Policy for further details)*.

4.3. **Strengths of the RBF Operation.** The CSP Team will assess the potential strengths of an RBF operation *(see Annex 4 for details)*. In particular, the team should consider the additional benefits of an RBF against the counterfactual of providing the same amount of support as project finance. This will be done through an initial assessment of the proposed program’s institutional capacity to deliver on the results.

4.4. **Assessing Potential Risks.** The CSP team will undertake an initial (brief) assessment of the potential risks of an RBF, which will be re-assessed in detail during preparation. The team should note that every RBF intervention would identify risks, present mitigation measures to the extent possible, and explain why any residual risks are worth taking. Among the risks are fiduciary risks, operational risks, climate, environment and social risks, developmental risks, political risks and reputational risks *(see Annex 4 for details)*.

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appraisal missions, joint dialogue with government to work out DLI targets and their independent verification processes and financing amounts, amongst others.
4.5. **Defining the Program.** Since RBF operations are expected to support new or existing country programs, the CSP team will determine whether the program to be supported is included in the country’s development strategy or plans. A program could be as large and broad in scope as an entire sector or subsector, or as small and simple in scope as a specific intervention in a particular geographical area. It could also be a “time-slice” of an ongoing program *(see Annex 1 for details)*.

4.6. **Estimated Cost.** The CSP Team, after consultation with the government, will propose the amount of resources for RBF for the country based on the country’s financing requirements, sustainability of its development trajectory and absorptive capacity. At the same time, the CSP team, in consultation with the government, will decide on the capacity building measures that will be required as part of the RBF, and propose the relevant modality (i.e. whether built-into the RBF program or a stand-alone technical assistance project).

### 5. IDENTIFICATION

5.1. Upon finalization of the program in the CSP, a task team will be formed, led by a task team leader and comprising relevant specialists, to develop the operation for Board consideration. During the identification stage, the team will coordinate with development partners and other parties that may co-finance the RBF Program or be otherwise involved in RBF Program-related activities. Using the CSP as basis, the team will further discussions with the government on its development program and goals, the overall parameters of the proposed RBF program, its objectives, financing requirements, possible level of financing, and other general information. During identification, therefore, the team, in consultation with the Government, will:

- Fine-tune the definition of the RBF Program and assesses its development objectives, strategic relevance, rationale, and links with the relevant CSP;
- Identify the results to be achieved under the Program.
- Identify the overall RBF Program expenditures, nature of activities and implementation arrangements, as well as estimate the possible scope of the financing.
- Consider whether the proposed RBF Program Systems in the fiduciary, and climate, environmental and social areas are broadly adequate.
- When the proposed Program is part of an ongoing program, consider that program’s performance to date and, if applicable, lessons learned from similar programs in the country; and
- Consider the risks to achieving the RBF Program’s objectives and results.

5.2. At this stage, the task team will preliminarily assess whether the proposed RBF Program may involve activities that are judged likely to have significant adverse impacts on the climate, environment and/or affected people. If there are likely to be high impact, the task team will consider the use of an alternative instrument. If the impact is between moderate and mild, then task teams will initiate discussions with the Government on mitigation and management measures *(see section 6 below & Annex 2)*. Based on these, the Task team will draft the program brief, describing the proposed RBF Program. Specifically, the task team will provide in the PCN:
✓ A preliminary assessment of the government program’s strategic relevance, governance arrangements, level of government commitment to the program, as well as the program objectives key results, implementation arrangements, if known at this point, and overall performance (for ongoing programs);

✓ Propose the boundaries of the proposed RBF Program. At this stage, the assessment will rely mainly on available documentation from the government (e.g., internal progress reports, plans, organizational charts, policies or laws related to the program, annual budgets, etc.); from the Bank (e.g., the latest CPS), sector-specific analytic and advisory activities, public expenditure reviews; and from development partners.

✓ Provide an initial proposal of the RBF Program’s goals and rationale, results framework, if possible, activity type, and overall Program expenditure profile. The proposed RBF Program’s detailed results framework may not be available at this stage. If this is the case, the team has to start working with the government to strengthen the results focus of the Program and develop an explicit results framework for the Program. It may not be possible to fully assess a Program’s expenditure framework during identification, so a snapshot of the budget with major classifications (e.g., by administrative units, economic categories, functions, activities) should be provided.

5.3. At the end of identification, the project brief will be submitted for Management’s review and decision as to whether, *inter-alia*: (a) the Bank should proceed with the preparation of the RBF; (b) the overall parameters of the assessments to be carried out during preparation are adequate; and (c) the timetable and resources for RBF Program preparation are realistic.

6. PREPARATION/ASSESSMENTS

6.1. Key Assessments

6.1.1. The preparation stage primarily will involve three key assessments that underpin RBF. During preparation, the task team will work with government counterparts, and, as relevant, any other development partners, to assess the scope of the program, including expenditures, expected results, Disbursement-linked Indicators (DLIs), the technical arrangements and supporting systems for achieving the program’s results, and the risks that the program will not achieve those results. In this context, the Bank will conduct three types of assessments: technical (including expenditures and results), fiduciary, and climate, environmental and social. Each of these assessments will:

✓ Consider the overall quality of the program (including its expenditures) and its systems in its area – i.e. the framework/rules, implementation capacity, and actual performance under the program;

✓ Identify improvements, including measures to mitigate major risks that the program will not achieve its expected results. To the extent possible, the assessments may be based on, or coordinated with, those

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7 Through the normal process for investment lending operations. This will be subject to changes in the Bank's business processes.

8 Specific details on the Bank's review processes for RBF will be proposed as amendments to the Bank's Business Processes. Operations Committee, in collaboration with COSP and other relevant departments will draft the amendment. Once approved, this will be annexed to these guidelines.
of other development partners, and may use as inputs any relevant source(s) of information, including existing assessments in earlier operations and analytic work at the country, sector, or program level. As needed, an action plan will be developed for the RBF operation, including improvements and risk mitigation measures.

Table 2 presents a summary of the assessments by key processing stages.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification</td>
<td>During the identification stage of an RBF program, the task team will conduct an initial review of the RBF Program in relation to the four areas included in the technical assessment (strategic relevance and technical soundness, expenditure framework, results-framework and monitoring and evaluation (M&amp;E) capacity, economic justification). In particular, the task team is expected to:</td>
</tr>
<tr>
<td></td>
<td>• provide in the project brief a preliminary assessment of the government program’s strategic relevance, economic rationale, governance arrangements, level of government commitment to the program, as well as the program objectives, key results, implementation arrangements, and overall performance (for ongoing programs); and</td>
</tr>
<tr>
<td></td>
<td>• Propose the boundaries of the proposed RBF Program. At this stage, the review will rely mainly on available documents from the government (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 strategy paper [CSP], sector-specific analytic and advisory activities, public expenditure reviews); and from development partners.</td>
</tr>
<tr>
<td></td>
<td>Elements of the assessment that will be key inputs to the project brief will be a short description of the government program, and an initial proposal of the RBF Program’s goals, results framework, activity type, and overall RBF Program expenditure profile.</td>
</tr>
<tr>
<td>Preparation</td>
<td>During preparation, the task team will work in close partnership with the government and any development partner(s) to assess the technical aspects of the RBF Program. This will include strategy, institutional set-up (including governance), expenditures, results framework, M&amp;E capacity, definition of disbursement-linked indicators (DLIs), and implementation arrangements. In addition, at this stage the DLIs, their related Independent Verification Protocols, and disbursement arrangements will be developed. The team will develop a draft Program Concept Note (PCN) at the end of preparation.</td>
</tr>
<tr>
<td>Appraisal</td>
<td>During appraisal, the task team will bring together the findings of the various assessments into an overall assessment of the RBF Program and its associated systems, the commitment to and potential for making improvements, the risks of the proposed RBF 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), will be discussed with government and other stakeholders; and, as needed. Agreed measures will be included in the Program Action Plan (PAP)(^9). The conclusions from the technical assessment, among others, will be presented in the Program Appraisal Report (PAR). A fairly complete draft of the technical assessment should be made available by the time of the Operations Committee (OpsCom) Review, with the final technical assessment being disclosed at the same time as the PAR.</td>
</tr>
<tr>
<td>Implementation</td>
<td>The RBF task team and the regional/field offices, will provide implementation support to the government in carrying out improvement, capacity building and risk management measures agreed on during preparation under the Program Action Plan (PAP). The team will also monitor: (a) progress under the RBF Program and provide support in resolving issues emerging under the RBF Program’s implementation; (b) progress in the achievement of</td>
</tr>
</tbody>
</table>

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\(^9\) see Annex 3 for details on PAP.
the RBF Program’s results, including DLIs; (c) changes in the Program’s technical and other risks; and (d) compliance with the RBF operation’s legal agreements.

6.2. Technical Assessment

6.2.1. The technical assessment is a critical step in processing RBF operations. It will include a dialogue about the strategic relevance of the program to be supported, the results framework, the related expenditures, the design and independent verification of DLIs, monitoring and evaluation, the technical and institutional dimensions of the program and related governance and capacity issues, etc. In this regard, the team will seek to address the following kinds of questions:

- How will programs supported by RBF be situated in a strategic context in the country? Is the program economically justified?
- How will the expenditure program be framed and addressed?
- How will results be defined, measured, and monitored to ensure the desired development impact?

The assessment will draw on existing analytic works, and sectoral best practices. Focusing on results achievement and linking it directly link to disbursement, will strengthen the results orientation of the program as well as serve as an indicator that funds are being used appropriately.

6.2.2. Strategic Relevance. In assessing strategic relevance, the task team will determine whether the program will address an important goal in the sector, and that there is a clear rationale for government intervention. This will involve establishing that the issues to be addressed by the program are priority for inclusive and transition to green growth and poverty reduction in the country. The team will also establish that there is a case for government intervention in resolving the issue (for example, addressing energy deficit, food security, or social concerns) and identify the appropriate form of government intervention, e.g. whether regulation or financing. The team will consider the possibility of public-private partnership. The task team will then examine whether the proposed program is adequately structured to resolve the challenges to be addressed by the program. Much of the information for such an assessment is likely to be available in development plans, sector strategies, and studies.

6.2.3. Technical Soundness. The task team will seek to determine that the program is designed and implemented to efficiently produce results and achieve the program’s objectives. The team will review as to:

- Whether the nature and technical design of the program activities and expenditures are adequate to reach the program’s objectives;
- Whether incentives are in place for program stakeholders to contribute effectively to the program’s success;
- The quality of the program’s organization, including its ability to plan, design, execute (including manage and supervise contracts), and monitor program activities;
- For ongoing programs, what the overall performance of those programs has been.

Some of the information needed for such an assessment is likely to be available in existing reports. The team could also rely on the knowledge and experience of internal and external experts, including experts.
on project management M&E and sector-specific technical issues. Table 3 lists questions that may guide the review.

**Table 3: Assessing incentives for Program stakeholders: Indicative questions**

- Is the RBF Program timely?
- Do RBF Program stakeholders see the Program as a priority to be resolved at this point in time?
- How supportive are the potential end users and the political environment for the RBF Program?
- Do central and line ministries provide support, appropriate staff, skills mix and budgets for the program?
- Does the RBF program have a champion?
- Is there a clear structure of accountability in place for the RBF Program?
- Are the implementing agency staff accountable but also empowered to deliver on the program?
- Is the RBF Program designed to induce behavioral changes amongst government and end users if required?
- Are there political economy issues?
- Would RBF 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 RBF Program stakeholders?
- Are the RBF Program benefits obvious to beneficiaries and civil society at large?
- Is civil society/beneficiaries involved in any way in the RBF Program?
- For an existing Program, is the team cognizant of any allegations of fraud and corruption and, how was it addressed?

Modified from the World Bank’s Internal Guidance Notes on Program for Results.

6.2.4. Institutional Arrangements. The task team will assess the institutional arrangements for program implementation and monitoring by reviewing whether the necessary entities are involved, roles and responsibilities are clearly defined, incentives are adequate to ensure cross entity collaboration, and the government is committed to the program’s objectives. The team will assess the institutional arrangements of the program implementing agency, including whether it has the leadership and human resources needed to carry out the program, and whether there are clear processes for decision-making in the agencies and adequate incentives for staff and service providers. In addressing these various dimensions of institutional quality, the assessment will help determine the quality of governance of the implementing agencies in terms of their transparency, accountability, and skills and competence.

6.2.4.1. Government capacity. The adequacy of government’s capacity to implement the RBF Program, as well as follow up actions during implementation will be assessed by the team. Here, the task team will examine key aspects such as 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 team will assess the institutional and organizational framework in place in the country to deal with fraud and corruption, and allow for complaints. If possible, the assessment should indicate whether the framework is functioning. The task teams should also confirm that the government’s choice of implementing agencies is adequate. Additionally, the team will review the institutional structure for the RBF Program.

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10 This institutional assessment will draw on available sector and program studies, the findings of the systems assessments, and feedback from stakeholders and experts.

11 This will include the ability to manage fraud and corruption risks (F&C). Some aspects of the input for the assessment of institutional arrangements are expected to be generated from the systems assessment for RBF operations; see guidance on Fiduciary Systems Assessment and Climate, Environmental and Social Systems Assessment below.
implementation, considering questions such as: (i) Are the necessary government entities involved in the RBF Program? (ii) Are their roles and responsibilities clearly defined? (iii) Are there adequate incentives to ensure cross-entity collaboration? Does the implementing agency have adequate resources to carry out the Program? In answering these questions, the task team should look into:

a) The adequacy of staffing levels and skills mix;
b) Whether 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 the RBF 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 RBF Program’s needs;
d) There is adequate capacity to provide credible, routine reporting on the RBF Program and its outcomes; and there is an adequate oversight mechanism.
e) Whether there are adequate arrangements in place to implement the RBF Program at various stages, such as planning, design, resource commitment, bidding/contracting (when needed), execution, supervision, reporting, and auditing;
f) Whether the decision-making process in the agency is clear, and whether actors are accountable for the delivery of the RBF Program in timely fashion.

6.2.4.2. Government commitment. Government commitment is absolute to ensure that the expected results can be delivered in a timely and efficient manner. Building and maintaining commitment will involve persuading new groups to support and contribute to the RBF Program, as well as modifying the RBF Program to reflect evolving experience and changing circumstances. Enhanced policy dialogue and analytic work can be used by the Bank to contribute to building and sustaining strong government commitment. Table 4 provides illustrative indicators on government commitment.

<table>
<thead>
<tr>
<th>Table 4: Illustrative Indicators for Assessing Government Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ The country’s national or relevant sectoral development plan or similar document refers to the program.</td>
</tr>
<tr>
<td>✓ Key policymakers articulate their commitment to the program and its relevance.</td>
</tr>
<tr>
<td>✓ Political leaders have publicly stated their support for the program.</td>
</tr>
<tr>
<td>✓ Relevant interest groups have been engaged in dialogue with government about the program design and implementation, and have indicated their general support.</td>
</tr>
<tr>
<td>✓ 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.</td>
</tr>
<tr>
<td>✓ The government has recently taken steps to address some of the key issues under the program.</td>
</tr>
<tr>
<td>✓ Budgets and payments under the program allow for meaningful implementation progress.</td>
</tr>
</tbody>
</table>

Modified from the World Bank’s internal Guidance Notes.

6.2.5. Expenditure Framework. A good and well-functioning government expenditure framework is critical for effective implementation of government programs, and contributes to efficiency gains in the execution of government programs in three ways: (a) it helps to maintain financial sustainability and enhance predictability of resource availability, which are essential for the continuous funding of government programs. (b) A well-functioning expenditure management system allows alignment of policy objectives, selected priorities, and intended results established in the government’s strategies with resource
allocation defined in the budget, and in budget execution. (c) A proper budget execution system creates the mechanisms and incentives to support value for money in the delivery of government programs.

6.2.5.1. The Team will review the level, efficiency, and effectiveness of the government expenditures on the entire program, not just on the share or components “financed” by the Bank. The scope of expenditure analysis will be determined by the size and complexity of the government program, not the size of the Bank’s financing. 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 RBF Program to reach its expected results. Key questions for the assessment could include the following: Does the budget classification system permit tracking of expenditures and provision of timely information on expenditure composition? Are program expenditures - especially those with direct implications for the long-term sustainability of the program - part of a medium-term expenditure profile that provides financial sustainability and funding predictability, including consistency with the country’s overall financial profile? Is the government able to execute the expenditures budgeted under the program, for example, avoiding generating a pattern of arrears and “stops-and-goes” under contracts with the private sector? Do the level of the budget and its allocation across activities adequately reflect the resources required to generate the expected results? What about overall efficiency of expenditures of the program? Below are four recommended steps for assessing the RBF Program expenditure framework.

**Step 1: Examine budget structure and classification:** The task team could start by tracking the government’s expenditures under the RBF Program and the budgetary information available on the economic category and programmatic composition of expenditures (i.e., the share of the RBF 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.

**Step 2. Examine RBF Program financial sustainability and funding predictability:** The task team could examine the government’s ability to finance (from various funding sources) the execution of the RBF Program, relative to the government’s overall fiscal situation in a multi-year perspective. The medium-term financial conditions of the government could be verified by referencing the main findings of the IMF/World Bank/AfDB Debt Sustainability Analysis. Another option is to use the medium-term expenditure frameworks (MTEFs) for the RBF Program.

**Step 3. Examine adherence of budgeted Program expenditure and its execution to government priorities.** This assessment will: (a) verify whether RBF Program budget allocations are aligned with government priorities; (b) compare RBF Program expenditure composition out-turn and original approved budget composition; (c) verify whether the RBF Program budget allocations are consistent with intended results; and (d) analyze budget allocations across the various types of Program transactions.

**Step 4. Examine efficiency of Program expenditures:** The emphasis here will be on whether the RBF Program will be delivered efficiently. This will take into account availability of resources, and/or if the
production costs are reasonable (e.g., compatibility with national or international standards). The results of such analysis could be complemented by the Program’s economic evaluation. Table 5 highlights some questions to guide the expenditure review.

### Table 5: Indicative Questions for 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 RBF Program’s expenditures that is allocated to salaries, operating, and capital spending)?

**Financial sustainability and funding predictability**
- Is the government able to finance the execution of the Program from its own revenues, loans, credits, or grants?
- 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% and for the last three years)?
- Is there a stock of arrears that reflects inadequate budgeting of expenditures (underestimation of expenses), cash shortfalls, or cash flow uncertainty and weaknesses in budget execution controls under the Program?
- Is the Program a high enough priority that it would survive budget cuts?
- Is there fund flow predictability through 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 sector or other strategies)?
- What are the annual budget allocations for sectors/programs vis-à-vis what is defined in the multi-year program?
- Is there a big difference between Program expenditure composition out-turn and expenditure composition in the budget?
- What is the relationship between budgetary allocations and 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 the Program protected by revenue earmarking? Does it improve fund predictability and expenditure efficiency?
- What is the “protected” share of the Program (i.e., ratio of earmarked revenues for the Program to the budgeted expenditure dedicated to the Program)?

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*Modified from the World Bank’s internal Guidance Notes on Program for Results.*

### 6.2.6. Framework for Results, Monitoring and Evaluation

While the Bank gives attention to results in all the operations it finances, programs supported by RBF will make results the basis for disbursements. Measuring results will move from being just one element of operation design to being the primary driver of Bank financing. RBF operations will therefore have strong built-in incentives for both the client and the Bank to focus attention on the definition, achievement, and measurement of results. The task team will thus
ensure that there are effective M&E systems in place to monitor and track results. Table 6 below explains the vocabulary on results used in RBF operations.

<table>
<thead>
<tr>
<th>Table 6: Results Definitions for RBF Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) <strong>Results</strong> are the output, outcome, or impact of a development intervention. The Bank generally encourages results that support sustainable improvements in country outcomes.</td>
</tr>
<tr>
<td>(b) <strong>Program results chain</strong> is a plausible causal relationship that describes how the program’s activities and interventions will lead to its expected outcomes.</td>
</tr>
<tr>
<td>(c) <strong>Program results framework</strong> explains how its development objectives will be achieved, linking its outcomes, outputs and actions and the indicators to be used to verify their achievement.</td>
</tr>
<tr>
<td>(d) <strong>Disbursement-linked indicators</strong> are a limited set of key indicators that are considered critical towards achieving the RBF Program development objectives and would be the basis for disbursement of 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.</td>
</tr>
<tr>
<td>(e) <strong>Outputs</strong> are the supply-side deliverables, including events, products, capital goods, or services that result from a development intervention (e.g., construction of a school or road). 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).</td>
</tr>
<tr>
<td>(f) <strong>Intermediate Outcomes</strong> 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 indicators typically measure the number or type of intermediate outcomes, such as number of teachers using the new teaching methods.</td>
</tr>
<tr>
<td>(g) <strong>Outcomes</strong> 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 level of the RBF Program development objectives and measure one or more of a program’s typical results over the medium-long term. They indicate, by the end of the program, expected achievements. Examples include improved learning outcomes, reduced child malnutrition, and reduced transportation costs.</td>
</tr>
<tr>
<td>(h) <strong>Action or performance indicators</strong> typically measure decisions, performance, enactment of program guidelines, or the general adoption of key measures needed to ensure the functioning of a government program.</td>
</tr>
<tr>
<td>(i) <strong>Process indicators</strong> 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.</td>
</tr>
</tbody>
</table>

6.2.7. **Framework for Results.** The results of the government program will be the results of the RBF operation. The team will therefore assess the overall government program’s results framework that defines program outputs, intermediate outcomes, outcomes, and goals. The task team should work closely with the government to define the results framework, which will then be summarized in a results framework that presents the program objectives and relevant indicators in the RBF Program’s results chain12 (i.e., process indicators, financing indicators, outputs or outcomes) and their relation to achieving the RBF program objectives. When an RBF operation supports only part of a government’s program or when the assessment of a Program’s results framework reveals a highly detailed set of results, including results that would be

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12 See RBF Annotated Appraisal Report template for an illustrative example of the RBF results chain.
difficult to measure and monitor realistically, task teams can adopt a subset of the larger government Program’s results.\textsuperscript{13}

6.2.7.1. Disbursements will be based on a selection of key milestones from the indicators in the results framework (the DLIs). However, a clear understanding of the whole results chain by the team is essential to ensure that incentives for program improvement and strengthening are in place. Results frameworks can be expected to vary in complexity and scope, depending on the definition and scope of the government program to be supported, the indicators selected, and the client’s capacity to implement the program and monitor results. For an ongoing program the results framework may be implicit in a government strategy or other document. In such cases, the process of defining and assessing the results framework may involve the team working with the government to frame and refine the program and establish expected results, including any actions or processes that may be required to achieve the program’s objectives. Table 7: provides illustrative examples of results indicators for select sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Output level indicators</th>
<th>Outcome level indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>Kilometers of roads rehabilitated or constructed.</td>
<td>Percentage of overall average annual increase in passenger and goods traffic on rehabilitated roads.</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Number tons of fertilizer distributed to target farmer groups.</td>
<td>Number of farmers who increase rice yields by 50%.</td>
</tr>
<tr>
<td>Education</td>
<td>Number of teachers trained in new curriculum.</td>
<td>Improved student achievement scores on tests at primary level.</td>
</tr>
</tbody>
</table>

6.2.7.2. The task team should work with the government to refine (or define) the Program’s results framework. A government 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. On the other hand, a Program may still require definition and framing, its expected results may not be realistic and achievable within the RBF Program’s timeframe. The Team should therefore explore possible actions, processes, and outputs that will be required to make the RBF Program development objectives achievable. The process of defining a results framework may be a continuous process of working with the client to frame and refine the RBF Program. It is important to ensure government ownership of the RBF Program and its results framework in this process. Some indicative questions that the task team could ask in conducting the assessment of the Program’s results framework are listed in Table 8.

\textsuperscript{13} The results framework should present realistic targets during implementation; and frequency, data source, and monitoring responsibility for each of the selected results.
Table 8: Illustrative Questions on Program Results Framework

- Are all key actions, outputs, and outcomes identified in the results framework? Is the results chain clear?
- Are the objectives realistic? Are the expected results achievable within the Program’s expected implementation period?
- Will data needed to confirm achievement of results be available in a timely manner?
- Are there expected results beyond government control, 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 indicators in the results framework well defined? 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)?
- Does the results framework address issues highlighted from the systems assessment and identify potential risks?
- Are the results an integral part of the government program and necessary to achieve the Program’s development objectives?
- Are M&E 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?

6.2.8. Monitoring and Evaluation Arrangements. The task team will assess the government’s capacity to monitor, evaluate, and validate program results, looking into: (i) the institutional arrangements for monitoring and evaluating results; (ii) existing M&E plans; (iii) the quality and reliability of existing M&E systems; (iv) the framework to support effective M&E and information sharing; (v) staffing and resources to support M&E functions; and (vi) capacity development needs. For some government programs the assessment may indicate that existing M&E arrangements and capacity are adequate; but in most cases, it is likely that M&E systems will need to be improved and their capacity strengthened.

6.2.9. Capacity Building for Monitoring and Evaluation. It may be possible that the overall M&E system of some government programs may have adequate capacity in place, but the M&E systems related to the specific RBF Program may still require strengthening of different aspects, such as program 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 an RBF 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 Table 9 for options and approaches to M&E capacity development).

Table 9: Illustrative Questions on Program Results Framework

There are several ways to support capacity building for M&E. 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 household surveys, and impact evaluations.
- Encourage dissemination of evaluation findings and reports widely to the public.
- Support professional development and training of 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).
6.2.9.1. The Program’s M&E system is to be underpinned by a credible mechanism 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 RBF operation. The task team should review the government’s experience with internal and external verification and reporting, and agree upon appropriate arrangements. Verification should be independent and 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. In assessing institutional capacity for M&E, the task team should consider the following:

- Systems are instituted to accurately monitor and evaluate progress in the results framework and DLIs;
- M&E systems strengthening is imperative and should be included in the results framework; and
- M&E systems strengthening is a requirement to proceed with an RBF operation, where necessary, and specific activities should be described in the program action plan (PAP).

Table 10 presents a general framework to classify M&E strengthening as either DLIs or actions.

<table>
<thead>
<tr>
<th>Table 10: Summary of Approaches for M&amp;E Systems Strengthening</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What requires monitoring?</strong></td>
</tr>
</tbody>
</table>
| Results framework | To achieve the RBF Program development objective(s). | A result for the Program in the results framework. | • Updated beneficiary registry  
• Program systems integrated with other agencies. |
| DLI Matrix and Verification Protocol | To monitor DLI Matrix and Verification Protocol | Program Action Plan (PAP); Measures to strengthen M&E should only be selected as DLIs if the RBF operation could not move forward without them. | • Hiring additional staff for M&E.  
• Developing new databases and reports. |

6.2.10. Program Economic Evaluation: The economic evaluation of an RBF operation will aim to answer the following key questions: (a) is public provision and/or financing appropriate for the Program? (b) What is the economic impact of the Program, as being currently implemented or planned? (c) What is the expected economic impact of the improved Program with RBF support? What is the value added of the Bank?

6.2.10.1. Rationale for Public Provision and/or Financing: It is fundamental to assess the rationale for public provision and/or financing of goods and services an integral part of the economic evaluation of any government development program. The Task team should base their assessment on the causal chain underlying the Program, from Program design to outcomes (including key challenges that necessitate public action). This analysis could benefit from the inputs provided under the strategic relevance and expenditure framework analysis of the technical assessment. In the case where a program involves partnership with the private sector, the team should 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.

6.2.10.2. Economic Impact of the Program: The task team should take three things into consideration:

(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 RBF Program to the situation without the Program; and
(c) Where plausible alternatives exist, the selected RBF Program should be the preferred design. These types of evaluations may take the form of a narrative comparison of the “with” and “without” scenario in some RBF operations, supported wherever possible by evidence from similar programs in the country or elsewhere to help establish what the Program contributes relative to the counterfactual.

In some cases where the benefits may be 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 tuberculosis, for example, without being able to express them in monetary terms. In cases where task teams can assign monetary measure of costs and benefits with and without the RBF 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. This exercise should parallel and build on the various Program assessments and related PAP and capacity building.

6.2.10.3. Bank Value Added: The Bank’s value added is to complement the efforts of the government and other development partners to provide knowledge through the assessments and improve RBF Program design, performance, processes, and capacity of the implementing agency during preparation of an RBF operation, and/or during its implementation, through technical assistance. The task team will ensure that the program-level improvement and risk management measures, as well as the dissemination and adaptation of good practice will be built into the program design.

6.3. Fiduciary Systems Assessment

6.3.1. The fiduciary systems assessment will be carried out at two levels:

a) At country level: The fiduciary risk assessment will be undertaken independently of the RBF program to determine whether the country fiduciary systems are sufficiently credible to be used. The country systems will be used if they are considered to be acceptable. If there are some weaknesses, the country systems can only be used if there is a positive trajectory of change through existing reforms being implemented by the government. Within the context of the RBF program, the government will have to commit to continue the reforms during implementation and beyond the RBF program. If the weaknesses at this level are so severe that credible remedial measures 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 fiduciary risks.

b) At Program level: The task team will assess the program’s fiduciary systems to ensure that the Bank proceeds will be used appropriately. The team will draw on knowledge of country systems and the implementing agencies, the sectors and levels of government that will be involved in the
RBF Program. The team’s assessments will build on information and data, including the Country Fiduciary Risk Assessment (CFRA) and other country diagnostics (including work undertaken by other development partners. The team will further draw on the Bank’s extensive experience acquired in supporting investment projects, PBOs and other operations. The scope and nature of the assessments will be undertaken according to Bank’s Policies and Procedures relating to Financial Management and Procurement.

6.3.2. Fiduciary Principles. The task team will ensure that the government’s fiduciary systems arrangements are consistent with the key principles of economy, efficiency, effectiveness, accountability, and transparency. Overall procurement arrangements will be assessed as to the extent to which the regulatory and procedural framework, the institutional framework of functional responsibilities and accountabilities, procurement operations, and market practices all are expected to provide “best fit for purpose” through procurement processes that have acceptable levels of planning, bidding, evaluation, contract award, and contract management. The financial management arrangements will be assessed as to the degree to which the relevant planning, budgeting, accounting, internal control, treasury management and funds flow, financial reporting, and external auditing arrangements provide reasonable assurance on the appropriate use of RBF funds.

6.3.3. Fiduciary Systems Assessment. The team will assess fiduciary systems supporting the RBF program using, where available, existing knowledge about the country and the programs’ design as well as the implementing agency. The nature and scope of additional analysis to support program design and implementation support will vary among countries, sectors, levels of subnational government, and organizations. Based on the findings of the assessment, and where needed, the team and the government will agree on measures to be included in the Program Action Plan for the operation.

6.3.3.1. The fiduciary systems assessment will focus on the government’s regulatory framework, 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 will warrant deeper scrutiny and, depending on program context, may require more risk management and capacity-building activities in the action plan.  

6.3.4. Coverage of the Assessment. The task team, with relevant experts on board, will carry out the fiduciary assessment using information available from the government and from previous diagnostics conducted by the Bank or other donors and complemented, as needed, with program-specific fiduciary considerations. Using the findings of the assessment, where needed, the team and the government will agree on measures to be included, as necessary, in the action plan and legal agreements for the operation, and will identify:

- Measures to improve the performance of the program;

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14 The task team should therefore ensure adequate risk-mitigation and capacity-building activities are built into the Program Action Plan.
Measures to strengthen design, preparation, implementation, control, and oversight capacity;
Any specific mitigation measures to ensure consistency with the fiduciary risk requirements. Progress in implementing these measures would be monitored during implementation.

Some cross-cutting considerations in undertaking fiduciary assessment are listed in Table 11.

Table 11: Cross-Cutting Considerations in Conducting a Fiduciary Systems Assessment

- Have issues been raised in previous diagnostics that are likely to affect RBF program fiduciary performance?
- Clarify planned RBF program expenditures breakdown at national/subnational levels (e.g. types and their value)?
- Does implementing agency have authority to commit resources and implement actions for effective fiduciary management?
- What is the government’s capacity to monitor fiduciary performance of the Program?
- What are the existing country/sector fiduciary reforms underway, and how do they affect the Program?
- 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?
- Is the Program exposed to significant risks of fraud and corruption? If so, how will the risks be managed and/or mitigated?

6.3.5. Procurement Considerations. The Bank will build on its ongoing efforts to strengthen governments’ procurement capacity to help achieve development outcomes, which will include supporting key governance and anticorruption (GAC) objectives. Once the task team identifies the profile of expenditures that will be procured under the RBF Program, the Bank will assess the procurement arrangements and monitor performance in relation to the procurement of works, goods, and services under the RBF Program and in accordance with the 2015 Procurement Framework for Bank Group Funded Operations.

6.3.6. Financial Management (FM): The Bank’s financial management specialists will review the capacity of the implementing agency or agencies to record, control, and manage all RBF Program resources and produce timely, understandable, relevant, and reliable financial information for the government and the Bank. Emphasis here will be on identifying the key strengths and weaknesses of the system which may impact achievement of the overall program development objectives. In so doing, the Team will consider the critical elements of an open and orderly FM system as recommended in the Financial Management Policy Applicable to Bank Group Financed Operations (2014) and the related Manuals and Guidelines.

6.3.7. Formulating Fiduciary Actions. In the event that the assessments reveal material fiduciary weaknesses, the Bank’s response will depend on the severity of those weaknesses and the potential to address them. For example, in one or more of the following ways:

- a) 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.
- b) Adjustments could be made to audit terms of reference and/or Bank monitoring during implementation to focus on the areas of weakness or riskiness.
c) The DLIs could include specific fiduciary actions that would be monitored during RBF Program implementation. This practice is however highly discouraged unless such a DLI will be critical for the achievement of the RBF Program objectives.

6.3.7.1. Some fiduciary actions will be included into the program action plan (PAP), as relevant, which will be agreed on between the government and the Bank. The PAP will set the priorities in terms of the key performance areas needed to achieve RBF 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.

6.3.8. Roles and Responsibilities for Fiduciary Actions. The responsibility for all aspects of the preparation and implementation of the RBF 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 RBF Program fiduciary performance and compliance; and (c) support the government in addressing systemic weaknesses and developing institutional capacity. Table 12 summarizes the fiduciary roles and responsibilities of the Bank and government at each phase of the program cycle.

<table>
<thead>
<tr>
<th>RBF operation stage</th>
<th>Government will:</th>
<th>Bank will:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification and Concept</td>
<td>• Define the RBF Program (existing or new) and related expenditure framework.</td>
<td>• Update/undertake the Country Fiduciary Assessment to determine its eligibility for RBF.</td>
</tr>
<tr>
<td></td>
<td>• Identify implementing agency.</td>
<td>• Jointly review the existing or proposed fiduciary arrangements.</td>
</tr>
<tr>
<td></td>
<td>• Provide necessary information for, and inputs to, the Bank’s fiduciary systems assessment.</td>
<td>• Identify knowledge gaps and plans to ensure that there is sufficient information on fiduciary arrangements by appraisal.</td>
</tr>
<tr>
<td>Preparation/Assessment to Approval</td>
<td>• Develop a reference to monitor fiduciary performance during Program implementation.</td>
<td>• Provide inputs to the Bank’s initial risk assessment.</td>
</tr>
<tr>
<td></td>
<td>• Define fiduciary arrangements, including reporting, audit, independent verification, and implementation support arrangements.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identify system weaknesses and capacity constraints.</td>
<td>• Carry out the program fiduciary systems assessment.</td>
</tr>
<tr>
<td></td>
<td>• Provide information needed to conduct the fiduciary systems assessment and arrive at a risk rating, including fraud and corruption.</td>
<td>• Identify key areas to improve.</td>
</tr>
<tr>
<td></td>
<td>• Develop and agree with the Bank on the performance indicators and fiduciary risk rating.</td>
<td>• Provide a risk rating, in consultation with the government.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Finalize fiduciary assessment.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reach final agreement with the government on performance measures, as well as on financial management and procurement, independent verification, and implementation support arrangements.</td>
</tr>
</tbody>
</table>
arrangements, including reporting, audit, independent verification, and implementation support arrangements.

- Implement the Program in compliance with applicable rules and processes.
- Implement agreed performance improvements and risks mitigation actions.
- Make records and data available and easily accessible for Program audits/reviews and for Bank spot checks.
- Cooperate with Bank to identify causes of performance problems and adjust program action plan.
- Promptly communicate major changes in implementation arrangements that may affect the fiduciary system performance.
- Provide periodic reports, as agreed.

- Agree with government on improvements to be carried out with Bank and/or other donor support, as part of the Program Action Plan, if required.

- Support the government in implementing the PAP and resolving issues that arise during RBF Program implementation.
- Monitor fiduciary systems’ performance and compliance with the legal agreements and Bank’s procedures.
- Review fiduciary matters related to Program completion.

6.4. Climate, Environmental and Social Impacts Assessment

6.4.1. The third assessment to be undertaken as part of the preparation process is the degree to which the program systems will manage and mitigate the climate, environmental and social impacts (SEC) of the program. In this assessment, the task team will be guided by the policy objectives and principles in the Integrated Safeguards System (2013) and its related Climate Safeguards System (CSS). The team should however note that the nature of the RBF instrument, which is results focused, will entail tailored due diligence procedures and requirements which go beyond the tools applicable to ordinary investment projects. Hence, the task team will be guided by the principles of equivalence and acceptability to determine whether the existing country systems can manage and mitigate the impacts of the program and/or identify areas for improvement.

6.4.1.1. RBF will take a risk management approach adapted to the context of the envisaged RBF Program. Consequently, the team will assess - at each RBF Program level - the government’s authority and organizational capacity to achieve climate, environmental and social (CES) objectives against the range of environmental and social impacts that may be associated with the RBF Program. If the Team judges that the government’s management system lacks the regulatory authority or organizational capacity to effectively manage CES effects, the team should build into the program supplementary actions to strengthen the RBF Program performance vis-à-vis CES. If the operation falls under Category 1 of the Bank’s ISS policy with significant impact on CES, the proposed Program will not qualify for RBF during the pilot phase of the RBF instrument.

6.4.1.2. The Task team should take into consideration the following three key pillars when doing the assessments of CES:

(a) **Technical assessment and application of selectivity on DLIs.** The team will examine the program's potential safeguard impacts through screening, categorisation and scoping of results and assessment of
relevant operational policy triggers to determine the modalities of using strategic environmental assessment tools, i.e. program level Strategic Environmental Assessment (SESA).

(b) **Safeguard Systems Assessment.** The task team will carry out an assessment that will: (i) review CES-related country systems to determine their equivalency and acceptability with respect to the ISS and CSS using the ISS and CSS (objectives, principles and requirements) as benchmarks; (ii) assess if the CES-related country systems can manage and mitigate the impacts of the program; and (iii) identify areas for improvement. The CES-related country systems will include the applicable and relevant national, program and/or sector level laws, regulations, rules, procedures, and its organizational and institutional dimensions. The assessment will consider the interrelated issues of the adequacy of the system’s legal, regulatory and procedural requirements; its organizational and institutional capacity; and its track record, in order to assess the functional equivalence of the system in terms of providing the same level of protection as the ISS. The task team will first take account of the range and sensitivity of climate, environmental and social tasks to be undertaken and the scale of potential impacts under the program. The assessment will then focus on the organizational and procedural considerations that are relevant to CES management, as well as on the capacity of the implementing agency to effectively implement necessary actions and on its performance in practice. The assessment will be adapted to the country and program context, and will review the regulatory and policy bases for appropriate environmental and social planning and action, organizational authority and capacity, any interagency coordination arrangements, and the effectiveness of environmental and social management in practice. Key organizational dimensions include, among others, whether:

- The program implementing agency has the necessary authority to manage the environmental and social effects of the program;
- Its staffing, competency and skills are adequate;
- How the program will be coordinated; and,
- Whether it promotes credibility and accountability.

Other dimensions are the technical standards which a program must achieve, the effectiveness of the implementation of the existing regulatory framework (that is, the track record); the quality of early screening for climate, environmental and social effects and of up-front review of any proposed subprojects; the extent and quality of consultations with stakeholders; and the effectiveness of established grievance procedures. Finally, the team will review arrangements made for consultation, disclosure, and grievance redress mechanisms, and ensure that the measures in place are appropriate for the activities to be supported under the program. This assessment will inform a mandatory Program Actions Plan. The SESA will draw on information directly obtained from government agencies and relevant RBF Program stakeholders, as well as those obtained from other sources, which may include assessments relating to other Bank activities (e.g., investment lending projects, program-based operations, country studies, technical assistance); assessments undertaken by other development partners; or other relevant national, regional, or sectoral assessments.

(c) **Capacity development planning.** The assessments will be the basis for identifying measures to improve the safeguard systems and to build capacity in the program, if needed. The Bank and the government will agree upon support measures to strengthen the safeguard systems through RBF program, and include these in an action plan and will monitor the implementation of the program and the agreed actions. If there is likely to be moderate impact of an RBF supported operation, mitigation measures will either be included as part of disbursement-linked indicators or in the Program Action
Plan to be supported by capacity building activities. All RBF operation proposals will be screened for adverse impacts at an early stage of preparation. If such activities are likely to occur within a program as defined, the team will begin immediate dialogue with the government on management and mitigation measures.

6.4.2. Screening and categorization. Categorisation of all Bank interventions will be mandatory, as embedded in the ISS. The government will screen the program for environmental and social impacts, including climate change impacts, potential adaptation and mitigation measures, and the vulnerability of populations and their livelihoods, to determine the specific type and level of CES assessment. The screening will be carried out in accordance with the ISS. The Bank, through its relevant department handling safeguards, will work with the government to define the category of the operation, based on sufficient supporting documentation and baseline data provided by the government. The Bank and the government will therefore share the responsibility of appropriate categorisation based on reasonably accurate due diligence material. The government should conduct the assessment of CES and prepare an action plan that will comply both with existing country systems for assessing and managing environmental risk, as well as with the AfDB’s requirements.

6.4.2.1. Since operations which fall into ISS Category 1 shall be excluded, the bulk of AfDB’s RBF portfolio will fall under Category 2 projects as defined by the ISS. In this regard, a strategic Environmental and Social Assessment (SESA) will be conducted according to the principles of proportionality and adaptive management. The level of assessment and management required should be proportionate to the level of risk that the program poses - as identified during categorisation and scoping - and the management measures adopted should be capable of being adapted to changing circumstances during the full project cycle. Where required, a comprehensive and implementable action plan, including appropriate climate mitigation measures, will be developed with a realistic timeframe, incorporating the necessary organisational capacity (including further training requirements) and financial resources to address and manage the CES risks that may occur during the full program cycle.

6.4.3. Conducting SESA. The Task team will prepare and manage the assessments of the proposed Program, on the basis of which a SESA will be undertaken by the Bank in collaboration with the Government, using part of RBF financial proceeds to identify and commission adequate expertise. The SESA will review existing regulations and policies, their legal and practical applicability at the program level, institutional capacity, and the effectiveness of implementation in practice. The SESA will be the responsibility of the Bank task teams, who will use 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 government together will identify and consider the potential range of CES that may be relevant to the RBF Program. The Bank task team will then assess the capacity for effective CES management, in light of performance to date (or proposed arrangements and resource availability for new programs) and in light of potential effects. Findings of the SESA will be subsequently factored into the overall integrated risk assessment which will be revised at appraisal stage and attached to the PAR. Measures to generate the desired CES effects, if required, will be agreed. The key measures will be incorporated into the overall Program Action Plan, which will then be discussed and agreed with the government. No actions would be necessary if the assessment concludes that the RBF
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 RBF Policy.

6.4.4. CES Systems Assessment. The SESA will focus both on institutional, organizational, and procedural considerations that are relevant to CES management and on the relevant technical standards that will be applied to the project, in order to assess the functional equivalence of the system in terms of providing the same level of protection as the ISS, and to identify gaps that may need to be addressed. The scope and depth of the systems assessment, as relevant, should be tailored to the country and RBF Program context. For the content of the SESA, see paragraph 6.4.1.2.b. Some key questions to be considered in SESA are highlighted in Table 13 below, to be considered within the broader benchmarking exercise.

<table>
<thead>
<tr>
<th>Table 13: Recommended considerations in SESA</th>
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<tbody>
<tr>
<td><strong>Organization and program structure</strong></td>
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<tr>
<td>✓ Does RBF Program implementing agency have the legal or regulatory authority to commit resources and implement actions for effective CES management? If not, are changes needed?</td>
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<tr>
<td>✓ Is the Program implementing agency adequately staffed, with the right skill mix to plan, design, implement and monitor CES activities? If capacity is weak, are there measures to build it or use alternative arrangements (e.g., coordination with other agencies, use of qualified consulting services) to promote effectiveness?</td>
</tr>
<tr>
<td>✓ Are CES management units adequately supported with necessary facilities, equipment / supplies? If not, is there a need for supplementary support?</td>
</tr>
<tr>
<td>✓ If the Program will depend on collaboration with multiple agencies to manage CES effects, are there structural arrangements in place to ensure effective and timely coordination?</td>
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<tr>
<td>✓ Does the RBF Program structure promote credibility and accountability of CES, through independent review of plans, external monitoring of implementation, or other forms of oversight?</td>
</tr>
<tr>
<td>✓ Are the entities in charge of identifying RBF Program CES impacts independent or autonomous from the implementing entity?</td>
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<tr>
<td>✓ Will supervision of mitigation of identified impacts be undertaken objectively, and will related issues freely be reported to the management of the RBF Program’s implementing agency?</td>
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<tr>
<td>✓ Does the management of the implementing agency act upon identified issues in a consistent and objective manner?</td>
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<tr>
<td><strong>Program requirements, procedures and processes</strong></td>
</tr>
<tr>
<td>✓ Are processes and procedures relating to CES protection effectively and equitably implemented in the country? What is the implementing agency’s track record in this regard?</td>
</tr>
<tr>
<td>✓ What level of protection will be achieved by the proposed program requirements, procedures and processes? How will this compare to the level of protection that would be achieved by the ISS?</td>
</tr>
<tr>
<td>✓ Are the applicable technical standards adequate to achieve the necessary level of protection? How do they compare to the ISS and to the World Bank Group’s Environmental, Health and Safety Guidelines referenced in the ISS?</td>
</tr>
<tr>
<td>✓ Will these requirements clearly apply to a program proposed for support by an RBF operation?</td>
</tr>
<tr>
<td>✓ Is screening for, and estimation of, CES effects a part of initial RBF Program design? Is this screening sufficient in scope and scale?</td>
</tr>
<tr>
<td>✓ Does this screening process consider opportunities to enhance the range and reach of RBF Program benefits?</td>
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<tr>
<td>✓ Does the government engage in meaningful consultation with stakeholders?</td>
</tr>
<tr>
<td>✓ Is CES information made available to potentially affected communities in form and language that they can understand and a sufficient timeframe in advance of any consultations that they can consider the information and engage in meaningful consultation?</td>
</tr>
<tr>
<td>✓ Does the Program have accessible/effective grievance redress mechanisms?</td>
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<tr>
<td>✓ Do established grievance procedures accept and process grievances relating to CES management issues?</td>
</tr>
<tr>
<td>✓ Do monitoring arrangements specifically include all relevant aspects of CES management?</td>
</tr>
<tr>
<td>✓ Is there a need to formulate Program-specific monitoring indicators?</td>
</tr>
<tr>
<td>✓ Are there any disbursement-linked indicators relating to CES effects that need to be considered as part of the Program?</td>
</tr>
<tr>
<td>✓ Do Program arrangements authorize and identify funds available for CES management purposes?</td>
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6.4.5. Determining Actions to Strengthen CES Management Capacity. If the SESA process concludes that present capacity is sufficient to deliver CES, or that management capacity is sufficient to handle significant 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 government may nonetheless agree to do so as a Program objective). If the SESA process concludes that capacity-building measures are necessary to strengthen CES performance, or that new or strengthened measures are necessary to mitigate specific CES impacts associated with the RBF Program, then specific actions will be devised between the government and the Bank. These will be provided as inputs into the Program Action Plan, which would be agreed on with the government.

6.4.5.1. The type and content of agreed actions will be determined vis-à-vis the SESA findings and should be commensurate to the significance of CES issues associated with the Program. Moderately significant risks will require the formulation of extensive actions to address them. However, even less significant risks may warrant some measure of attention, especially if the RBF 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.

6.4.5.2. In incorporating necessary actions into the overall Program Action Plan, the Bank and government will 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 will establish 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 will clarify responsibilities and financial obligations and describe available means to address failures to act in a timely manner or to resolve interagency disputes.

6.4.5.3. 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 CES systems assessment will be included in the final version of the SESA, which will be made publicly available.

6.4.5.4. In the process of finalizing the systems assessment, the Bank and the government will 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. Table 14 highlights some of the key CES actions during the program cycle.

<table>
<thead>
<tr>
<th>Table 14: Key CES Actions during Program Cycle</th>
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| **Programming (CSP)** | - Bank and Government will develop and/or update CSPs and RISPs using CES considerations as anticipatory measures for potential RBFs.  
- The Bank and government will undertake a preliminary analysis of CES country systems of equivalence and acceptability and potential eligibility to capacity development facilities as well as possible funding sources. |
| **Identification** | - The Bank shall assess the effective mainstreaming of CES into CSP or RISP or existence of a SESA incorporating necessary country or sector-level baseline information.  
- The Bank will also perform CES screening to determine and verify if ISS requirements are met and that categorization of the RBL is appropriately done. |
| **Preparation** | - The Bank may, upon consultation and agreement with Government, use part of the loan proceeds to fund if necessary the required independent expertise that will perform a detailed technical assessment of program systems [equivalence/acceptability study] as well as the required SESA program action plan, including capacity action plan |
| **Appraisal** | ✓ The Bank will verify DLIs related to CES and inherent risks; mainstream CES considerations into DLIs and validate capacity action.  
✓ The Bank will verify and validate other non-DLI mitigation measures in the Program Action Plan, including capacity building actions, that will be attached to the Appraisal Report and monitored during Bank supervision. |
| **Approval** | - The Bank shall integrate the program action plan (that is, the outcomes of CES risk assessment and appropriate capacity development plan) as an integral part of loan agreement. |
| **Implementation** | - The Bank will provide technical assistance to Government to facilitate delivery of expected results and establish appropriate M&E arrangements and procedures and will perform [independent] compliance review of CES arrangements. |
| **Completion** | - The Bank will issue project completion report based on Government supplied information and independent audit reports and will compile and share lessons learned and possible use for helping Government improve programming. |

6.4.6. Consultation and Disclosure. The Bank will consult with stakeholders as needed during the SESA process. After preparation, at a minimum, before RBF appraisal, the task team will make the draft SESA publicly available, and will subsequently consult with RBF Program stakeholders on the draft SESA. The Bank will make the final assessment publicly available for 30 days before Board approval of the RBF Program, as consistent with the ISS), including any agreed actions to strengthen or improve CES management capacity. The task team should ensure that the consultation materials will be disclosed in an appropriate form, language and manner/location to facilitate meaningful consultation. The task team will ensure that any consultation meeting(s) will be undertaken not less than 30 days before the disclosure date, which will be the same for submission of written comments. The purpose of the stakeholder consultation will be to test the findings of the draft assessment against the knowledge and perceptions of stakeholders who are involved in the government program. The task team will describe in the Program Appraisal Report.
(PAR), which is initially drafted during preparation, the potential CES impacts, program capacity to mitigate impacts, and capacity-strengthening or other specific measures deemed necessary to ensure effective performance. Because the SESA will be the responsibility of the Bank, there will be no requirement for the government to consult with stakeholders on its findings or to make the assessment publicly available separately.

The specific roles and responsibilities relating to CES management for the Bank and the program counterparts are highlighted in Table 15. See Annex 8 for indicative outline for RBL-related SESA.

<table>
<thead>
<tr>
<th>RBF operation phase</th>
<th>Government</th>
<th>Bank</th>
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| **Identification**  | • Provide initial definition of scope of proposed Program.  
• Present initial briefing on existing CES management systems, regulatory frameworks, system capacity as relevant and applicable to the proposed program as requested by Bank task team.  
• Share information with Bank on system performance, provide examples of current operational experience and any CES assessment.  
• Facilitate initial discussions with Bank team and key stakeholders in the CES management process.  
• Agree with Bank task team on scope, timeframe, key milestones, public availability, and consultation requirements for the Bank’s CES systems assessment.  | • Conduct initial screening of Program proposal for potential CES effects.  
• Inform government about all CES aspects involved in RBF 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 government on all processing steps required during remaining preparation phase. |
| **Preparation/ Assessments** | • In collaboration with Bank task team, identify and document potential CES 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 SESA. | • Carry out SESA  
• Meet periodically with CES management counterparts to develop understanding of procedures, standards, and approach.  
• Work with government, to identify the details of the potential scope and scale of associated CES 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 government develop and agree to specific measures (if needed) to improve system performance during implementation period.  
• Prior to appraisal, disclose draft SESA and establish a specified period in which comments are to be received and considered.  
• Prior to appraisal, disclose a summary of SESA findings and recommendations. |
<table>
<thead>
<tr>
<th><strong>Appraisal</strong></th>
<th><strong>Implementation Support</strong></th>
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<tbody>
<tr>
<td>- Before or during appraisal, consult with relevant stakeholders regarding draft SESA (and proposed specific actions, if necessary).&lt;br&gt;- If not done earlier, consult on the draft SESA.&lt;br&gt;- Finalize SESA and include incorporate agreed actions.&lt;br&gt;- Agree on measures to monitor CES management performance.&lt;br&gt;- After appraisal, disclose final SESA, including all agreed actions.</td>
<td>- Implement agreed actions;&lt;br&gt;- Carry out periodic monitoring, performance evaluation, and audits of system performance;&lt;br&gt;- Regularly review performance of grievance redress mechanisms, and Program responsiveness to grievances received;&lt;br&gt;- Confer with the Bank on proposed changes to applicable systems during implementation.</td>
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### 6.5. Integrated Risk Assessment

6.5.1. Building on the three assessments above (technical, fiduciary and CES), the task team will prepare an integrated risk assessment on the overall risks to achieving the development objectives and results. The task team should note that risk assessment will be a dynamic process, starting in early stages of preparation, and continuing through implementation. The integrated risk assessment will be an important input for Management to determine and maintain an adequate balance between expected program results and related risks. It will also help staff to continuously monitor the evolution of risks, identify the emergence of new risks, assess progress in implementing risk management measures and their impact, and, as necessary, devise appropriate adjustments to support the achievement of program results. The team will use the results of the integrated risk assessment: (i) to make the decision as to whether or not the Bank should proceed with the preparation of the proposed RBF, and advise Management accordingly; (ii) to authorize appraisal of the operation, and (iii) to determine the level of Bank implementation support to be provided for the RBF program. If the overall program risk is deemed to be high, the team will advise Management (through the Operations Committee or any relevant body), on the basis of which Management may decide not to move ahead with the appraisal of the operation.

#### 6.5.1.1. Risk Categories.

The risk framework of an RBF supported operation will draw on the lessons of the Bank’s investment lending operational risk assessment framework, and adapted to the program nature of RBF. The integrated risk assessment will, therefore, include key risk categories, such as:

- **Operating environment risks**, including: (a) country risk, examining, for example, the extent to which macroeconomic conditions may affect prospects for implementing the RBF 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; and (b) stakeholder risk, including risks emanating from the government, the general public, key donors, development partners, or other stakeholders.

- **Program risks**, including: (a) technical risk, relating to the program’s economic rationale, technical soundness, institutional capacity, governance, sustainability, and M&E arrangements; (b) fiduciary risk, relating to the program’s fiduciary systems arrangements, capacity, and performance, as well as to controls and audits; (c) climate, environmental and social risk, relating to the potential impacts of the program, the systems in place, and capacity and performance for avoiding, mitigating, or managing such impacts; (d) DLI risk, relating to the program’s results framework, the type of indicators selected, and the measurement and independent verification of results, and (e) other program-related risks not covered under the above four dimensions. As governance is a cross-cutting theme, risk evaluation under each of these dimensions will take into account governance risks pertaining to that dimension.

### 6.6. Strengthening Institutional Capacity

As noted earlier, a key feature of RBF operations will be the focus of Bank support on strengthening the governance and institutional capacity essential to ensure that the programs achieve their expected results and can be sustained. Building on the findings of the assessments, the task team will work with country counterparts (and other development partners as relevant) to develop a better understanding of capacity constraints to achieving the specified results, and then devise measures to, among other things, enhance transparency, strengthen incentives and accountability, and improve the demand-side aspects of governance. An important element of capacity building is the focus on the behavioral and institutional changes that are required to achieve results and manage associated risks. The assessments that will be carried out by the team as part of preparation will identify, as appropriate, key program improvements and actions that can be undertaken over the time period of the operation. Since the assessments will focus on the whole government program, the task team’s recommended measures will help reduce the fragmentation of capacity-building efforts within a Bank country program, focus attention on core issues affecting the performance of the program, and thus enhance the effectiveness and sustainability of these measures. The action plan should consider improvements to enhance the long-term efficiency of a government’s program while taking into account the feasibility of implementation during the operation’s timeframe (refer to Staff Guidance Note on Assessments for further details).

### 6.7. Supporting Capacity Building and Technical Assistance

In addition to the overall program-level approach of RBF, in many cases the Bank will actively support capacity building through dedicated technical assistance activities. RBF offers a number of modalities for providing such assistance. Technical assistance, where needed, can be provided as an integral part of an RBF operation; as a separate stand-alone investment lending or an investment lending component within an RBF (i.e., as a hybrid operation); or through parallel efforts financed by development partners, or through trust funds administered by the Bank. The task team should use the risk assessments to indicate the nature of technical assistance to be provided and the modality of financing the technical assistance (refer to Staff Guidance Note on Assessments for further details).
6.8. Addressing Material Weaknesses Revealed by the Assessments

If any of the assessments (technical, fiduciary and CES) reveal material weaknesses, the task team’s response will depend 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 team will escalate to Senior Management to decide whether to finance the operation or use another instrument that can better mitigate the risks. For less severe risks, the Bank will agree with the government on measures to address and rectify them before or during program 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 the Bank’s financing, or another donor’s, or from the client’s own resources. Progress in implementing these measures - some of which could be in the form of legal covenants or included in an action plan - would be monitored during implementation.

✓ The DLIs could include specific actions, covering the areas of weakness, as results that would be monitored during implementation.

✓ Specific actions could be agreed for inclusion in an operations manual for the program (if one is available or required) or in the internal regulations of the client, and would be monitored during implementation.

✓ Adjustments could be made to the terms of reference of the audits and/or Bank monitoring during implementation to focus on the areas of weakness or riskiness.

Table 16 below highlights the roles and responsibilities in conducting the integrated risk assessment.

<table>
<thead>
<tr>
<th><strong>RBF stage</strong></th>
<th><strong>Operation and Concept</strong></th>
<th><strong>Government</strong></th>
<th><strong>Bank</strong></th>
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</table>
| Identification and Concept | | • Provide the Bank with relevant information.  
• Work with the Bank on balancing risks with results, and designing risk mitigation measures. | • Identify and assess risks of the Program not to achieve its expected results in a manner consistent with the Bank’s RBF Policy.  
• Consult recent country/sector operations, ESW, CSP, 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 government risks to results, identify appropriate risk management actions (as feasible at the PCN stage).  
• Present initial risk assessment as part of the PCN. |

| Preparation/Assessment and Appraisal | | • 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. | • 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 PAR for the review of OpsCom (or any relevant body), dropping the risk management measures already carried out, and including additional ones as necessary. |
6.9. Finalizing Preparation/Assessments

6.9.1. At the end of the assessments when most of the design and assessment issues have been resolved with the government, the task team will submit a draft Program Appraisal Report (PAR) for Management’s review (through Operations Committee or any relevant body). The review meeting will decide on, inter alia, the following:

- Ability to achieve the RBF Program results and the adequacy of the disbursement-linked indicators (DLIs\(^\text{15}\)), and their independent verification protocols;
- Adequacy of the overall risk assessments and recommendations from those assessments, as well as the Program Action plan (if required, see annex 3 for details) for enhancing the RBF Program systems and mitigating risks;
- The RBF financing conditions, including conditions of appraisal, negotiations, Board presentation, and legal conditions;
- The proposed implementation support arrangements; and
- Whether the task team should proceed with Program appraisal or whether sufficient information has been provided in order to consider the Program already appraised.

6.9.1.1. At the end of the preparation, the PAR and Actions Plan (see section 9.2 below and Annex 3) would have been drafted as part of preparation process to be refined further during appraisal.

7. APPRAISAL AND APPROVAL OF RESULTS-BASED FINANCING OPERATIONS

7.1. Appraisal/Program Appraisal Report (PAR)

During appraisal of an RBF operation, the team will integrate the findings of the various assessments conducted during the preparation stage to determine the overall quality of the program and its associated systems, the government’s commitment to and potential for making improvements, and the risks (with and without improvements) that the program will not achieve its expected results. On the basis of these findings, the team will agree with the government on the scope of the program to be supported and its objectives, results, and a set of DLIs, as well as on measures, if needed, for systems strengthening and capacity building, including with respect to the governance of the program and M&E. As necessary, improvement

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\(^{15}\) See Section below for further details on DLIs
measures will be described in an action plan for the operation. As part of appraisal, the team will also agree with the government on the audit arrangements and will finalize the economic justification of the proposed operation. Incorporating all these into the PAR, the team will present the PAR to Senior Management for decision as to whether the overall balance between the benefits and risks of the operation justifies proceeding with the negotiations of the operation and presentation to the Bank’s Board of Directors for approval.

7.2. Program Action Plan

Based on the outcome of the various assessments, the Bank will agree on action plans with the government, to the extent possible with input from other development partners. At least three types of improvements may be included in the Action Plan:

- Actions to improve the technical dimensions of the program and the formal rules and procedures governing the organization and management of the systems that will be 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 and CES concerns.

7.3. Disbursement-Linked Indicators

7.3.1. Disbursement-linked indicators (DLIs) are fundamental to RBF operations because they provide the government with incentives to achieve key milestones in the program’s results framework or to improve performance under the program. They are also the basis for the disbursement of Bank funds. DLIs will be discussed and agreed with the government during the preparation of an RBF operation, and finalized at the time of appraisal. The task team should ensure that outcome-based DLIs constitute at least half of DLIs in a given RBF operation. However, since RBF is likely to support a diverse set of programs at various stages of development, the task team should select DLIs that are sufficiently flexible to respond to the wide range of program circumstances. For instance, 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, while programs that are well advanced in terms of their development may have a larger number of DLIs that are outcome indicators. The fundamental principle is that by the end of an operation, the Bank will be able to demonstrate the achievement of key outcomes that have been achieved under the program. Additionally, Bank task teams should strive to avoid “easy” DLIs, which are DLIs that would have been achieved regardless of the RBF program. Instead, efforts should be made by the task team to select DLIs that are realistic, but at the same time could not have been achieved without the RBF operation.

7.3.2. 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 program development objectives (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 program
development objectives 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?

7.3.3. Choosing DLIs should also take account of the practical aspects of measuring, monitoring, and verifying achievement of the results. DLIs should be clearly defined and measurable, with clear protocols for monitoring. DLIs should be structured taking into account the country’s context and government capacity, and whether it is feasible to achieve the results selected as DLIs during the implementation period of the RBF operation. Since the RBF 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, an RBF 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.

7.3.4. Selecting DLIs. The team should note that DLIs can be outcomes (e.g., adequacy or reliability of power supply, infant mortality rate, literacy rates, etc.); outputs (e.g., number of high voltage transmission lines, immunization rates, etc.); intermediate outcomes, outputs, or process indicators (e.g., confirmation of substantive participation in decision-making by specified communities); or financing indicators (e.g., share of certain activities/projects in total expenditures). DLIs could 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 will be driven by the desired outputs and outcomes of the programs. The team should therefore select DLIs based on the practical aspects of measuring, monitoring, and verifying achievement of the results. The team must ensure that DLIs are tangible and verifiable. A given DLI can have one or more values to be achieved over the lifetime of an RBF operation, for instance, to install 100 transmission lines in year one and 200 in year two.

7.3.5. Number of DLIs. Not all indicators in the RBF Program results framework should be selected as DLIs, though monitoring the full results framework is important for the government to keep the RBF Program on track. By the same token, not all actions under the program action plan (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 outcomes should aim to ensure that they are the key milestones that are considered critical to (a) keep the RBF 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.

7.3.6. Resource Allocation under DLIs. The financing amount allocated per DLI will be determined by Bank task teams, in discussions with governments, based on the relative importance of the indicator to provide the incentive needed for achieving overall RBF Program goals and outcomes. The amount allocated to the achievement of each DLI will not be attributed to specific RBF Program expenditures, nor will it need to be commensurate to the RBF Program expenditures necessary to achieve the DLI. However, the more significant the DLI is for the achievement of the expected RBF 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 value\textsuperscript{16} or several values\textsuperscript{17} 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.

7.3.7. Independently Verifying the Achievement of DLIs. The task team must ensure that each DLI has a credible, independent, verification protocol and set out how it will be measured; whether it is discrete (i.e., all or nothing) or scalable; how the verification will be done; and who will be responsible for verifying its achievement. The team should identify the verification protocol for each indicator, and ensure that it is acceptable to the Bank, as well as produces the needed information. Depending on the nature of the specific DLI, country circumstances, and the overall context of the program, the verification of DLIs should be independent of government influences and can be carried out in various forms and by various parties— for example, independent government agencies, semiautonomous entities, statistical or audit entities, and third-party entities such as nongovernmental organizations and representatives of civil society. Procurement of the independent verification agency (IVA) will be undertaken using country systems. The selected IVA should be agreeable to the Bank. Not all DLIs will need to use the same verification mechanism. The primary objective is to ensure that a credible and independent mechanism is in place for monitoring, measuring, and verifying the achievement of the DLIs. During preparation of an RBF operation, the task team should work with the government to develop and agree upon the DLI Verification Protocol (see template and illustrative example in Table 17 below) 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.
- 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.
- Indication of the independence of the verification agency/party.

7.3.7.1. The DLI Verification Protocol should be an integral part of the monitoring and reporting arrangements for the RBF 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 should be attached as an annex to the PAR.

\textsuperscript{16} For example, if the DLI is of an action type, such as “Preparation of an improved environmental and social guide by December 31, 2017”.

\textsuperscript{17} 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 RBF Program implementation period.
7.3.7.2. The task team should work with the government to review the RBF Program’s experience with internal and external verification and reporting, and agree upon appropriate arrangements that will ensure credible and independent verification of achievement of DLIs. These arrangements could include the RBF Program’s established monitoring systems if they are assessed to have the required 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.

7.3.7.3. Verification arrangements will be DLI specific, and should take into account the nature of the indicator, type of data that can be used to verify 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 independence, 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.

Table 17: DLI Verification Protocol

<table>
<thead>
<tr>
<th>#</th>
<th>Disbursement Linked Indicators</th>
<th>Definition/ Description of achievement</th>
<th>Scalability of Disbursements (Yes/No)</th>
<th>Protocol to evaluate achievement of the DLI and data/result verification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Data source/agency</td>
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<tr>
<td>2.</td>
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<td>3.</td>
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<td>5.</td>
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<td>6.</td>
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</tbody>
</table>

7.3.8. Scalability of Disbursements. The task team will agree with the government on the achievement of each DLI and the corresponding pre-defined amount of funds to be disbursed. Hence, in a situation where a number of DLIs were to be achieved, disbursements will be made only against those DLIs which were actually achieved. However, disbursements against DLIs may be scalable, with the disbursement of financing proceeds proportional to the progress toward achieving that DLI. For example, a DLI could be “increase of 10 percent in household electricity connections.” If the increase was only 8 percent in the
defined period, then, for example, 80 percent of the financing corresponding to that particular DLI could be disbursed. Scalability of disbursement may not apply to all DLIs. For instance, if a DLI refers to an action (e.g., an online procurement system is developed), then it is either done or not. Although the instrument allows for disbursement scalability, if there are no results, there will be no disbursements.

7.3.9. Timing. Most governments are expected to request Bank disbursements on a regular basis during the implementation period. When determining the timing for achieving an operation’s DLIs, the task team should take into consideration the government’s funds flow needs as well as ensure that the critical steps needed to achieve the DLIs can be achieved within the given time frame. The DLIs, the related results, and the loan amounts allocated to the achievement of those results are recorded in a DLI matrix (see RBF Guidance note on assessments and annotated RBF PAR template for further details). In some circumstances, certain results may need to be realized before the legal agreement is signed so that the desired program results can be achieved - for example, setting up the monitoring arrangements for the program. In such cases, the Bank will be able to disburse against DLIs achieved between the date of the Program Concept Review and the date of signature of the legal agreement, as long as the aggregate amount of loan proceeds allocated to such DLIs does not exceed 25 percent of the amount of the Bank financing.

7.3.9.1. During the preparation of an RBF operation, once the DLIs have been agreed, the task team will discuss with the government the possible timing of disbursements taking into account considerations of the government’s 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 RBF Program implementation period: (i) a relatively smooth allocation of Bank financing; and (ii) DLIs that foster meaningful RBF 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 government in terms of flow of funds from Bank financing.

7.3.9.2. A DLI may be defined as time bound, meaning that if it is not achieved by a specific date, the government 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 RBF Program procurement system in place by [date], or revised RBF Program manual available to stakeholders by [date]).

7.3.9.3. Some DLIs may not need to have a firm achievement date attached to them - they could be achievable at any time during the RBF Program implementation period. In this case, the government 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.).

7.3.10. DLI Matrix. The DLIs and the financing amounts allocated to the achievement of each DLI are recorded in the DLI Matrix (see Table 18 below). Taking into account the number of DLIs, the expected
timing of DLI achievement, and the client’s expected financing needs, the task team will propose an indicative time table for DLIs achievement and disbursement (e.g., on an annual, semi-annual, or quarterly basis). This time table will be part of the DLI Matrix. A DLI can be specific to one period or defined to have 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 RBF Program completion, the financing amount allocated to this DLI will not disbursed. The DLI Matrix will be attached to the RBF Program Appraisal Report (PAR) and will be reflected in the legal agreement for the RBF operation.

Table 18: Disbursement –Linked Indicators Matrix

<table>
<thead>
<tr>
<th>DLI</th>
<th>Total Financing allocated to DLI</th>
<th>As % of total financing</th>
<th>DLI Baseline</th>
<th>Indicative timeline for DLI achievement</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td>Year 1</td>
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<tr>
<td>DLI 1:</td>
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<td></td>
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<tr>
<td>Allocated amount</td>
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<tr>
<td>DLI 2:</td>
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<tr>
<td>Allocated amount</td>
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<tr>
<td>DLI 3:</td>
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<tr>
<td>Allocated amount</td>
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<tr>
<td>DLI 4:</td>
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<tr>
<td>Allocated amount</td>
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<td>DLI 5:</td>
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<tr>
<td>Allocated amount</td>
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<tr>
<td>DLI 6:</td>
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<tr>
<td>Allocated amount</td>
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</table>

7.3.11. Prior results. Some results may need to be achieved prior to signing the legal agreement for the operation. For example, an RBF Program might need to put in place a system for collecting baseline data
used to measure progress toward RBF Program results or possibly a monitoring system to measure progress on its results framework. In such situations, the Bank may agree with the Borrower/Recipient that certain prior actions should be met/achieved by the Borrower/Recipient between the date of project concept review and the date of signature of the associated financing agreement. The Bank may only upon signature of the associated financing agreement disburse up to 25% of the total amount of the financing proceeds against DLIs met by the Borrower/Recipient. This agreement shall be incorporated in the associated financing agreement as a special clause. The financing of prior results is similar to what is referred to in normal Bank investment operations, as retroactive financing where certain expenses incurred prior to the signature of the legal agreement are authorized by the Bank based on a prior agreement between the Bank and the Borrower/Recipient (See Bank’s Disbursement Handbook, section 4.4). In reviewing the government’s request for such financing, the task team has to ensure that such results: (a) are within the scope of the RBF-supported operation; and (b) the systems used to achieve such results are assessed by the Bank. In practice prior results financing should be agreed at negotiations between the Bank and the Borrower/Recipient. The DLIs against which the amount of prior results financing is defined are identified in the determination of Bank Disbursement Table. The time frame for such financing should generally be no earlier than 12 months before the signing of the legal agreement, unless a longer time frame is approved by the Board.

7.3.12. Advance financing. Many programs supported by RBF 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 government 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 exceptionally of up to 25 percent of RBF financing for one or more specific DLIs that have not yet been met (“advance”). However, it should be noted that advance payment can only be made following the effectiveness of the legal agreement. When the DLIs are achieved, the amount of the advance will be 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 will require that the government 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 RBF Program closing date.

7.3.12.1. Under circumstances where the government will require cash advance to achieve the results of one or more DLIs, the task team will articulate the need for and strong justification of such advance in the PAR, although the advance will only be effected upon Board approval of the operation. The specific amount and allocation should also be specified in the financing agreement. The DLIs against which the amount of advance is defined should be identified in the Bank Disbursement Table. The team should ensure that such advances will not exceed 25 percent of the total RBF and will be deducted (recovered) from the amount to be disbursed under a subsequently met DLI. Further advances can be made during implementation once an advance has been recovered, or partially recovered.
7.3.12.2. The combined amount of the prior results financing and advances should not exceed 30 percent of the total Bank financing under the RBF 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 task team should state in the PAR (to be approved by the Board) that the higher limits have indeed been authorized.

7.3.13. **Disbursement Arrangements.** The task team will outline the disbursement arrangements for the RBF in the PAR. As existing programs are usually part of the general budget process, when a DLI is achieved, the Bank will disburse the agreed amount as a contribution to the program that underpins the results. In this case, the government can request that the Bank’s RBF proceeds be disbursed either into the government’s account at the central bank, or in some situations (for example, if 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) into a separate account of the relevant entity.

7.3.14. Once the DLIs, Bank financing amounts allocated to the DLIs, and the DLIs Verification Protocol are defined, task teams and governments 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. Such formulae may be of various types, including pass/fail, linear or other types as may be agreed between the Bank and the government. Defining adequate formulae should take into careful consideration the effect of a partial achievement of the indicator on the continued progress in the RBF 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 RBF Program. The DLIs formulae will be described in the Bank Disbursements Table attached as an Annex to the PAR. As relevant, the Table will also identify the specific DLIs against which the Bank and the government have agreed prior results and/or advance financing would be available (see paragraphs 21 to 23 below).

7.3.15. Disbursement of Bank financing will be made at the request of the government upon achievement of DLIs.

7.3.16. **Bank’s acceptance of DLI achievement.** Task teams will routinely monitor the government’s progress toward DLI achievement on the basis of the agreed monitoring and reporting arrangements, including the RBF Program’s progress reports and the DLI Verification Protocol. When a DLI has been achieved (or partially achieved), the government will inform the task team and provide evidence as per the Verification Protocol, as justification that the DLI has been achieved. The task team will review the documents submitted and requests any additional information considered necessary to verify achievement of the DLI.

7.3.17. The task team and other Bank staff, as may be appropriate given the specific nature of the DLI, will be responsible for making the initial decision confirming the achievement of the DLIs and for verifying the documentation submitted by the government and documenting its conclusion. This will be described in a
memo from the task manager of the RBF Program to the Director General\textsuperscript{18} who will make the final decision as to whether the specific DLI(s) can be considered achieved. As an annex to the memo, the task team will include a draft official communication to the government informing them of the Bank’s decision regarding the achievement of the DLI(s) and the level of RBF financing proceeds available for disbursement. The Director General overseeing the operation will sign the official communication to the government.

7.3.18. If partial disbursement under a DLI is allowed against partial DLI achievement, the task team will determine the amount to be disbursed on the basis of the Program’s progress report and the DLI Verification Protocol. The Director General’s notification to the government 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 memoir and in the supervision report. It is important that all the relevant documents that the task team has used to reach its conclusions on the achievement of the DLI(s) will be filed in the Bank’s official records.

7.3.19. Disbursement requests. Disbursement requests will be submitted to the Bank using the Bank’s standard disbursement forms signed by an authorized signatory of the government. It is recommended that disbursement requests be grouped together as sets of DLI(s) 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 PAR. Governments should attach to the disbursement request a copy of the official communication that confirms that the Bank has accepted the achievement of the DLI.

7.3.20. Grace period. It is expected that once a DLI is achieved, the government 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 RBF 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 DLI(s) achieved prior to the closing date of the operation’s legal agreement).

7.3.21. Reconciliation. Although RBF operations do not link disbursements to individual expenditure transactions, the aggregate disbursements under such operations should not exceed the total expenditures by the government under the Program over its implementation period. In most cases, Bank financing will represent a relatively small proportion of the RBF 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 RBF Program, taking into account contributions from other financing sources. If, by RBF Program completion, Bank financing disbursed exceeds the total amount of program expenditures, the government is required to refund the difference to the Bank. An illustrative disbursement table is in Table 19.

Table 19: Bank Disbursement Table

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\textsuperscript{18} As living guidelines, this will be modified as and when the Bank changes its business processes.
7.4. Economic Justification

7.4.1. During appraisal, the task team will undertake an overall assessment of the economic justification (evaluation) of the proposed RBF operation. The team will take into account the scope of the program, the improvements to be made, the results to be expected, and the conclusions of the various assessments. The task team will seek to answer questions such as: Is public provision appropriate for the RBF-supported program? Is the government program economically efficient? What will be the development impact of the improved program? What is the Bank’s value added?

- **Public Rationale and Economic Efficiency.** The main rationales for public action - market failures, spillovers, redistribution, social and political concerns, and so on - would have been assessed during the preparation stage as part of the strategic relevance assessment of the overall program. At the appraisal stage, therefore, the team will draw on its previous assessment of the program’s expenditure framework to help determine whether an existing program is being delivered efficiently, taking account the available resources, and at a reasonable cost.

- **Development Impact.** The team will confirm that the proposed RBF operation will contribute to development, with expected benefits adequately exceeding expected costs. For many programs, this justification may take the form of a comparison of the *with* and *without* situations, supported wherever possible by evidence from similar programs in the country or elsewhere. If benefits are quantifiable but not in monetary terms, it may be possible to measure them with and without the improved program - for example, increased youth employment.

- **Bank Value-Added.** The Bank’s value-added is the difference in the program’s development impact with and without the Bank’s involvement. The task team should be clear that the allocation of staff and resources to the RBF operation under consideration adds significant value and that the specific activities are well chosen. Three broad sets of activities can be identified for value addition: (i) training, capacity building, and institutional strengthening; (ii) the learning dimension of RBF operations; and (iii) the risk-mitigating measures required under the risk assessment for RBF operations.
7.5. Overall Judgment in Determining the Fit of an RBF operation

7.5.1. The task team’s recommendations as to whether the Bank should support a government’s program with the RBF instrument will be based on the results of all the assessments. The team will consider a number of factors in determining whether the instrument is the right choice. For instance, if the quality of an existing program or the systems supporting it is low, but the commitment and potential to make major improvements with the support of the Bank and other development partners are high and the activities included in the program are relatively low-risk from a fiduciary, CES, or other perspective, RBF may well be an appropriate instrument to use. At the other end of the spectrum, in some cases the quality of an ongoing program and its supporting systems may be good but there is relatively little interest in or commitment to making improvements or the activities to be supported by the program are complex and potentially high-risk. If the added value of Bank involvement is small and the risks relatively high, the RBF instrument may not be appropriate. Over time, the Bank will build up a case-load of experiences and best practices that will facilitate decision-making. Until then, while the instrument is new, enhanced corporate oversight will be put in place.

7.6. Finalizing Appraisal

7.6.1. It is possible for the task team to combine preparation and appraisal, following the guidance above. Where the preparation process is separated from appraisal, then at the end of appraisal, the task team will confirm the relevant RBF Program, and its financing-related information, and resolve any outstanding legal, design, and implementation issues. These will be used to finalize the draft PAR and draft legal documents. Generally, the team will finalize the following at the end of an RBF appraisal:

(a) The Program’s definition, development objective(s), rationale, and scope, taking into account the guidance provided above, planned expenditures, financing requirements, and implementation and funds flow arrangements.

(b) The technical, fiduciary, climate, environmental and social systems, and integrated risk assessments carried out and the conclusions of those assessments, and, as necessary, the relevant risk management and other actions undertaken or to be undertaken during the preparation of the Program operation, and/or during RBF Program implementation, to enhance the RBF Program systems and performance.

(c) The main legal terms and conditions, DLIIs and credible verification protocols, and/or the Program Action Plan, as applicable, and other disbursement-related provisions.

(d) The results framework and the monitoring and evaluation arrangements, and, as appropriate, baseline references to be used in monitoring implementation and RBF Program systems performance and assessing the development effectiveness of the RBF Program at completion.

(e) Co-financing or other collaboration arrangements with other development partners and stakeholders; and

(f) Implementation support arrangements.

8. NEGOTIATIONS, APPROVAL AND SIGNING
8.1. Negotiations.

Following clearance of the PAR by Management (Operations Committee or any other relevant authority), the team will proceed to negotiate the RBF operation. The Bank, government and any other Program-related parties will conduct the negotiations and seek to finalize the associated PAR, agreement(s), disbursement letter(s), and other relevant documents. If new substantive issues or significant changes in the design of either the overall government program or the specific RBF program are raised during the negotiations, the task team will consult with Management for guidance on the way forward. If the negotiations are successfully completed, the task team will finalize the relevant draft RBF documents for submission to the Board. If any information in the PAR raises issues of confidentiality or sensitivity, or may adversely affect relations between the Bank and the government, the task team should incorporate it in a Memo to the Board, and delete all references to such from the PAR.

8.2. Approval.

After all the requirements for the Board presentation have been met, the Board will consider the proposed RBF financing, following streamlined or regular procedures. The final PAR will be disclosed in accordance with the Bank’s DAI Policy. Mandatory documents to be presented to the Board to enable a decision are:

- PAR
- Technical Annexes
  - Detailed RBF program description
  - Disbursement-linked indicator matrix
  - DLI verification protocol
  - Bank disbursement table
  - Budgeting and planning matrix
  - Summary of technical assessment
  - Summary of fiduciary systems assessment
  - Summary of climate, environmental and social systems assessment
  - Integrated risk assessment
  - Program action plan
  - Capacity building plan
  - Summary Credit Note (SCN) – Only applicable to ADF countries seeking ADB resources for the RBF operation, as per the requirements of the “Policy Proposal on Diversifying the Bank’s Products to Provide Eligible ADF-only Countries Access to the ADB Sovereign Window” (2014).
  - Roles and responsibilities of relevant Bank staff during implementation of the program (This should include roles at each level from Director Generals to the technical staff on ground. It should also highlight areas of dialogue with countries).

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19 As will be guided by the amendment to the Bank’s business processes following the approval of the instrument.
20 For ADF countries seeking ADB resources to finance an RBF operation, of Summary Credit Note should be prepared for consideration by the Credit Risk Committee (CRC), as done with investment lending.
8.3. Signing and Effectiveness.
The processes for signing an RBF operation will not differ from investment type operations. Staff should consult the Bank’s Operations Manual for further details on signing and effectiveness of loans and grants.

C. IMPLEMENTATION OF RESULTS-BASED FINANCING

9. OVERALL GOVERNMENT AND BANK RESPONSIBILITIES.

9.1. Government’s Role. Just as any Bank financing instrument, the government will be responsible for the program’s overall implementation, including monitoring its progress, evaluating results on completion, and meeting the relevant contractual obligations (including the Program Action Plan) set out or referred to in the legal agreements with the Bank. These responsibilities include the requirement to maintain the agreed fiduciary and CES risk management systems, and to deal in a timely and effective manner with failures in these areas.

9.2. Bank’s Role. The Bank will provide implementation support to the government. In this regard, the task team will pay particular attention to reviewing the monitoring and verification of the RBF Program’s results and DLIs, and the government’s compliance with its contractual undertakings in the fiduciary, climate, environmental and social, and risk management areas, including those related to the RBF Program’s Action Plan. The task team will regularly assesses the RBF Program during supervision missions, taking into account the integrated risk assessment developed during the preparation stage and using the risk assessment to respond to and assist the government to respond to pre-identified and new risks. The team will also recommend adjustments to the risk assessment, as may be appropriate.

9.2.1. The task team will undertake field visits, liaising as necessary with relevant partners, to provide appropriate support to the government. During these missions, the task teams will additionally review the Program audit reports and progress reports prepared by the government. The team will regularly report to Management on the RBF Program implementation by sharing the supervision reports and aide-mémoires that reflect review of documents, discussions with the government and relevant partners, and visits to Program sites and facilities. Both supervision reports and aide-mémoires will be disclosed, if both the Bank and government agree, in accordance with the Bank’s DAI Policy. Specifically, the Bank will support by:

- Reviewing implementation progress and achievement of the program results and DLIs;
- Providing support on resolving emerging program implementation issues and on building institutional capacity;
- Monitoring the adequacy of systems performance through program monitoring reports and audit reports, field visits, and monitoring compliance with legal agreements; and
- Supporting the government in monitoring changes in risks. As appropriate, the Bank will work closely with other development partners during implementation by conducting joint missions and sharing implementation support responsibilities.
9.3. Performance Management. RBF is underpinned by an overarching objective to improve performance of government programs by, inter-alia, focusing on behavioral and institutional changes required to achieve program results and manage associated risks. As such, RBF task teams should ensure that RBF operations are underpinned by performance management principles in order to deliver on program results, which will include the required processes, tools and incentives for effective management of program staff performance at all levels, focusing on results delivery, competencies and development. Performance contracts is an essential element of performance management that have proven effective in results delivery under many circumstances. In this regard, task teams should strive to use the RBF as an opportunity to promote performance contracts where programs lend themselves easily to this approach. The task team should however note that because the RBF instrument may be used to support a broad range of programs across priority sectors, national, sub-national, new or on-going programs; it may be difficult to apply performance contracts in the implementation of certain programs. This could even be even be compounded by resistance from some countries. Under such circumstances, the task teams should not compel countries to apply performance contracts, but rather should provide the right incentives and tools in the design of the operation to promote broader performance management during implementation, which will include:

- Promotion of accountability at all levels.
- Linking results-based principles and objectives at the program organizational level with individual results.
- Encouraging on-going dialogue and feedback across levels – this will include on one hand, between staff and managers of program implementation entities, and on the other hand Bank staff (including Director Generals) and the implementing agencies at all levels.
- Increasing clarity regarding performance expectations through an agreed plan with government.
- Supporting the growth and development of program implementers, while addressing underperformance in an effective manner.
- Providing the basis for rewards and recognition of program implementers in achieving results.

9.4. Reviewing Progress. The Bank will review implementation progress and achievement of the program’s results and DLIs. The Bank will support the government in identifying bottlenecks, emerging issues, and potential risks to the achievement of the program’s results. Timely review on the basis of program progress and other reports and field visits will enable the Bank to give advice on, and will enable the government to implement, any corrective actions needed to achieve the expected results in the face of changing circumstances. In this context, the team will develop both quantitative/qualitative references for monitoring program performance in order to compare baseline and implementation information and also identify underperforming areas. For field visits, particularly when program sites are numerous and dispersed across wide areas, the team will devise a plan to ensure that, over time, they observe a representative sample of areas. Additionally, the Bank will support the government in ensuring the continuing adequacy of program performance and underlying systems, and will review financial, technical, and progress reports prepared by the government and audit reports prepared by external and internal auditors. The Bank will continue sector/program dialogue throughout the program’s implementation.

9.5. Capacity-Building Support. The task team will also support the government to: (a) undertake the program action plan and institutional capacity-building activities defined during the preparation of the operation; and (b) identify and resolve program implementation issues that may arise during the implementation of an RBF operation. Drawing on the list of technical support activities agreed during the
preparation of the operation, the task team and the government will confer regularly on the specific activities to be carried out and will structure a joint timetable of concrete actions to be undertaken. As needed, the initial list of technical support activities could be modified to accommodate unforeseen priority needs for technical support from the Bank or other partners. Capacity-building support will be focused on improving governance and performance and on institutionalizing those improvements for medium- and longer-term sustainability. For new programs, the development of a practical and functioning M&E system could be an area to support. Regardless of whether new or on-going program, the task team should ensure that there are clear action plans with adequate incentive structures to attract, retain and motivate staff in circumstances where there is a lack of adequate capacity among existing government staff.

9.6. Achievement of Results. During the implementation of an RBF operation, the Bank will review progress toward the achievement of DLIs on the basis of agreed reporting arrangements, including the program’s M&E data in the progress reports. When a DLI has been achieved, the government will inform the Bank and provide any evidence agreed in the DLI verification protocol, and the Bank will determine that the DLI has been met. If DLIs were not well defined during the preparation of an RBF operation, or cannot be met because of unexpected events, the definition of these DLIs may be modified during the operation’s implementation, following normal Bank project restructuring processes.

9.7. Monitoring Risks. During implementation, the Bank will continue to use the integrated risk framework to: (a) monitor the evolution of risks and identify the emergence of new risks; (b) assess progress in implementing risk mitigation measures and their impact, working with the authorities and partners to make adjustments as necessary; and (c) determining the level of staff and Management oversight. The Bank may agree with the Government to commission additional external expertise to be devoted to monitoring tasks in case the proposed RBF is CES sensitive, such as large scale infrastructure programs. The role of the Bank will be restricted to helping identify appropriate expertise and to supporting procurement and assessing/using the relevance of monitored results to reach decision on disbursement.

9.8. Restructuring. If, as part of program implementation support, the Bank identifies significant changes in the program circumstances or risks, or changes in the government’s priorities and needs, the program financing arrangements may need to be modified to make the original program objectives and the results framework more realistic, or to increase the development impact of the program. If such changes cannot be accommodated within the framework of the original legal agreement, the operation may be restructured, in a similar manner to existing restructuring procedures.

9.9. Remedies. The legal remedies available to the Bank are specified in the relevant legal agreements and the Bank’s General Conditions21. The General conditions set forth terms and conditions generally applicable to loans and grants made by the Bank and the Fund. If the task team identifies events or program related default giving rise to the exercise of legal remedies, for instance a government’s lack of compliance or

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21 The Bank's General Conditions form an integral part of all its financing agreements (loan, guarantee and protocol of agreements) signed with RMCs by virtue of an explicit reference /provision to this effect.
breach of its contractual obligations, fiduciary undertakings, CES and other risk management areas, including those related to the Program’s Action Plan, the task team will inform, and make appropriate recommendations to Management. Management will determine whether to exercise legal remedies, as appropriate, taking into account, among other things, country, sector, and program-specific circumstances, the extent of and possible harm caused by circumstances giving rise to the remedy, and the government’s commitment and actions to address the identified problems. Generally, before any legal remedies are exercised, the Bank will provide the government with an opportunity to take timely and appropriate corrective measures agreed with the Bank (see Annex 6 handling corruption). Legal remedies available to the Bank may include (i) Suspension by notice to the Borrower/Recipient (in whole or in part), the right to request for and receive disbursements from the Special Account; and (ii) Cancellation by notice to the Borrower or the Recipient (the whole or part of the Loan/grant as the case may be).

9.10. Additional Financing. During implementation of the program, the Bank may provide additional financing to the government to finance: (a) unanticipated significant changes to expenditure 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 and CES sustainability of the original program. The Bank’s decision to extend additional financing will be based on the same considerations as its decision regarding the original program financing. In addition, the Bank will need to be satisfied with the implementation and performance of the original program, and with the results of the assessments related to the new or modified DLIs and results.

9.11. Program Completion. As with other lending instruments, all individual operations will be reviewed upon completion. This self-evaluation by task teams will be done initially using the existing project completion report (PCR) format to analyze the results of each operation as well as efforts to achieve institutional capacity building (building on the various assessments and their outcomes). The review will also look at the performance of the Bank and the government in carrying out their respective roles. The PCN will further cover the degree to which the Program objectives and results have been achieved and the overall Program performance, including the achievement of the DLIs. The PCR will incorporate the government’s evaluation of the RBF Program, as well as of its own performance and the performance of the Bank.

Within one year after the instrument is approved, a joint working group comprising the Strategy and Operations Policy Department, the relevant departments in charge of Quality Assurance and Results, the Independent Evaluation Department (BDEV), and staff from other Bank departments will develop and issue detailed guidelines to staff for PCR, building on existing methodologies and taking into account the special features of the instrument.

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22 Any additional finance provided for an RBF operation should be consistent with the Bank's Additional Finance Policy when approved.
D. CONCLUSION AND RECOMMENDATION

10.1. The above guidelines aimed at guiding the task teams of the Bank in their processing of Results-based Financing operations are considered as a “living” document and as such will be submitted to changes from time to time, so as to reflect the best practices in the use of this instrument.

10.2. The Boards are kindly invited to take note of these guidelines.
ANNEX 1: DEFINING THE RBF PROGRAM

Annex 1: Defining The RBF Program

A program supported by RBF could cover an entire sector or subsector; it could be subnational or multi-sectoral. It could also be a “time-slice” of an ongoing program. There is flexibility in how such boundaries will be defined, but they need to be anchored on an overall government program. Boundaries could be based on specific technical areas or components of a government program and can also include geographical or financial boundaries. For the purpose of these guidance notes and Bank documents, the “RBF Program” is the portion of a government program supported by a results-based financing operation. As a first step in defining the RBF Program boundaries, the task team should clearly present the key aspects of the overall government program, including its objective(s), key expected results, expenditures, and implementation parameters.

While an RBF 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 RBF operation is anchored. As a second step, the RBF Program definition should clarify the expenditure program to be supported and how the boundaries will be defined. The definition of the RBF Program and its boundaries is critical for the preparation of an RBF operation because it also defines the scope of the assessments.

Boundaries could be based on specific technical areas or components of a government program and can also include geographical (e.g., in case the RBF Program supports the government program focusing on specific geographical areas), and/or financial (e.g., in case the RBF Program supports specific budgetary lines of the government program) boundaries. Still clarity is important for the definition of an RBF operation and its related attributes and requirements. In some cases, the process to define the RBF 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.

Task team will next define the RBF Program development objectives, showing a clear linkage with the broader government program’s objectives and the RBF Program’s results framework. Box A below provides an example of a Program definition within the broader context of the relevant government program.

| Box A. Illustrative example of a government program Supported by an RBF operation |
|----------------------------------|----------------------------------|----------------------------------|
| Objective                        | The Government Program           | The Program supported by RBF     |
|                                  | To combat social and economic    | To improve, in RBF Program areas, |
|                                  | exclusion and improve the living | access to and/or use of enhanced  |
|                                  | conditions of poor and vulnerable | participatory local governance    |
|                                  | groups through enhanced economic | mechanisms, basic infrastructure, |
|                                  | opportunities, better access to   | social services, and economic     |
|                                  | basic services, and improved     | opportunities.                    |
| Activities types                 | ✓ Small infrastructure            | ✓ Small infrastructure            |
|                                  | construction or rehabilitation    | construction or rehabilitation    |
|                                  | and provision of services        | and provision of services         |
|                                  | ✓ Income generating activities    |                                  |

23 This should include results date for on-going programs
<table>
<thead>
<tr>
<th></th>
<th>Social, cultural and sporting activities</th>
<th>Capacity development activities</th>
<th>Improvements in quality of life of vulnerable persons</th>
<th>Basic infrastructure investments in remote areas</th>
<th>Income generating activities</th>
<th>Social, cultural and sporting activities</th>
<th>Capacity development activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic scope</td>
<td>Whole country</td>
<td>Specific areas in the country</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Cost</td>
<td>US$2.1 billion</td>
<td>US$1.1 billion</td>
<td></td>
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Adapted from the World Bank’s Internal Guidance Notes for PforR, 2012
Within the Program boundaries, the task team, working with government and other partners, and drawing upon existing studies and other work, will assess the Program systems and technical aspects as per the requirements set forth in the above guidelines and the RBF Policy. RBF operations will include the three primary assessments.

- **The technical assessment** which will describe the government program and the RBF Program, with particular emphasis 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 RBF Program’s results framework arrangements for monitoring and evaluation.

- **The fiduciary systems assessment** and **Climate, environmental and social systems assessment** will cover, in their relevant areas, the framework within which such systems will operate in the proposed RBF Program, the capacity of the entities managing such systems, and the systems’ performance.

The Task team will be responsible for preparing the assessments, with the right skills mix. The task team leader will lead the overall preparation, coordinating with each specialist on the team (e.g., procurement, financial management, climate, environment, social, and technical specialists, as needed). The respective specialist(s) on the team will be 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 into those assessments.

All available sources of relevant information should be considered in undertaking the Bank’s assessments for a given RBF 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.

Each of the assessments should 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.

All three assessments will identify key risks to the RBF Program not achieving its expected objectives and results within their specific areas. They will 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 RBF operation, as well as to monitor the evolution of the Program’s risks during implementation.
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<th>ANNEX 3: The Program Action Plan (PAP).</th>
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The set of actions for strengthening institutions and improving systems performance will serve as inputs to the *Program Action Plan*. From each assessment, a limited set of key priority actions will be included in the PAP. Types of improvements that may be included in the action plan include:
- ✔ 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;
- ✔ Actions to enhance the capacity and performance of the agencies involved; and Risk-mitigating measures to increase the potential for the Program to achieve its results and to address fiduciary, social, and environmental concerns.

The PAP will be drafted as part of the preparation/assessment process and further refined during appraisal of an RBF operation. It is based on the outcome of the assessments where certain actions may be selected to help improve the performance of the RBF 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.

If the PAP implementation requires additional technical assistance, there are a number of options available. When possible, the implementation of the PAP will be financed as an integral part of the RBF 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 RBF/IL hybrid operation or a stand-alone IL operation. Technical assistance may also be financed by other development partners, including through a Bank-administered Trust Fund.

*Tying it all together*

The 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). The task team, working in collaboration with the government and relevant development partners, will 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 RBF 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. To ensure that
the PAP actions are achieved, task teams should select critical actions to be included in the loan agreement that will be monitored during implementation of the program.

ANNEX 4: ASSESSMENT OF BENEFITS AND RISKS

Annex 4: Assessment of Benefits and Risks.

At various stages in the processing of a proposed RBF operation, the Bank will assess the overall balance between the benefits and the risks of proceeding with the operation and will come to a judgment as to the best way forward. This will be a focus of discussion as early as during the RBF concept note review meeting; depending on the results of that discussion, a decision could be reached early on that the RBF instrument is not the appropriate one to use. During preparation, the Bank will keep under review the balance of risks, capacity, and rewards and, as necessary, adjust the various dimensions of the proposed operation accordingly. If there are significant changes in some of these critical areas, the team will alert Senior Management (through Operations Committee or any relevant body) to those issues. The balance of rewards and risks will again be considered during the Operations Committee (or any relevant body) decision meeting before appraisal.

**RBF Operation Scope, Results, and Risks.**

The scope and quality of an ongoing program and of its accompanying systems, the government’s commitment to and potential to make improvements, the ambitiousness of the improvements planned, the results to be expected, and the risks associated with the program (both with and without improvements) will all influence the balance between results and risks. For example, the broader the scope of the program and the more ambitious the objectives for system-strengthening (e.g., with respect to fiduciary issues and environmental and social impacts), the greater will be the anticipated results - but probably also the greater the risk to achievement of the projected results. Working with government counterparts and other development partners, the Bank will come to an appropriate balance between results and risks - perhaps by adjusting the scope of the program or agreeing on strengthening or other risk-management measures. The introduction of a large number of special risk management measures would likely signal that the scope of the operation is too ambitious or that the environment is too risky for RBF to be the most appropriate instrument.
## ANNEX 5: PERFORMANCE ISSUES AND REMEDIES

### Annex 5: Performance Issues and Remedies

When performance problems are identified during implementation, the Bank should promptly bring them to the attention of the government and others concerned. The task team should also follow up on the results of independent audits and on the functioning of grievance processes. The team should support the government in taking the steps necessary to address performance issues. If the government fails to take corrective action promptly, or if performance continues to lag, the Bank may invoke remedies as specified in the program legal documentation.

**Remedies and Recourse.** The Bank’s standard legal remedies will apply to RBF operations. Remedies (to be distinguished from not disbursing Bank funds when DLIs are not met) may be applied when standard events (set out in the Bank’s General Conditions, which form an integral part of the loan agreements) and operation-specific events (set out in the legal agreements) occur. During preparation of an RBF operation, the government and the Bank will agree on the specifics of the program to be supported and the fiduciary and climate, environmental and social systems requirements to be adhered to by the government (these may include actions set out in the program action plan). These operation-specific undertakings will be reflected in the legal agreements. During implementation, the Bank will monitor the government’s compliance with its legal undertakings. If the government does not comply with its legal obligations, the Bank will require it to institute timely and appropriate corrective measures. If such measures are not taken, the Bank may exercise remedies, including suspension of disbursements and cancellation of the loan, to address the situation, according to the degree of severity of the government’s noncompliance. The Bank will also have the right to demand a refund if a disbursement is made in connection with a DLI that is subsequently shown not to have been met, or only partially met.
ANNEX 6: ROLE OF CORPORATE OVERSIGHT UNITS

ANNEX 6: Role of Corporate Oversight Units

Dealing with Fraud and Corruption Cases. Consistent with the RBF approach of using and strengthening overall governance and systems, the program will support government efforts to address and manage fraud and corruption risks, including investigations. Therefore the RBF instrument will provide an opportunity for the Bank to expand how it helps governments to fight fraud and corruption. Linking Bank financing to verifiable results is itself one of the indicators that funds are used appropriately. In addition, the Bank will support the government in managing the risk of fraud and corruption as one element of the government’s overall responsibility for program implementation. The focus will be on how the government will manage all program resources, not only those provided by the Bank. The Bank will review the systems and processes by which program implementing agencies will do this. The results of this review will inform the Bank’s overall program risk rating and the plan of actions it will agree with the government to respond to those risks.

That said, the Bank (through the Integrity and Anti-Corruption Department) will have the right to investigate allegations of possible fraud and corruption related to an operation supported by RBF. Even as RBF encourages and helps governments to manage fraud and corruption risks, the Bank has the right to carry out investigations that it judges necessary to fulfill its fiduciary duty under its Articles of Agreement24, and to sanction entities that are found to have engaged in fraud or corruption. The Bank’s debarment and suspension lists will apply to these operations. The Bank’s standard remedies under the General Conditions (e.g., suspension of disbursements, cancellation of the loan, repayment of monies already provided) will provide sufficient scope for the Bank to respond when issues of fraud and corruption are not being addressed satisfactorily.

Allegations of possible fraud and corruption that are brought to the attention of the government or the Bank’s relevant Anti-corruption Units will normally be communicated to the other party, leading to consultation on appropriate follow-up action. The findings by the responsible investigative unit and the proposed actions would be shared with the Bank, and, as appropriate, the parties will consult on the corrective actions warranted.

Role of Other Corporate Oversight Units. RBF operations will be subject to the same oversight functions as other lending instruments:

- **Integrity and Anti-Corruption Department** has the mandate to investigate and determine the veracity of allegations of corruption, fraud and other sanctionable practices in operations financed by the Bank Group.

- **Compliance Review and Mediation Unit** is an independent accountability and recourse mechanism that may investigate the Bank’s operations to determine whether the Bank has complied with its operational policies and procedures, and to address related issues of harm. Hence, people affected by activities included in the RBF program may submit a Request to Compliance Review and Mediation Unit, as per the requirements set out in the Independent Review Mechanism.

- **The Office of the Auditor General** provides objective and independent review and assessment of the Bank Group’s business activities and controls.

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24 Agreement Establishing the African Development Bank (as amended from time to time) and Agreement Establishing the African Development Fund (as amended from time to time).
The Independent Development Evaluation Department (BDEV) is responsible for providing an objective assessment of the results of the Bank Group’s work and identifying and disseminating the lessons of experience.

ANNEX 7: SOME EXAMPLES OF RESULTS-BASED FINANCING SCHEMES

a) **Conditional Cash Transfer (CCT) programs** are social safety-net programs that pay cash to households in targeted poor communities on condition that those recipients achieve specific behavior changes considered essential for sustainable, long-term program goals. While the short-term purpose of CCT programs is to improve the conditions of the targeted poor communities by increasing family incomes to support increased consumption of goods and services, the long-term objective of such programs is to promote lasting behavior changes to break the vicious cycle of poverty and to disrupt the transmission chain of poverty from the present generation of adults to the future generation of their children. Accordingly, CCT programs have been applied mostly in support of health objectives such as child immunization, and to education objectives such as increasing enrolment retention of school-age children, with special attention to girls. CCT programs have been implemented by a range of developing as well as developed countries to address pockets of poverty. Those implementations have shown that well designed and implemented CCT programs can have a wide range of good outcomes\(^25\), e.g., efficient targeting, increased food consumption and improved school enrollment rates. Reviews of some CCT programs also point to three key weaknesses: (a) synergies between social assistance and human capital development can be realized only where the supply of health and education services is extensive and of reasonable quality; (b) they can also be administratively demanding; and (c) both household targeting systems and the monitoring of compliance are data intensive, and the programs involve extensive coordination across agencies, and often levels of government.

b) **Cash on Delivery (COD) Aid** focuses on specific pre-agreed upon results, encourages innovation, and strengthens government accountability to citizens rather than donors. Aid disbursements to agents implementing COD programs or projects pay for measurable and verifiable progress on specific outcomes - for example, a pre-agreed remuneration per child, over a baseline number, that remains enrolled in school and completes a specific level of education. The implementing agency of the recipient country is free to adopt any means and approaches it considers to be the most efficient and effective to maximize the attainment of the targeted results, as long as those means and approaches do not violate fiduciary, environmental and social standards of the aid donor agency. COD aid has five basic features:\(^26\) (i) disbursements for outcomes, (ii) hands-off implementation, (iii) independent verification of progress, (iv) transparency through public dissemination of information on the programs, and (v) complementarity with other aid programs. However, COD assistance can be applied in sectors where clear, specific target results can be identified and pre-agreed upon between aid agencies and


\(^{26}\) Asian Development Bank: *Piloting Results-Based Lending for Programs*, February 2013; pp.38.
recipients’ implementing agencies, to be independently monitored and evaluated, to which disbursement would be directly linked.

c) **Output Based Aid (OBA)** promotes the delivery of affordable basic services to targeted recipients by paying competitive subsidies, per unit consumed, to bridge the gap between what the recipients can afford to pay, or are willing to pay, to increase access to basic services (e.g., potable water supply, improved sanitation, irrigation, electricity, renewable energy supplies, conversion to cleaner fuel technologies, transport, education, health care, etc.), on one hand, and the unit rate offered by the most efficient service provider (i.e., the lowest bidder among technically qualified firms), on the other hand.

To ensure medium to long-term financial sustainability, the level of subsidies per unit of services consumed may be tapered down over a pre-determined period. During that period the service provider is expected to lower connection costs and unit consumption rates through steady increases in efficiency, and/or to motivate the target recipients to increase their capacity or willingness to pay for the service. This ensures that those basic services will be financially sustainable in the long-term. The service provider is paid for the level of output of supplies meeting or exceeding specific technical standards and consumed by the targeted recipients. OBA was championed by the Global Partnership on Output-Based Aid launched in 2003 jointly by the World Bank and DFID.\(^\text{27}\)

d) **Performance Based Contracts (PBC)** focus not on physical outputs at the end of implementing a contract for construction works or turn-key delivery of assets, but rather on the medium and longer-term performance of those assets in delivering streams of services that meet or exceed desired standards (supply reliability, public safety, environmental standards, traffic flow characteristics and the resulting costs per trip, client satisfaction, etc.). In PBC, the government’s role changes from describing precisely how target performance results must be achieved, to describing the technical and/or qualitative standards that constitute a satisfactory level of performance which must be attained, maintained or exceeded for the contractor to be remunerated.

A hybrid OBA and PBC results-based financing model is the **Output and Performance Based Contracts (OPBC)** which combines output and service-delivery performance aspects. Under OPBC, for example the Contractor (rather than the public infrastructure service provider agency) may be responsible for the design of works required to reach and maintain specified service levels over the contract period. Alternatively, the state agency employing the Contractor may provide the engineering design for improvement works. Payments to the Contractor are linked to the delivery of measured outputs and performance realized at or above pre-specified service levels.\(^\text{28}\)

e) **Sector-wide Approach Programs (SWAPs)** were promoted by the OECD-DAC\(^\text{29}\) in the 1990s out of growing dissatisfaction with the traditional project approach which has often been viewed as fragmented, donor-driven and entailing high transaction costs for aid recipient countries. SWAPs represent a shift from stand-alone project financing to holistic sector-wide interventions. They

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\(^{27}\) Asian Development Bank, op. cit.; pp 41-42.

\(^{28}\) An example of OPBC are Output and Performance Based Road Contracts. See, Patricia Baquero (World Bank): “Practical Guidance to Procure Output and Performance Based Road Contracts (OPRC) Under Bank-Financed Projects”; PowerPoint; Transport Forum and Learning Week 2007; March 26-30, 2007; Washington, D.C.

\(^{29}\) The Development Assistance Committee of the Organization for Economic Cooperation and Development.
emphasize greater reliance on government institutions, common implementation procedures and stronger partnership between the government of the recipient country and its development partners. SWAPs are an important financing modality for operationalizing country-led development frameworks. The necessary conditions for effective SWAP processes are: (i) the existence of a government-led and coordinated comprehensive sector development program; (ii) the existence of a conducive policy environment or policy reform agenda leading to it; and, (iii) the commitment and availability of donor resources in the form of sector investment loans or grants for institutional capacity building and studies to underpin sector development issues. SWAPs also require the existence of a strong and coordinated donors’ approach to the target sector’s problems as well as the presence of an effective consultation mechanism between the aid recipient country and its development partners. The approach generally envisages: (a) the pooling of donor financial resources in support of a government budget for defined sector operations towards sector objectives commonly agreed upon between the recipient country’s government and the donor community; (b) the use of a common government-led implementation and coordination mechanism; and (c) streamlined common procedures for environmental and social safeguards, fiduciary safeguards including procurement and disbursement, and monitoring and evaluation. It is important to note, however, that the underlying financing instruments of SWAP operations are investment loans and/or grants by donors. As with general lending investment operations, coordinated disbursements by a SWAP’s donors have generally been linked to verified completion of input supply transactions rather than to results. Secondly, even though in principle SWAPs are led by the government of the recipient country, under those programs, governments’ sector agencies have very limited scope to find innovative approaches to achieve the targeted sector results.

ANNEX 8: INDICATIVE OUTLINE FOR STRATEGIC ENVIRONMENTAL AND SOCIAL ASSESSMENT (SESA) OF RBF OPERATIONS

1. The SESA will be carried out at the RBF Program level, and build on the Bank’s, development partners’ and government’s existing knowledge, as well as on specific analysis carried out during the preparation of an RBF operation. As the case may be, such analysis can be carried out in partnership with other development partners and/or the government. The suggested outline for a SESA report includes the following sections: (a) Program Description; (b) Description of Applicable CES 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.

2. **Section I: Program Description.** Section I should include a clear description of the scope of the proposed RBF 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 CES risks associated with the Program; and
   - Description of the government’s past experience in the RBF Program, including a brief consideration of other activities undertaken by the same Program agencies that may have impacts associated with the Program.

3. **Section II: Description of RBF Program CES Management System.** 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 could be based on existing analytical work such as Use of Country System assessments, ESMF, or assessments carried out by other development partners.

4. **Section III: Program Capacity and Performance Assessment.** 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 CES management system as defined in various rules, procedures, implementing guidelines and so on. Information should be provided which assesses:
   - Adequacy of institutional organization, division of labor and the likelihood that objectives of the applicable CES 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.

5. Assessment of Program System. Section IV will provide 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 government’s intention/commitment to undertake measures to address key gaps.

6. Section V: Inputs to the Program Action Plan. Section V will include 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 RBF 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.

7. Section VI: Environmental and Social Risk Ratings. Based on the SESA findings, and agreed-upon risk mitigation and improvement measures, task teams provide a CES impacts risk rating, the justification for the rating and relevant risk mitigation measures as input to the operation’s integrated risk assessment.

8. Section VII: Inputs to the Program Implementation Support Plan. Task teams will work with governments to structure the Bank-provided support in the Program’s CES areas during the implementation of a RBF operation. Implementation support will generally include:
✓ 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 conditions.
✓ In collaboration with the client, adapting management practice in a manner consistent with RBF principles as necessary to improve program implementation or to respond to unanticipated implementation challenges.