

PROGRAM-FOR RESULTS: AN ANALYSIS OF PROCUREMENT STRATEGIES

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In year 2012, the World Bank responded to the continuous demand from borrowing countries to offer a results-based financing mechanism by introducing the Program-for-Results (P4R) mechanism. There are four main characteristics that define the framework of applying P4R; namely, (1) it supports borrowers' programs, (2) offers disbursements against agreed results, (3) focuses on strengthening institutions that support the success of the program and (4) ensures supported programs serve social and environmental aspects. These characteristics are all translated into Disbursement Linked Indicators that are agreed between the WB and the borrowing country, prior to the implementation of program. DLIs are classified into several result-areas, according to their overall aim, such as (1) direct result areas that are directly related to the main aim of the program through the achievement of pre-agreed projects or tasks and (2) Indirect result areas that support the continuity of the achieved results, through supporting relevant institutions. This research analyzes the relations between such characteristics and their effects on the results of the program, through an evaluation of previous P4R operations. This is accomplished through an evaluation of the selected types of DLIs in different countries for different sectors. It also analyzes the types of indirect DLIs and their relation to the main Program Development Objective. The paper includes a detailed case study on the Sustainable Rural Sanitation Services Program in Egypt.

Keywords: World-bank, Disbursement-linked-indicators, Implementation, Results-based-finance, Infrastructure.

1 INTRODUCTION

One of the basic principles of International Financial Institutions (IFI) is to support under-developed countries by offering them support to achieve an improved economic stability. As such, IFIs offer developing countries several types of support varying from technical assistance through their previous experiences to direct funding of the basic needs of each country. IFIs offer different funding mechanisms for developing countries, such as (a) Debts/Loans, (b) Grants, (c) Equity, (d) Guarantees and Insurance, (e) Asset backed securities and (f) Results based financing (Zahran and Ezeldin 2016a).

The International Bank for Reconstruction and Development (IBRD), one of the World Bank (WB) institutions, offers three main financing instruments such as (1) Investment Project Financing (IPF); (2) Development Policy Financing (DPF); and (3) Program-For-Results (P4R). IPF focuses on long-term social and economic development projects that provide direct support for governmental targets/projects that reduce poverty and ensure sustainable development. It provides disbursements against specific expenditures within development projects, along with

providing technical assistance in borrowing countries. DPF supports borrowing countries in addressing development requirements. This is achieved by disbursing against policy and institutional reforms/actions. It is mainly focused on the strengthening of the country's general policy and institutions to ensure the sustainability of any investment efforts within the country (World Bank 2011).

The IBRD has been using both IPF and DPF, until year 2012 where the WB introduced Program-For-Results mechanism to fill the gap between them (Gelb and Hashmi 2014). This gap is shown through the difference in purpose between both mechanisms, where DPF targets the development of an enabling environment for investments within the country, while IPF achieves targets that directly feed into the economic stability and prosperity of people. Targets of both mechanisms supplement each other, where a project/target that is achieved through the IPF funding requires an enabling environment formed through the institutional reform done using DPF. This research is focused on the analysis of the procurement strategies used within the P4R mechanism.

2 PROGRAM-FOR-RESULTS

P4R was introduced by the WB to support clients in performing their programs while ensuring their sustainability (Saadah 2015). Each program has a Program Development Objective (PDO) which summarizes the objective of the program. It is broken down into several result areas that define both direct and indirect targets of the program. Direct result areas represent the main target behind the projects/tasks within the program, while indirect result areas represent the targets that support the program sustainability through strengthening government institutions and systems. Each program has to have at least two result areas, to reflect the four main characteristics of the P4R mechanism by integrating both direct and indirect result areas.

2.1 Disbursement Linked Indicators

Each result area is translated into several Disbursement Linked Indicators (DLI). DLIs are the main verification method that is used to ensure the borrowing country is achieving valid results towards the main program objective. Each result area is divided into several measurable targets/results. There are several types of DLIs such as:

- (i) Input DLIs (I) include actions that are related to inputs of projects, such as the purchase of required materials and presenting its invoice. This type of DLI was not used in the previous operations.
- (ii) Action DLIs (A) is relevant to a specific measurable action that is done by the government/implementation agency. An example of the Action DLIs is "Health centers reporting data in time" in the Health program in Ethiopia, where the government is rewarded when health centers only report the required data to the government (World Bank 2013).
- (iii) System action (SA) are indicators that refer to a group of actions required by the government, this group of actions complement each other to form one specific goal, most commonly related to indirect result areas. An example of a system action DLI is the "Development and implementation of annual rapid facility assessment to assess readiness quality MNCH services, from the same Health program in Ethiopia. This system action includes several sub-actions that include the development of the program and its implementation, where the government is rewarded after the development and approval and scalable rewarded throughout its implementation (World Bank 2013).

- (iv) System output (SO) is outputs that measure the performance of the government in achieving a specific output, most commonly related to indirect result areas. The “Increase of quality of high impact reproductive, child health, and nutrition interventions” is considered a SO DLI in the “Saving one million lives” program in Nigeria as it continuously measures the performance of the government towards achieving the PDO (World Bank 2015b).
- (v) Output (O) indicators are related to the direct outputs of the program from an action point of view. In the “Maharashtra rural water supply and sanitation program” in India one of the output DLIs is the “number of house connections to a commissioned water supply system”, as it is considered a direct output from implementing the program. It also falls under the direct result areas of the program, which is the increased access to water (World Bank 2014).
- (vi) Outcome (OO) is related to the effect of outputs of the program. In the “Transformation of Agriculture sector” program in Rwanda, the “increase in daily average yields of milk per cow” is considered an outcome DLI as it represents the effect of the other outputs/efforts done through the program.

DLIs can also be classified according to the method of disbursing their relevant amounts, as they can be disbursed at an agreed milestone (achievement of results) or can be scalable to the percentage of achievement within the main target (Gelb *et al.* 2016). Figure 1 shows the distribution of the types of DLIs across 35 P4R programs according to their number and values. It should be noted that action and system action DLIs are the most commonly used and have the highest share of the disbursement values.

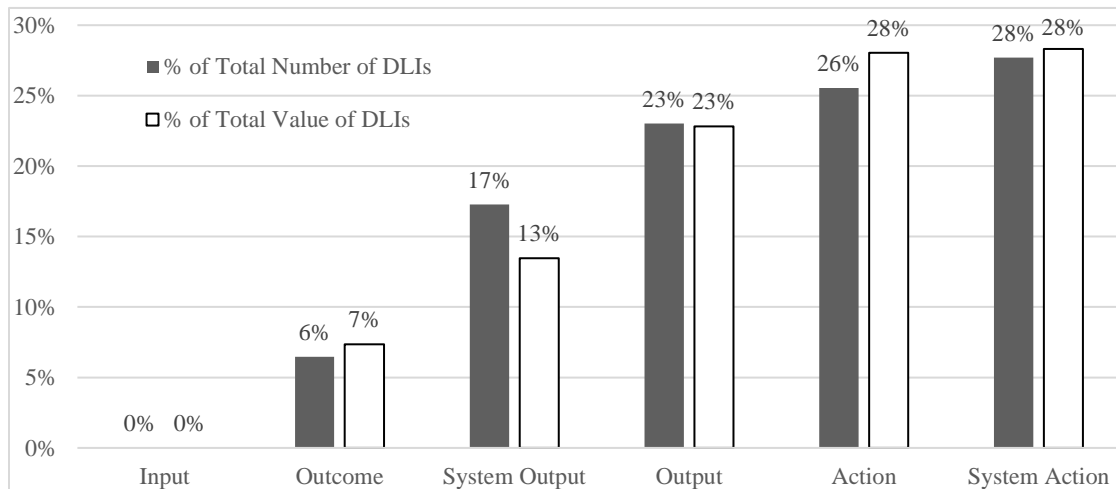


Figure 1. DLI types distribution for 35 P4R Operations (Gelb *et al.* 2016).

The application of P4R mechanism passes through several stages, starting from the preparation of the program by the borrower, to the closing of the financing account by the WB (World Bank 2012).

Figure 2 shows the flow chart of the process of applying the P4R mechanism. It starts by the borrower preparation stage, where the government identifies the program, performs initial studies and analysis and submits a proposal to the WB. This proposal includes a detailed identification of the program, its objectives, financing requirements and assessments. Through the WB identification process, WB representatives and the government have preliminary discussions

about the submitted program until they reach a preliminary agreement. The WB then forms a task team that is responsible for the program from this stage. The task team then drafts two documents, which are the Project Concept Note (PCN), and the Program Information Document (PID). Within the WB preparation stage, the WB task team starts in performing fiduciary, technical, integrated risk assessments and Environmental and safety (E&S) assessments. The results of these assessments may direct WB task team to propose modifications to the submitted program or accept the program to proceed for issuing (1) a draft Program Appraisal Document (PAD); (2) an updated PID; and (3) draft legal agreements.



Figure 2. P4R Application Flow Chart (Zahran and Ezeldin 2016b).

In the WB appraisal stage, the government and WB make final negotiations concerning the program, this agreement includes (1) the objectives and scope of the program, (2) main results/result areas, (3) Disbursement Linked Indicators (DLIs), (4) any required capacity building, (5) required strengthening measures, (6) governance and (7) Monitoring and Evaluation process (M&E). After reaching a final agreement, a Program Action Plan (PAP) is prepared and all parties sign legal agreements.

The government then starts in the implementation stage, after receiving any agreed advance payments or performing any strengthening measures, if agreed. The government starts by pre-financing the agreed program contents. Once a DLI is achieved, the government submits evidence to the WB, it has to be verified by an Independent Verification Agent (IVA). Once verified, the WB disburses the agreed amount for such DLI to the government, which is used in refinancing the program. On a regular basis, The WB task team also performs financial audits, technical reviews, support and check for any required restructuring or additional funding. The financing gap between the finance of the program tasks/activities and receiving the agreed disbursements after achieving results encourages the government to better plan the DLIs all over the program lifecycle.

Finally, through the closing stage, after the government finishes the implementation of the program the WB checks that the amounts disbursed are less than or equal to the total amount spent on the program. Then, the WB closes the financing account for the program and then issues an Implementation Completion Report (ICR), which summarizes the lessons learned from the program and feedback from the borrowing country.

3 SUSTAINABLE RURAL SANITATION SERVICES PROGRAM IN EGYPT

One of the P4R operations that is currently being implemented, is the Sustainable Rural Sanitation Services Program-For-Results in Egypt (World Bank 2015a). This program has a PDO of “strengthening institutions and policies for increasing access and improving rural sanitation services in the governorates of Beheira, Dakahiya and Sharkiya in Egypt”. This program achieves such objectives through three different result areas; each result area is broken down into different DLIs that represent its aim:

- (i) Result area 1: “Improved sanitation access”: this result area includes actual projects connecting the target villages with the national networks of Water supply and sanitation services

- (a) DLI 1: At least 167,000 new household connections (about 1 million people) are connected to working sanitation systems in villages and satellites of the target areas. This is an output DLI. This means that people are having fully operational sanitation networks in compliance with agreed-upon standards. It also ensures that people in satellites receive the same service through the definition of a minimal percentage of people in satellite receive the same service
- (b) DLI 2: the transfer of Performance Based Capital Grants (PBCGs) by the Ministry of Housing, Utilities and Urban Communities (MHUUC) to the eligible Water and Sanitation Companies (WSCs). This is an action DLI. These grants are considered incentives for WSCs to ensure the achievement of an improvement in their performance.
- (ii) Result area 2: “Improved operational systems and practices of Water and Sanitation Companies (WSC)”: this area includes the improvement process of the companies responsible for the Water supply and sanitation within the target governorates. This ensures that the projects executed within the first result area are sustained through well-established companies with adequate capacity and improved operations for operating and maintaining such projects. It is considered indirect result areas where it serves the original PDO through supporting the companies responsible for sustaining the program projects.
- (c) DLI 3: the design and implementation of an Annual Performance Assessment (APA) for the evaluation of the performance of the WSCs. This is a system action DLI. This assessment ensures that the WSCs consistently achieve an overall improved financial and technical performance in managing the executed projects.
- (iii) Result area 3: “Strengthened national sector framework”: this result area ensures that the outputs of both previous results areas are sustained through an enabling environment supported by the government within Egypt. For example, changing the national tariff structure would ensure that the water supply networks are going to be consistently financed in the future. This result area is considered indirect
- (d) DLI 4: An introduction of a new structure for the national tariff. This is an action DLI. This indicator ensures the financial sustainability of the executed projects and the ability of the government to finance the operation and maintenance processes of such projects.
- (e) DLI 5: The establishment of a Project Management Unit (PMU) and the introduction of a National Rural Sanitation Strategy by the MHUUC. This is an action DLI. This DLI ensures that the main goals of this program continue to be applied on the other governorates within the country and that a strategy/plan is already existing. It also ensures that the tools required for this application are present within the country and can be easily applied through the financial resources made available through the financial resources available from this program.
- (f) DLI 6: the presentation and agreement of a Standard Procedures for Land Acquisition. This is an action DLI. This DLI ensures that any lands required for the execution of the program are obtained easily. It also ensures that the already available processes are simplified. This DLI will ensure that the already available land acquisition procedures do not delay any of the activities falling under DLI 1.

The main bulk of the program financing (40%) is directed towards DLI 1, for financing three WSCs to finalize their planned investments for rural sanitation infrastructure, within result area 1. 31% is allocated for strengthening the WSCs and improving their capacity. The remainder of

financing is allocated for strengthening the national framework supporting the implementation of the program and ensuring its sustainability. The main concept applied in this program follows the track of the P4R mechanism, which supports the main target of a program while financing other activities that ensure its success and enforce its sustainability.

4 CONCLUSION

This paper analyzes the application of the Program-for-Results funding mechanism. It investigates how the main characteristics of P4R are translated into result areas that are broken down into different DLIs that define how the government is reimbursed throughout the lifecycle of the program. One of the main findings of this research is that each P4R program has to have a main result area that is directly related to the main program objective, broken down into several DLIs, and other result areas that support the sustainability of the achieved results within the direct result areas. The paper includes a detailed case study on the Sustainable Rural Sanitation Services Program in Egypt. The Case study illustrates the main concept of P4R, where two result areas responsible for strengthening the water companies and strengthening the national sector support the main result area of improving sanitation access. Finally, the paper also provides guidance to borrowing governments on the selection of the required DLIs for each development program.

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