PROGRAM-FOR-RESULTS
FINANCING

INTERIM GUIDANCE NOTE TO STAFF:
DLIS AND DISBURSEMENT ARRANGEMENTS

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

Operations Policy and Country Services

June 18, 2012
ACRONYMS AND ABBREVIATIONS

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

1. Disbursement-linked indicators (DLIs) play a critical role in Program-for-Results (PforR) operations because they are the basis for disbursement of World Bank funds under such operations. During an operation’s preparation, task teams work with borrowers to identify a limited set of indicators selected from the Program’s results framework and the Program Action Plan (PAP). These indicators will be defined as DLIs and will be included in the operation’s DLI Matrix.

2. During implementation, monitoring the achievement of DLIs allows the Bank and borrowers to assess progress toward the Program development objective (PDO) and, if needed, to point toward areas where a Program needs to be redirected in order to achieve its expected results. This note provides guidance to Bank staff on the selection and verification of DLIs and the accompanying disbursement arrangements in a manner consistent with OP/BP 9.00, Program for Results Financing.

I. THE DLI MATRIX

3. The selection and structuring of DLIs under a PforR operation is carried out jointly between the task team and the borrower during the preparation of the operation.

4. **Selection of DLIs.** While DLIs will vary in nature, they should be driven by desired outcomes or outputs. They can also be intermediate outcomes, outputs, process, or financing indicators that are key actions needed to address specific risks or constraints to achieving development results. The selection of DLIs should focus on the indicators that provide evidence of continued progress toward the PDO. The choice of a DLI should be clear with respect to its signaling purpose. *Does the DLI serve the role of signaling and monitoring a critical milestone along the results chain without which the PDO could not be achieved? Or does the DLI serve the role of signaling incentives for rewarding performance (outputs, outcomes) to encourage the practice of managing for results?*

5. The selection of the DLIs should also take into consideration the practical aspects of measuring, monitoring, and verifying achievement of the results. The DLIs should be clearly defined and measurable, with clear protocols for monitoring. The DLIs should be structured taking into account the country’s context and borrower capacity, and whether it is feasible to achieve the results selected as DLIs during the implementation period of the PforR operation. Since the PforR instrument supports a diverse set of programs at various stages of development, the types of acceptable DLIs are sufficiently flexible to respond to the wide range of demands. On one hand, a Program in the initial stages of implementation may have DLIs that are more focused on basic institutional capacity building actions and intermediate output indicators. On the other hand, Programs that are well advanced or “mature” in terms of their development may have a larger number of DLIs that are outcome indicators.

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

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

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

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

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

3 For example, if the DLI is of an output type, such as “Extension of paved roads rehabilitated,” with 400 kilometers of roads expected to be rehabilitated each year over the Program implementation period.
10. A DLI may be defined as time bound, meaning that if it is not achieved by a specific date, the borrower will not be able to request disbursement of the financing amount allocated to that DLI. Defining time bound DLIs can be useful when the DLI is a critical action or process which needs to occur by a certain date in order to allow the Program to achieve its expected results (e.g. modernized Program procurement system in place by [date], or revised Program manual available to stakeholders by [date]).

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

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

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

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

**II. THE DLI VERIFICATION PROTOCOL**

15. During preparation of a PforR operation, the task team should work with the borrower to develop and agree upon the DLI Verification Protocol (see template and illustrative example in Attachment 2.2) that substantiate the achievement of DLIs. Verification Protocol should include, at a minimum, the following:
• Clear definition of the DLI and how it will be measured.
• Objective, detailed definition of what is required to consider the DLI as achieved.
• Indication of whether disbursements associated with the DLI will be scalable.
• Definition of the data sources that will be used to measure the DLI’s achievement, including reporting frequency.\textsuperscript{4}
• Baseline data and expected timing of DLI achievement clearly established based on comparable data sources.
• Name of the government agency or third-party entity that will be responsible for providing relevant data and for verifying achievement of the DLI.

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

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

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

\textsuperscript{4} For example, DLIs that are dependent on the results of annual household surveys could suffer from delayed disbursement if the results of the household surveys are not available on schedule.
III. The Bank Disbursement Table

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

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

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

21. **Advances.** Many programs supported by PforR operations will be existing programs with funds already appropriated in the national budgets; therefore, advances under the operation’s financing agreement may not be necessary. In some situations, however, advances may be helpful, or even necessary, for the borrower to finance the activities needed to achieve the results for one or several DLIs. Such situations might occur, for example, in fragile and conflict affected states or where Bank financing is supporting the start-up of a new Program in a budget-challenged country. Advances could be considered, not only to achieve the initial set of DLIs but also subsequent DLIs during the implementation period. In these cases, the Bank may agree to make an advance payment (following the effectiveness of the legal agreement) of up to 25 percent of PforR financing for one or more specific DLIs that have not yet been met
(“advance”). When the DLIs are achieved, the amount of the advance is deducted (recovered) from the amount due to be disbursed under the DLI. The advance amount recovered by the Bank is then available, as needed, for additional advances (“revolving advances”). The Bank requires that the borrower refund, no later than six months after the legal agreement closing date, any advances (or portions of advances) if the DLIs have not been met (or have been partially met) by the Program closing date. The need for and justification of advances should be described in the PAD, and the specific amount and allocation should be specified in the financing agreement. The DLIs against which the amount of advance is defined are identified in the Bank Disbursement Table.

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

IV. DISBURSEMENT ARRANGEMENTS

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

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

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

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

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5 This workflow would be monitored during the first two years of PforR instrument use, and, as necessary, modifications would be proposed based on initial experience.
memoire and in the Implementation Status and Results Report (ISR). It is important that all the relevant documentation that the task team has used to reach its conclusions on the achievement of the DLIs is filed in the Bank’s official records (WBDocs).

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

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

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

<table>
<thead>
<tr>
<th>DLI 1</th>
<th>Total Financing Allocated to DLI</th>
<th>As % of Total Financing Amount</th>
<th>DLI Baseline</th>
<th>Year or Period 1</th>
<th>Year or Period 2</th>
<th>Year or Period 3</th>
<th>Year or Period 4</th>
<th>Year or Period 5</th>
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<td>Allocated amount:</td>
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Total Financing Allocated:
## DLI Verification Protocol Table (Template)

<table>
<thead>
<tr>
<th>#</th>
<th>DLI</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>
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<td>Data source/agency</td>
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</table>
## Bank Disbursement Table (Template)

<table>
<thead>
<tr>
<th>#</th>
<th>DLI</th>
<th>Bank financing allocated to the DLI</th>
<th>Of which Financing available for</th>
<th>Deadline for DLI Achievement</th>
<th>Minimum DLI value to be achieved to trigger disbursements of Bank Financing</th>
<th>Maximum DLI value(s) expected to be achieved for Bank disbursements purposes</th>
<th>Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)</th>
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1. If the DLI is to be achieved by a certain date before the Bank Financing closing date, please insert such date. Otherwise, please insert the Bank Financing closing date.

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

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

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