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Systematic Country Diagnostic

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SECTION I – PURPOSE AND APPLICATION

1. This Guidance aims at supporting teams preparing Systematic Country Diagnostics (SCD).

2. The Guidance outlines key elements and analytical content of SCD documents and discusses the identification of priorities.

3. This Guidance applies to the World Bank Group.

SECTION II – DEFINITIONS

4. As used in this Guidance, the capitalized terms and acronyms have the meaning set out (a) in Section II of the Directive on Country Engagement; (b) Procedure on Country Engagement, and (c) below:

a. AG: Advisory Group

b. Bank: IBRD or IDA

c. Bank RVP: IBRD/IDA's Regional Vice-President.

d. Big Data: Large amounts of available data and information, and various types of datasets combined to produce new insights recorded and/or analyzed at high speed.

e. CD: IBRD/IDA Country Director

f. FCV: Fragility, Conflict, and Violence – One of five Global Themes which reaches countries in fragile and conflict-affected situations.

g. GP: Global Practice

h. IFC RD: IFC Regional Director.

i. Institutions: Rules, including behavioral norms, by which agents interact, and the organizations that implement rules and codes of conduct

j. MIGA Director of E&S: MIGA Director of Economics and Sustainability

k. NDC: Nationally Determined Contributions

l. ROC: Regional Operations Committee

m. WBG TTL: Task Team Leader – appointed from either the Bank, IFC or MIGA

SECTION III – SCOPE

A. Purpose and process of preparing an SCD

5. As stated in the Directive: "the SCD identifies a set of priorities through which a country may most effectively and sustainably achieve the poverty reduction and shared prosperity goals and serves as the reference point for consultations when developing the CPF".

6. As an evidence-based diagnostic, the SCD may be a valuable input into the policy debate and discourse in a country as well as the government's own development planning process.

7. Conducted upstream and as a separate exercise from the preparation of the CPF process, the SCD provides the analytical foundation for the CPF. As stated in the Directive: "it is not limited to areas or sectors where the WBG is currently active or where the WBG expects immediate country demand". Therefore, its conclusions are expected to be independent of these considerations.

8. As stated in the Directive: "the SCD presents the best possible analysis based upon available evidence". The SCD focuses on what is important for the country's development agenda and stimulate an open and forward-looking dialogue between the WBG, client governments, the private sector, and the broader public. This also implies that while the SCD provides the analytical underpinnings for the CPF, it is an exercise that is distinct from the CPF. The separation of the SCD and the CPF, not just in the scope and content of the documents but also in terms of the discussions and processes by which the documents are produced, is critical to the success of the WBG's new country engagement model.

9. Country teams use the SCD during the design and consultation phase of the CPF to inform the discussion with the government and stakeholders over how best the WBG may support the country's efforts to accelerate progress toward the twin goals in a sustainable manner. However, the key constraints and opportunities for a country identified by the SCD are not the only factors considered in developing the CPF program. Other important considerations including the WBG's comparative advantage, government demand, financing gaps facing a country, portfolio continuity, and political realities are also taken into account in defining the WBG country program.

10. As stated in the Country Engagement Procedure: "the SCD is prepared prior to the CPF in order to serve as the analytical foundation for the CPF. The SCD is finalized (i.e., SCD ROC review meeting has taken place and decision to proceed with publication of the SCD has been approved by the ROC) before the CPF concept review meeting takes place. For a CEN, neither a PLR nor an SCD is produced for a CEN given the short-term focus of the WBG engagement." In select cases, a single SCD may be produced for multiple (small) countries that share similar development challenges and opportunities. SCDs are usually prepared once every 4-6 years. This timing takes into account the fact that poverty and household income data change infrequently and that the SCD focuses on the country's medium and long-term development

challenges. In some cases, significant developments in a country may make it worthwhile to update key analytical parts of the SCD in-between cycles. The timing may also take into account country circumstances and context (including the national planning cycle, where appropriate). Given the CPF timeframe, the SCD focuses on identifying country development priorities for the next 4-6 years, taking into account the expected impact of actions during this period as well as the longer-term impacts of actions on a country's progress toward WBG goals. Following the first SCD prepared for a country, the second and all subsequent SCDs for that country are termed "second-generation SCD". Section E outlines additional guidance for second-generation SCDs.

11. All SCDs are joint products of the WBG. Each SCD team is comprised of one or more WBG TTLs with proven integrative and analytical skills and an understanding of the country, and a team drawing on technical expertise from different institutions and departments in the WBG. As stated in the Procedure "WBG TTL(s) from either Bank, IFC or MIGA are appointed to manage the SCD process. TLs from Bank, IFC and MIGA are appointed to manage their institutions' contribution to the SCD. The WBG TTL(s) and TL(s) jointly agree on the core team from across the WBG". To facilitate true collaboration, Bank, IFC and MIGA are jointly engaged from the start of the SCD process until the dissemination of the final report. For the Bank, the CD has overall responsibility of the preparation of the SCD. IFC country managers and/or regional strategists, under the oversight of IFC Regional Directors (RDs), lead the IFC engagement in SCDs, collaborating with the IFC regional and global industry teams, relevant IFC corporate departments, and Bank teams to provide oversight and reflect the private sector perspective in the diagnostics. The SCD team includes experts from GPs and Global Themes as relevant, all of who engage in the team from an early stage of the process to promote true cross-sectoral collaboration. While the analytical approach is multi-sectoral, there is no requirement to include representative(s) from every GP or Global Themes in the team.

12. As specified in the Country Engagement Procedure, the SCD is subject to a robust and contestable corporate review with WBG-wide distribution of the document. GPs and Global Themes, IFC and MIGA participate actively in these review meetings. In addition to the formal process, teams may hold informal, intermediate reviews for quality enhancement as appropriate.

13. As part of a robust review process, the selection of peer reviewers is agreed upon by the WBG TTL(s) and the Country Director (CD). An SCD is recommended to have at least one but no more than three peer reviewers, including at least one current staff from the Bank, IFC or MIGA) with significant experience in leading integrative and analytical reports.

14. Citizen engagement, participation of country partners and consultations for the SCD follow a flexible model, adapting to the country context. The assessment in the SCD of a country's constraints to (and opportunities for) accelerated progress toward the twin goals is informed by inputs and feedback from country partners and citizens, which enhances country buy-in of the diagnostic. To realize this objective, SCD teams are encouraged to elicit inputs of

citizens regarding their priorities and preferences through a variety of means, including consultations with stakeholders, such as civil society, the private sector, research think tanks, and other development partners. In addition, SCD teams may collaborate or prepare joint work with government teams, think tanks, private sector, civil society and other development partners during the process of preparing an SCD. Consultations conducted at different stages of SCD preparation, including at an early stage, may help strengthen the evidence base and inform the diagnosis of constraints and prioritization in the SCD. Consultations are timed such that the insights gained from the exercise may inform the SCD effectively. Recognizing that the consultations are more effective if catered to the specific country context, the method and mode of consultations as well as their precise timing and scope are left to the discretion of SCD teams as long as the features below are present.

15. In the SCD consultation process, it is important for teams to recognize the nature and objectives of the consultations from the beginning and plan and communicate to stakeholders accordingly. The three key desirable features of SCD consultations are: (i) consultations are about the diagnostics and not WBG engagement; (ii) consultations focus on topics/areas that are relevant for the SCD; and (iii) consultations complement and aid the interpretation of analysis and evidence, rather than being a substitute thereof. SCD consultations solicit stakeholder inputs and views about the evidence, its analysis and interpretation in identifying the country's key development constraints. They are not about WBG engagement in the country and do not necessarily imply consensus of all of the views collected. The consultations therefore aim to include all those who are in a position to provide feedback on or inputs into the diagnostics and its interpretation, including (but not necessarily limited to) researchers, think tanks, experts, civil society organizations, the business community and development partners, rather than elicit views from all possible interest groups in a country. Finally, while consultations may help contextualize and interpret evidence, they are not a substitute for the analysis in an SCD. Clarifying these points about the nature of SCD consultations, which is distinct from consultations for CPFs, with stakeholders at the outset is important to set the right expectations for SCD consultations.

16. Following approval of the SCD, the document is made publicly available. Restrictions to disclosure are stated in the Country Engagement Procedure. The SCD does not require formal clearance from the relevant country governments before public disclosure. In accordance with the Procedure: "before disclosing the SCD, the CD requests the country (or countries) concerned to identify whether it contains any confidential or sensitive information". The draft of the SCD, after all internal reviews have been completed, is shared with the government to seek feedback on factual accuracy, confidential or sensitive information, and additional information that may have emerged. Defining a timeline (not exceeding four weeks) for receiving comments from the government is recommended. As stated by the Procedure: "the Bank, IFC or MIGA TTL consult the applicable WBG institutions' access to information policies to determine whether any information in the SCD falls within any of the exceptions of the relevant policies. The Bank, IFC, MIGA TTL adjusts the SCD to address the matters of concern, as appropriate. If the Bank, IFC or MIGA TL identify any sensitive or confidential TL modify the

SCD as appropriate, including the removal of any information restricted by the WBG institutions' access to information policies before eSubmission."

17. SCD dissemination in the country is recommended, with the mode(s) of dissemination adapted to the specific country context. Disseminating the SCD is a critical step to ensure that key stakeholders in the country are aware of its findings and conclusions, and to realize the SCD's public good potential beyond its internal use as an input into the CPF. As an evidence-based diagnostic that combines the perspectives of growth, inclusion and sustainability, the SCD is uniquely placed to be a valuable resource for the government, the citizens, and development partners and thereby inform the policy discourse in a country. SCD teams are encouraged to plan and budget for in-country dissemination upfront as a part of their task planning exercise. The extent of dissemination and the methods that are used, which may include (but are not necessarily limited to) in-person workshops, engagement with the local media, and online and social media outreach, may vary depending on the country circumstances.

B. Key elements of an SCD

18. The SCD is a concise report, which draws upon and synthesizes existing knowledge and evidence, complemented by additional analysis as necessary. It draws upon knowledge products including those produced by the WBG (e.g. country, sectoral or thematic reports, lending and Technical Assistance programs), the government (e.g. national or sectoral development plans), national and international researchers, think tanks, the private sector and other development partners, as relevant. It also makes best possible use of existing data, which includes complementing data from traditional sources (such as national statistics) with other data as available, such as Big Data, crowd-sourced data, qualitative data, and spatial data. To fill critical knowledge gaps, the SCD conducts new analysis, to the extent necessary and allowed by available data, resources, time and capacity. Differences in information and data availability as well as country characteristics mean that the size and scope of SCDs vary significantly across countries. Second-generation SCDs also draw upon the analyses and findings in the preceding SCD and incorporate new knowledge as appropriate.

19. The development vision spelled out by the country authorities and stakeholders provides the context in which the SCD supports dialogue on reducing extreme poverty and promoting shared prosperity in a sustainable manner at the country level. This implies interpreting the WBG goals in terms of their essence (and not always literally) in the SCD to align them with the development goals that the countries have defined for themselves, which enhances the relevance of the diagnostic for policy makers in the country. This could mean, for example, reporting poverty rates using national as well as international poverty lines; defining extreme poverty by a yardstick that is different from what is used by WBG (say a national poverty line related to hunger or basic needs); or incorporating inequality, social inclusion or improvements in multiple dimensions of welfare into indicators for and factors that contribute to shared prosperity.

20. In interpreting the WBG goals flexibly in the country context, the essence or intrinsic ideas of these goals guide the analysis of constraints and opportunities. The essence of the WBG goal of ending extreme poverty in a country context is about accelerating the reduction of extreme deprivation that is found among the poorest in many societies, based on the standard a country uses as a threshold for deprivation. The intrinsic idea of the "shared prosperity" goal is raising the well-being of the poorer segments of every society in every period, which requires a dynamic process of economic growth that is inclusive of the poor and promotes mobility and equal opportunities. For both goals, the concepts of well-being and deprivation may include monetary and non-monetary dimensions as relevant to the country. Progressing toward these goals sustainably requires an environmentally, socially and fiscally sustainable growth process within the unique context of every country. To the extent that the national development goals of a country overlap with (or are instrumental to) the ideas intrinsic to WBG goals, these may be incorporated into the framework of the SCD to enhance the relevance of the analysis to the country's own development discourse.

21. The SCD is candid about underlying assumptions of the analyses and limitations of (or gaps in) the data and evidence on which its conclusions are based. When critical data and analytical inputs are lacking, the SCD attempts to fill these gaps to the extent possible, given its time and resource constraints, and triangulates available information from reliable sources, while explicitly noting assumptions and limitations. Furthermore, the SCD: (a) documents and explains data and/or knowledge gaps to be addressed over the medium term as they relate to critical issues relevant to the achievement of the twin goals (and related development goals); and (b) identifies future areas of analysis or research where available evidence is inconclusive.

22. The SCD includes a brief diagnostic of data gaps in key areas necessary for the country to adopt evidence-based development policies and monitor its development goals. The diagnostic pays particular attention to data relevant for monitoring development goals related to the WBG's twin goals and the Sustainable Development Goals (SDGs) that are most relevant for the country. This section is concise and preferably in tabular form, following a suggested template to be found at an internal website in the SCD Resource Center.

23. Recognizing that there is no blueprint for poverty reduction and inclusive growth, the SCD takes into account country context, including political economy factors, in identifying constraints and opportunities. By doing so, the SCD seeks to provide inputs into an organic engagement with clients, rather than being prescriptive and offering impractical recommendations.

24. In taking into account country context and recognizing that solutions to development challenges are context-specific, SCDs do not follow a standardized template. While they integrate growth, inclusion, and sustainability in analyzing development challenges, the exact format of an SCD – in terms of its organization of topics, narrative flow and choice of sectors/themes for in-depth analysis – is adapted to country context, including the stage of

development, the nature of development challenges, and what is useful for country dialogue around the WBG goals.

25. SCD length and structure vary across countries. However, to be accessible to a broad audience, the SCD is as concise as possible, with a suggested length of no more than 80 pages (excluding annexes). A stand-alone executive summary or overview that captures the main storyline is also recommended. In countries with a large body of existing analytics, the SCD distills from the body of work and references the work as used. For countries that lack such analytics, the SCD may fill significant analytical gaps through background papers. In countries where the WBG has deep engagement in a few specific sectors, the SCD may incorporate in-depth assessment of the challenges, opportunities and learning from WBG engagement in those sectors as relevant and as a complement to the overall assessment of challenges and opportunities.

26. SCD Concept Notes (CNs) have a number of key features. CNs make a first attempt to use evidence to frame the country context and historical performance and outline the main hypotheses about the country's development challenges. At this early stage before a full diagnostic, the hypotheses may remain at a high level and focus on the broad challenges or key symptoms. The concept note also states the approaches (for example, analytical framework, types of evidence, and criteria for prioritization) the team proposes to follow in order to test the hypotheses. CNs are concise, as opposed to being the draft of the full SCD, with a suggested length of no more than 20 pages (excluding annexes). It is useful to include a first stocktaking of the existing evidence (drawing on work inside and outside the WBG, both in-country knowledge and the global literature), as a basis for outlining the main issues and to identify critical knowledge gaps to be filled during SCD preparation. The concept note also takes stock of the availability and quality of data for key development indicators and identifies gaps that might be filled during the SCD preparation process. Teams may choose to prepare the concept note in Power Point format.

C. Analytical content of an SCD

27. The content of the SCD is context specific for any given country. However, each SCD incorporates the following set of themes or topics that are not mutually exclusive, which are discussed in greater detail below.

- Frames the issues/challenges with respect to achieving the country's development goals (ones that are aligned with the WBG goals), in terms of the current trends and patterns in poverty reduction, inclusion and sustainability.
- Identifies the critical factors driving or constraining economic growth.
- Identifies the critical factors determining the inclusiveness of growth, namely increase in welfare of the poor and less well-off.

- Analyzes the sustainability (environmental, social and fiscal) of the current pattern of growth, distribution and poverty reduction

- Identifies, on the basis of the analyses under the previous points, a select set of priorities or focus areas for a country, in order to maximize its progress toward ending extreme poverty and promoting shared prosperity in a sustainable manner.

28. The SCD starts by framing the country's key development challenges, based on the empirics on poverty and shared prosperity in the country, as articulated in the first bullet above. Describing the critical contextual factors (such as geography, history, governance structure, or conflict and violence) and key trends and patterns of poverty reduction, inclusion and sustainability early on sets the stage for the diagnostic approach of the SCD. The initial descriptive analysis helps identify to what extent the challenges are more in the nature of inadequate economic growth or lack of inclusion, or a combination thereof. For example, in a country where growth is generally low across most sectors and regions, a greater focus on the constraints to economic growth could be justified. Conversely, in a country where growth is respectable but poorly shared (e.g. high growth combined with highly regressive fiscal policy and highly unequal provision of public goods and services; or narrow-based growth in a resource rich low-income country), a greater focus on distribution and factors influencing outcomes for specific groups, sectors and regions might be merited.

29. Benchmarking a country's performance on key development indicators against carefully selected comparators may provide useful evidence to inform the framing of key development challenges, taking into account contextual factors. Benchmarking is particularly informative when it does not limit the set of comparator countries to geographic neighbors or an arbitrary list of countries that a country might like to be compared to but uses objective criteria to select comparators taking into account the questions the exercise seeks to address. To benchmark a country's historical performance on key development indicators, for example, it is useful to select comparators based on structural characteristics such as size, population density, geography and demography. Benchmarking certain social, human development and governance indicators against countries that are at a similar stage of economic development might help identify areas where a country is under (or over) performing relative to its income levels. Given the varied options, it is helpful to discuss the types of benchmarking planned for the SCD at its concept stage. Benchmarking may be used to assess static performance (status of indicators in a country at a certain point of time), dynamic changes (the rate of progress in a key variable), or the impact of (and recovery from) a shock that affects multiple countries.[1] Examples of cross-country databases and methods for benchmarking are available at the internal website named SCD Resource Center. While cross-country comparisons suffer from many limitations, they offer important clues to help narrow down the multiplicity of

[1] Existing SCDs provide examples of applying benchmarking in different ways, such as comparing averages and comparing distributions, comparing gaps with the best performers in each indicator among its structural peers, or comparing gaps with where a country aspires to be after a certain length of time with corresponding gaps among structural peers. SCDs have also adopted different methods for benchmarking, ranging from simple graphical comparisons to more rigorous parametric (regression-based) or non-parametric methods.

challenges any country faces at any point in time to a few key lines of enquiry that the SCD may then focus on.

30. After laying out the broad challenges with respect to the goals, the diagnostic focuses on a deeper analysis of causes. The analysis for these components is expected to address three *interrelated* topics as articulated above, which are explained in more detail below:

    - The key constraints to (or opportunities for) achieving economic growth, which involves identifying the factors constraining productivity, investment and entrepreneurship – the critical elements of private-sector driven growth.

    - The key constraints to (or opportunities for) inclusion, which includes achieving welfare improvements (in monetary and non-monetary dimensions) of the poor, the bottom 40 percent, or otherwise disadvantaged groups (e.g. girls and women, ethnic, linguistic, disenfranchised or internally displaced groups, or lagging geographical regions). This in turn requires sharing the benefits of growth widely in terms of rising incomes; expanding and equalizing opportunities in key dimensions of well-being such as basic education, health, sanitation, safe water, and safety; and promoting voice and participation of all citizens in the development process.

    - The main risks to sustainability of the process of growth, inclusion and poverty reduction, whether these risks are political or social, macroeconomic, or environmental.

31. The three topics above are not mutually exclusive or intended to suggest a pre-determined structure or template for SCDs. There are potential complementarities and tradeoffs across these topics to be taken into account, integrating across topics, in both diagnostics and prioritization. For example, improvements in education, health and other indicators of human development are not only important for inclusion, but also for the long-term prospects of economic growth. While the impact of climate change on a country's water and natural resources could pose a risk to future growth, improving water quality, reliability and access for the poor may address an important barrier to inclusion right now. Given the inter-relationships between the three topics, the diagnostics in the SCD are not necessarily organized by these topics in a linear manner, as long as the issues embedded in these topics are analyzed. A team may, for example, choose to adopt a structure that is more integrated across the three topics if that is better suited for the country context and analytical framework of their SCD. Once various constraints and opportunities are identified from the detailed analysis, a transparent set of filters and criteria is applied to narrow these down to a select set of focus areas for action (as summarized above and detailed further in section D).

32. Productivity growth and job creation are important channels for growth and sustained welfare improvements for most SCDs to analyze in-depth. In countries where inclusive growth hinges on the ability to create more and better jobs for all people, the SCD may undertake a systematic assessment of constraints to labor productivity and employment. This could cover the supply and demand side constraints to wage employment, obstacles to self-

employment and entrepreneurship, and factors that impede productivity-enhancing labor mobility and structural transformation. Where it is not possible to conduct a detailed jobs diagnostic in time for the SCD, the team could produce a short note on key employment issues, including emerging trends in demographics, urbanization, formalization, and structural transformation, as an input into the SCD.

33. Analyzing the structure and effectiveness of both public and private sectors, as well as the interplay between the two, is often necessary to identify constraints to growth, inclusion, and sustainability. For example, depending on the country context, the SCD could integrate an assessment of the constraints and drivers of opportunities for increased private sector engagement, drawing from country private sector, infrastructure, and other relevant diagnostics. Such an assessment would take into account all relevant factors such as the country's stage of development, resource endowment, geographical position, proximity to markets, growth drivers, size and role of State-Owned Enterprises, and the government's role in ensuring a level playing field. The assessment could also analyze how increased private sector participation can free up public resources to be directed to investments where the government's role is critical. It may be useful to include assessment of potential private sector growth at the sector level and identify sector-specific constraints for private sector investments such as governance structures, competition policy, hard and soft infrastructure, and instruments that foster healthy and commercially sustainable markets. In countries dominated by a few key industries, the SCD could also assess the opportunities available for diversification using the experience of comparable countries that were able to diversify their sources of growth.

34. The analytical framework of SCDs may vary as long as it is consistent with the overall approach of integrating growth, inclusion and sustainability. SCD teams have flexibility in their choice of framework to organize and present the diagnostic and prioritization.[2] Regardless of framework, several themes may be cross-cutting throughout an SCD and may emerge as important development challenges of a country: for example, governance (institutional arrangements and capacity, transparency, and accountability), employment, conflict and fragility, gender inequality, and natural resource management. Cross-country analysis – including benchmarking of indicators against carefully selected comparators – may inform the identification of specific constraints as well.

35. In identifying constraints and opportunities, the SCD is forward-looking, even as it relies to a large extent on evidence constructed from past experiences. Its evidence-driven nature implies that the SCD must rely to a large extent on analysis of past trends, patterns and drivers of a country's development path. That said, the future of a country is not necessarily a simple extrapolation of what happened in the past, even though an understanding of what

[2] SCDs have used a variety of frameworks, such as variants of: a growth-inclusion-sustainability framework loosely based on the growth diagnostics approach (Hausmann, Rodrik and Velasco or HRV, 2006) proposed in technical resource materials; an "assets of the poor" framework developed in the Europe & Central Asia (ECA) Region; and frameworks developed by the World Development Reports on Conflict and Development (2011) and Governance and the Law (upcoming, 2017).

happened in the past may be used to inform a narrative for the future. A few ideas for being forward-looking, depending on country context, may be: recognizing and accounting for key processes of transformation or demographic trends, including ones that are nascent but predictable to some extent; taking into account global trends that may open up new economic opportunities or close down earlier drivers of economic growth and inclusion for a country; constructing alternative scenarios, particularly when there is a high degree of uncertainty; and using economic projection or simulation tools and drawing upon experiences of other countries as appropriate. If scenarios or projections of the future are made, the SCD conveys the model, assumptions and limitations of the data used transparently to the reader.[3]

36. The SCD includes relevant discussions of gender equality issues as they relate to the twin goals and the constraints and priorities identified by the SCD, consistent with the pillars of the WBG Gender strategy. Since the SCD is the primary analytical document to inform the CPF, it draws on recent country gender assessments (which may or may not have been done by the WBG), other background documents, and global datasets (that provide information about important gender gaps and their underlying causes – especially in terms of human endowments, constraints to more and better jobs, access to assets, and voice and agency. In cases where no recent or relevant country gender assessment exists, the CD could consider having one prepared with a timeline that not only informs the CPF (operational policy requirement OP/BP4.20) but also the SCD. Where it is not possible to conduct a gender assessment in time to feed into the SCD, the team could produce a short note on gender issues that highlights data or knowledge gaps on gender equality. The SCD is expected to identify key data gaps in terms of sex-disaggregated data and discuss their implications for the analysis.

37. As relevant, the SCD includes analysis of fragility, conflict and violence (FCV) where these issues constrain progress toward sustainable poverty reduction and shared prosperity, drawing on a recent fragility assessment. Risks of fragility, conflict and violence not only threaten a country's social and political sustainability but also directly influence economic growth and poverty reduction efforts. The analysis covers FCV-related risks and stress factors as well as mitigation or preventive actions to protect a country's economic development path. Since the SCD is the primary analytical document to inform the CPF, SCDs for fragile and conflict-affected states draw on recent fragility assessments. In cases where no recent or relevant country fragility assessment exists, teams are encouraged to produce a short note on FCV issues for the SCD to draw upon.

[3] SCDs have used a variety of approaches to provide a forward-looking narrative for their countries. Some examples are the use of models like computable general equilibrium (CGE) and microsimulations; specialized approaches like growth diagnostics (HRV) and product space (Hidalgo, Klinger, Barabasi and Hausmann, 2007); the explicit accounting of domestic trends such as demographic and structural transformation or global trends such as changing commodity prices and relocation of manufacturing; and building alternate scenarios for some fragile and conflict-affected countries.

38. The SCD also takes into account climate change, which may directly influence economic growth, poverty reduction, and longer-term sustainability of these trends. Not only do climate change impacts often represent a significant obstacle to the sustained reduction of poverty, a country's climate-related *policy* choices may have important future impacts on poverty. The magnitude of risk and vulnerability may vary significantly across countries; and for some, climate change is one of the defining threats to achieving the WBG goals. On adaptation, the analysis covers both climate-related risks and policy choices, including the potential benefits of taking early adaptation actions, such as through "Nationally Determined Contributions (NDCs)". On emissions reduction policies, the SCD is expected to assess the impacts of the policies that countries indicate through their NDCs (and other communications about their approaches to climate mitigation) on growth and poverty objectives. By considering together these broad objectives, the SCD may support climate and development policy approaches that are mutually reinforcing rather than self-defeating.

39. The SCD makes the best attempt possible to diagnose the constraints leading to sub-optimal outcomes in growth, inclusion and sustainability. This involves looking behind the outcomes that are often the symptoms for deeper problems and uncovering why a certain development challenge exists in a country. In most cases, this requires peeling away the layers of a problem in an attempt to identify the core underlying issue, to the extent that is possible using available data and analytics. Often, such an attempt at drilling down leads to constraints related to institutions or governance that induce policy or market failures. Identifying such constraints using evidence and scientific reasoning may be particularly difficult, and yet are among the most important contributions of an SCD. At the same time, the mandate to uncover the underlying constraints also raises the question of how far or deep the SCD goes in this endeavor, given that it must be an exercise built on evidence.

40. A systematic assessment of a country's institutions may be an important element of the SCD's analytical framework. An institutional lens in the SCD would focus on the key institutions that affect the achievement of poverty reduction and shared prosperity goals in a sustainable manner. It would articulate significant evolution (positive or negative) that may have taken place, based on available analysis, in institutions that may be sector specific or cross-cutting. It would cover, but need not be limited to, institutions that affect macro-economic management; regulatory environment for business, trade, financial sector and labor and land markets; gender, social inclusion, equity and environmental management; protection of property rights; and public-sector management. In some countries, institutional shortcomings may relate to the delivery of basic services or managing social protection programs, which in turn negatively impact poverty and equity outcomes. In others, it could be weaknesses in the regulation of key utilities such as energy, water, transport or telecoms which prevent the expansion of infrastructure needed for growth and job creation. In still others, there may be issues related to the independence of the central bank or fiscal institutions that result in poor macroeconomic outcomes. Analytical approaches developed in relevant World Development Reports (e.g. Governance and the Law; Making Services Work

for Poor People; Building Institutions for Markets and The State in a Changing World)[4], as well as the institutional analysis in the Country Policy and Institutional Assessment could be helpful inputs for applying this institutional lens.

41. Constraints (or opportunities) in the SCD are identified at a level as granular as evidence allows. The level of granularity or detail at which the constraints may be identified is limited by the quality of available evidence. For that reason, the level of granularity of identified constraints varies across SCDs and even across sectors or themes within the same country. This implies that there is no ideal level of detail or granularity at which constraints are identified in an SCD. In most cases, constraints are defined at a level more disaggregated than that of a sector/theme (e.g. agriculture, transport, education, governance), but above the level that may be addressed by a precisely defined policy intervention or program. While there may be cases where available evidence allows the team to drill down to a level where precise policy solutions to a constraint may be proposed, these are rare.

42. While identifying constraints, the SCD is not expected to propose solutions to every constraint in the form of specific programs and policy interventions. By identifying the main areas of market or policy distortions, inefficiencies, or gaps, the SCD highlights opportunities for actions to accelerate the pace of poverty reduction and promoting shared prosperity in a sustainable manner. However, the SCD is not expected to present a comprehensive roadmap with specific policy or program solutions for all of those constraints, unless there is evidence or strong economic logic to support such detailed recommendations.

D. Prioritization in SCDs

43. Prioritization in the SCD is evidence-based, but with a crucial element of judgment. Consistent with the purpose of the SCD, prioritization aims to identify what is most important for the country's development agenda rather than the sectors the WBG is engaged in or planning to engage. Two practices may be helpful to the prioritization process: the SCD team having the opportunity to collectively reflect and debate on the evidence produced by the diagnostics; and using a combination of internal and external expertise, and external consultations as appropriate. Just as no unique analytical framework may be recommended for all SCDs, there is no unique good practice methodology for the prioritization exercise. That said, a few principles, as articulated below, are important for developing SCD priorities.

44. The evidence from benchmarking is often a useful input into prioritization. Benchmarking a country's performance against carefully chosen comparators and against its own historical performance, as mentioned earlier, provides useful information on the order of importance among a multitude of issues across sectors and cross-cutting themes. This may be a useful

[4] WDRs with relevant analytical approaches include: *Governance and the Law* (WDR 2017), *Making Services Work for Poor People* (2004), *Building Institutions for Markets* (WDR 2002), and *The State in a Changing World* (WDR 1997).

starting point for prioritizing, by narrowing the multitude of challenges down to a few key ones that merit deeper examination.

45. Transparency and contestability of the prioritization exercise are key. This requires articulating the rationale for the choices made (the evidence) and the judgments underlying these choices, the underlying theory of change, and the limitations of evidence and any knowledge gaps. This in turn requires clearly defining the criteria and methodology that have been adopted for assessing constraints and identifying priorities.

46. Among potential criteria for prioritizing across constraints, impact on the twin goals— the size and sustainability of impact on welfare of the less well off— is likely to be the most critical for the SCD. Other criteria that SCD teams might find useful to apply in prioritizing or making recommendations about sequencing of reforms are: (a) whether the constraint(s) addresses essential preconditions, such as addressing urgent situations that are pre-requisites for mitigating other constraints (e.g. an economic or fiscal crisis, or widespread violence and conflict), or ensuring the basic minimum standard of living required for a productive life today (e.g. basic education, health, sanitation, safety, food security); (b) whether addressing the constraint will have important complementary effects, i.e. generate benefits across different dimensions of inequality, growth, or sustainability; and (c) strength of the evidence base used to identify the constraints.

47. The time horizon of impacts (on the goals) is a key factor to take into account in prioritizing. While the CPF cycle provides the timeframe of focus for the SCD, the WBG goals of sustainable reduction in poverty and shared prosperity carry important longer-term implications. Given this, while the SCD identifies priority actions for the next CPF period of 4-6 years, it also attempts to find a balance between actions that have potential short-term impacts (that are consistent with or contributes to longer-term objectives) with actions whose impacts emerge over time and not necessarily within the first 4-6 years (including long-term priorities that require early action to address critical risks to the sustainability of a country's development path).

48. The methodology and approaches used in the prioritization exercise are articulated clearly in the SCD. These include (but are not limited to) describing the use of the analytical framework (if any) set out in the report, benchmarking or any other cross-country analytical tools, and any formal approaches to collect and aggregate views of internal and/or external experts. The report also mentions whether and how consultations with external groups and experts have informed the identification of constraints and the selection of priorities. The reference to consultations in the main text may be supported by an Annex that describes the consultation process in some detail, including the process and mode of consultations, participants, main points of discussion, and the issues raised, and insights obtained. If a set of clearly defined criteria have been used in identifying the constraints, the SCD presents a description of how the criteria have been applied to different constraints. The detailed description is typically provided in an Annex, where the team could consider articulating the

assessment (or ratings) of all constraints by the applied criteria, and the rationale (related to underlying the theory of change) behind these assessments.

49. The SCD should try to include a discussion of which reforms are more likely to be feasible in the near future. After identifying all key priorities regardless of whether these are feasible to address in the short-run, the SCD may choose to include a discussion of which reforms are more likely to be feasible in the near future. Depending on the country context, such an assessment of feasibility could consider the country's political economy that might influence a government's ability to implement necessary reforms to address the identified priorities. In such cases, the assessment may shed light on areas with high probability of reform success and inform a discussion of the possible sequencing of reforms. An assessment of short-run feasibility does not however imply downplaying key priorities with potentially high impact. Given that the SCD is about identifying the key priorities to meet the medium to longer term development challenges of a country, the treatment of political economy is about adding relevant information and context to the discussion of the constraints, as opposed to creating an additional filter for prioritization.

E. Guidance for second-generation SCDs

50. Second-generation SCDs fulfil the core purpose of SCDs and generally follow the SCD preparation process as stated in the Country Engagement Procedure, while adding value to the previous SCD. This happens through (i) updating the analytical findings of the preceding SCD, reflecting latest developments, new data and new knowledge, (ii) revisiting the prioritization, based on these new findings, and (iii) updating the discussion on knowledge and data gaps as needed. New knowledge may include, for example, deep-dive diagnostics on particular themes or sectors, sectoral data and analyses that deepen the analysis of binding constraints, and new corporate priorities as relevant to the country's development path.

51. Second-generation SCDs are conducted as either an *SCD update* or a *comprehensive SCD.* Given that in many cases, the development narrative of a country and the binding constraints to growth, inclusion and sustainability are not expected to have changed substantially since the completion of the preceding SCD, second-generation SCDs may be conducted as an update, as per the criteria laid out below. Following an SCD update, the next SCD is a comprehensive SCD, to avoid an excessively long period without the benefit of a comprehensive SCD.

52. A comprehensive SCD follows the guidance in sections A-D and goes through a full process of analyzing all possible binding constraints. An SCD update, on the other hand, is expected to:

    A. Reflect main developments in the country since the previous SCD and new data that may have become available, by updating key indicators and related analytics in the macroeconomic, poverty and shared prosperity, and sustainability sections.

B. Update knowledge and data gaps identified in the preceding SCD, by synthesizing new knowledge produced by the WBG or through other relevant analytical work since then, and list remaining key knowledge and data gaps to be addressed going forward.

C. Include in-depth analysis of key topics that may have become more important in the country context or may be needed to inform the design of the next CPF.

D. Update prioritization of constraints as relevant, based on the new analysis and evidence produced by A to C above. An updated list of priority constraints should be presented in the SCD, as this is a critical input for the CPF.

53. As stated in the Country Engagement Procedure, SCD updates follow a streamlined review process, with a default of one corporate review meeting. Conducting a concept review is optional. The document is shorter than the typical comprehensive SCD, with a recommended length of no more than 40 pages, plus Annexes. Consultations for an SCD update may be lighter than what is expected for a comprehensive SCD, for example by focusing the consultations on the findings of any new analysis or evidence introduced in the update. The decision on whether the second-generation SCD for a country is an update or a comprehensive SCD is taken through a clear and contestable process, guided by the criteria presented below. As stated in the Country Engagement Procedure, upon recommendation by the CD, in consultation with IFC RD and MIGA Director for E&S, and with advice from the Director Poverty and Equity GP and Director OPSPQ, the RVP decides whether the SCD is prepared as a) an SCD update; or b) a new comprehensive SCD. This decision is taken at the time of activity initiation, to allow for upfront planning and resource allocation.

54. The above decision is based on the following broad criteria: a) significant change in country circumstances, b) availability of new data and/or analytical findings, from the Bank, IFC, MIGA or other sources, that materially modify the SCD, c) substantial scope to improve upon the analysis of the preceding SCD, and d) for IBRD countries above the Graduation Discussion Income (GDI, the income level at which discussions about IBRD graduation start taking place), whether the requirements specified in paragraph 40 – in particular a substantive analysis of institutions required for sustainable graduation – were met in the preceding SCD. A new comprehensive SCD is justified when the combined effects of these criteria are assessed to be significant enough to call for a substantial re-examination of the previously identified binding constraints to achieving the twin goals identified in the preceding SCD.

Table 1: Criteria for choice of format of Second Generation SCDs

Criteria	SCD Update	Comprehensive SCD
	All of the following apply:	Any of the following applies:
Format of preceding SCD	Preceding SCD was a comprehensive SCD	Preceding SCD was an update
Country circumstances	Broad development narrative for the country is still valid – no major changes since the previous SCD (e.g. absence of economic or social crisis, changes in conflict situation, natural disasters, natural resource discovery, significant political changes)	Major changes in country's development path since the previous SCD
Knowledge/ data	Preceding SCD based on adequate data and analytical evidence (some of the previously identified knowledge gaps may have been addressed, yet without altering substantially the diagnostics of the preceding SCD) For IBRD countries above the Graduation Discussion Income (GDI, the income level at which discussions about IBRD graduation start taking place), the requirements specified in paragraph 40 – in particular a substantive analysis of institutions required for sustainable graduation – were met in the preceding SCD	Availability of new data and knowledge that is expected to substantially alter and/or strengthen key parts of the diagnostics presented by the preceding SCD (including through analytical work conducted to address previously identified knowledge gaps) For IBRD countries above the Graduation Discussion Income, the requirements specified in paragraph 40 were not met in the preceding SCD

F. Supporting SCD Teams – the role of the SCD Advisory Group

55. An Advisory Group (AG) for SCDs supports and acts as a resource for teams preparing SCDs. The AG is chaired by the Director of the Poverty & Equity GP and comprises members bringing technical expertise from diverse perspectives across different units, GPs and Global Themes, and IFC and MIGA. The development of technical and informational resources, Guidance including good practice, and communication, relies on a process of collective learning by doing, which is led by the AG. Taking stock of lessons from SCD experiences so far and responding to demands from SCD teams and users, the AG develops and strengthens Guidance and technical resources including good practice, tools, and methods to support country teams in conducting SCDs, including second-generation SCDs. Members of the AG may also be called upon to provide peer reviewing services or advice and feedback to SCD teams at different stages of preparation. A central SCD support team in the Poverty & Equity

GP coordinates and supports the AG in preparing, reviewing, and updating technical resources and Guidance, and conducting the stocktaking of SCD processes and analytics from different perspectives.

SECTION IV – RELATED DOCUMENTS

World Bank Group Directive, "Country Engagement"

World Bank Group Guidance, "Country Partnership Framework Products"

World Bank Group Procedure, "Country Engagement"

World Bank Group, "Consultation Guidelines"

"Diagnostics of Data Gaps in SCDs Guidance Note". Refer to:
https://spark.worldbank.org/docs/DOC-149505

"Diagnostics of Data Gaps in SCDs Motivation". Refer to:
https://spark.worldbank.org/docs/DOC-149508

World Bank Group, "World Bank Group Gender Strategy (FY16-23): Gender Equality, Poverty Reduction, and Inclusive Growth"

ANNEX(ES)

None.

Questions regarding this Guidance should be addressed to the Sponsor.