

# CHAPTER 7

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## INCORPORATING POLICY CHANGE ASSESSMENTS INTO PROGRAM DESIGN

- Integrating Policy Analysis and Program Design
- Conditions as a Guide to Implementation
- Linking the Program Framework and Reform Monitoring

## A. Introduction

The preceding chapters have examined a number of analytical aspects that underpin the preparation of policy-based operations. Macroeconomic assessment and sector diagnosis are aimed at identifying policy- and institution-related binding constraints that hinder the development of a sector. At the same time, the outcomes and potential impacts of the policy reforms need to be assessed with appropriate analytical tools. The reform process is analyzed to better understand its dimensions and dynamics as well as the fiscal implications of facilitating the process. Particular attention is paid to assessing the potential impact of policy changes on the poor and, in turn, to consider appropriate mitigating measures to overcome negative impacts. The findings from this analysis should inform and influence the design of any new policy-based operation. This concluding chapter discusses integration of analytical results into the operation's design, and implications for the design of loan conditions and monitoring.

## B. Integrating Policy Analysis and Program Design

As part of preparing the groundwork for ADB's policy-based operations, three key matrixes are used to highlight essential analytical results and design features: the PIA matrix; the program logical framework; and the policy matrix.<sup>26</sup> A common thread is that they can all be

used as effective design tools, rather than reporting frameworks.

The three matrixes represent different perspectives on a policy-based operation and so their internal logic should be presented in a coherent and well-integrated way. First, the cause and effect mechanisms of policy changes identified in the PIA matrix, which affect both the poor and other stakeholders, highlight the assumptions that underlie the program logical framework.<sup>27</sup> The connection between mitigation and enhancement measures in the PIA matrix and the program logical framework should also be clearly linked. Second, as the outputs of the program logical framework typically represent the culmination of a series of activities and steps that results in the completion of policy action, there should be a clear connection between the major outputs in the program logical framework and the policy matrix. In effect, each policy condition in a policy matrix should be linked to the corresponding cell in the program logical framework. Figure 7 illustrates these links.<sup>28</sup>

Putting the three matrixes together will present essential features of the cause and effect analysis, economic logic and rationale, reform processes, and expected impacts of

<sup>26</sup> These three matrixes are discussed in more detail in Chapter 5.

<sup>27</sup> For a full description of applying logical framework to ADB operations, see "Using the Logical Framework for Sector Analysis and Project Design: A User's Guide" by C.D. Saldanha and J.F. Whittle, Manila, 1998.

<sup>28</sup> A thorough attempt was made in the Uzbekistan Education Sector Development Program to effect these linkages. Case 3 in Appendix 3 illustrates this point by further extending the presentation in the program loan report.

**FIGURE 7: Integration of the PIA Matrix, Program Logical Framework, and Policy Matrix**
**Poverty Impact Assessment Matrix**

Channel of Effect	Effects on the Poor			Effects on Other Stakeholders	Mitigation or Enhancement Measures
	Direct Short Run	Indirect Short Run	Indirect Medium Run		
Access to Labor Markets, Wages	1			2	
Access to Markets and Prices					
Access to Assets					
Access to Public Services					
Access to Transfers					
Net Impact					

**Program Logical Framework**

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
Impact: medium- to long-term impact of this and related programs			
Outcome: the reason why this program is being done and the expected end-of-program change			1
Outputs: the specific deliverables of this program	3		
Activities: the main tasks to accomplish outputs and effect policy measures	2		

**Policy Matrix**

Policy Area and Measures	Tranche 1 Policy Actions	Tranche 2 Policy Actions	Tranche 3 Policy Actions
Policy Area 1 consistent with program framework purpose			
Policy Measure	3		
Policy Area 2			
Policy Measure	3		

**1 - Effect analysis summary, assumptions, and risks.**
**2 - Actions to mitigate negative impacts of reform measures or enhance inclusion of poor groups.**
**3 - Policy actions and outputs.**

the policy operation. The resulting clear yet simple picture is fundamental to providing an informed and common base for public discourse. This will help stakeholders understand the specific measures that will help them during the reform process. Their understanding is a prerequisite for successful reform implementation.

### **C. Conditions as a Guide to Implementation**

An integrated perspective of policy reform operations provides new insights into the appropriate function of policy conditions, that is, it serves as a guide to implementation. Once the main policy changes have been determined, conditions in policy reform embody the key reform milestones by setting out reform steps agreed to by the government and funding agency, including preconditions, or trigger actions for loan release compliance, and subsequent tranche releases.

In this sense, conditions can take on an administrative function for loan implementation. However, conditions and a rigid implementation time frame should not be used excessively, for two main reasons. First, they can detract from the broader issues of the reform process and the possible need for midcourse corrections where evidence supports modifications. Second, where capacity for reform implementation is limited or not fully understood, they can raise expectations on immediate realization of reform benefits among intended beneficiaries and other stakeholders, leading to later disappointment if results fall short of expectations. These, in turn, can weaken commitment to the reform and

can lead to policy reversals and program cancellation.

To avoid such risks, a focus on results-based conditions and outcomes is preferable to an extensive list of detailed compliance conditions. It is also preferable to take a sequenced approach to implementation. Better consideration of complex intersector and institutional situations and of the overall developing medium-term fiscal situation would also be a feature of such an approach.

Given the wide range of reform circumstances facing governments, selection of the right program loan modality is a crucial design decision.<sup>29</sup> The integrated perspective highlighted above provides further insights regarding the choice of operations modality. ADB's program lending policies and modalities have evolved over time to accommodate emerging and special needs of governments in developing Asia. The present range of program loan modalities offers the necessary flexibility to adapt program design to individual circumstances, from support for IMF stabilization efforts or related operations, to sector-wide and subsector structural adjustment operations that may involve complex sequencing of reforms and development measures. When used to the full potential offered by ADB's program loan policy and available modalities, their operational flexibility can accommodate a medium-term perspective on policy reforms and the sequencing of reform

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<sup>29</sup> For a full discussion of ADB's program lending policies and modalities, see ADB, 1987, 1996, 1999.

steps necessary for complex, unfolding operations, as well as dovetailing with a medium-term fiscal framework to ensure reform measures are “on budget.”

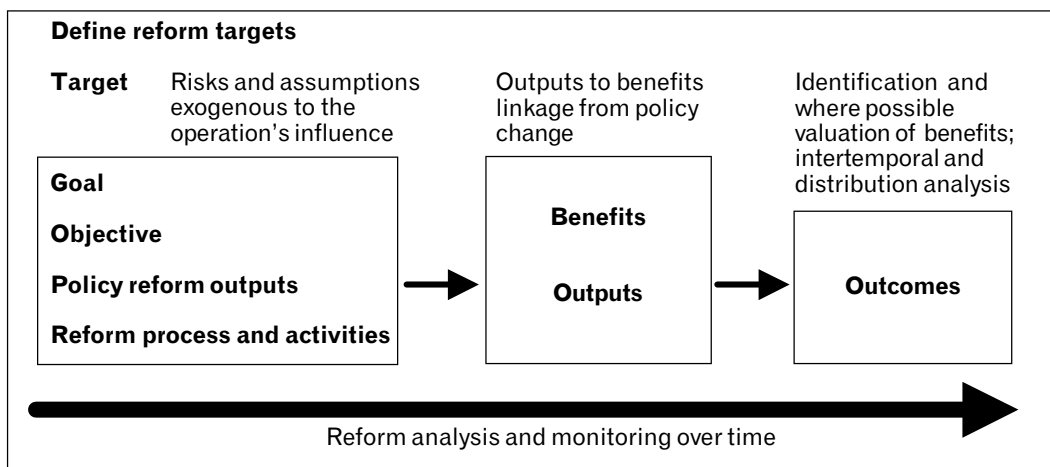
**D. Linking the Program Framework and Reform Monitoring**

Figure 7 highlights the usefulness of the program logical framework as a means of reflecting key cause-effect issues that have arisen from, for example, sector analysis, reform-related activities, outputs, objectives, and impacts. Applied effectively, the program logical framework should reflect the program’s economic logic and rationale, and its performance targets, as well as assumptions and risks—surrounding factors that are

outside the influence of the operation. In this way, the program logical framework provides the monitoring and evaluation logic, including what should be monitored during implementation and how to monitor it. The importance of the logical linkages that emerge from the reforms analysis and the need to monitor how reform measures help realize intended benefits and outcomes over time are depicted in Figure 8.

A detailed discussion on monitoring and evaluation is beyond the scope of this paper<sup>30</sup> but a few, final, observations highlight the importance of complementing ex-ante analysis with enhanced monitoring and evaluation. In addition to monitoring identified

**FIGURE 8: How Reforms Confer Benefits: Program Logical Framework and Economic Analysis Links**



Source: EREA, Asian Development Bank.

<sup>30</sup> ADB’s monitoring and evaluation efforts are guided by its Operations Evaluation Department. The Project Performance Monitoring System is the primary monitoring and evaluation system used for programs.

exogenous factors that might affect a reform, close monitoring, analysis updates, and regular reassessment of requirements based on progress become essential reform support activities.

Specific reasons for ensuring an adequate monitoring effort as the operation unfolds include the following:

- It can provide improved understanding where the up-front analysis is limited by data and related analysis on problems and response, as well as by feedback effect uncertainties.
- This improved understanding, especially where behavioral responses could be variable or less predictable, will help accommodate and justify flexibility in implementation and conditions.
- On-site monitoring with real-time results improves the management of the reform process.
- Monitoring the key indicators in the program logical framework can provide early indications of possible problems and the basis for modifications.

Such a monitoring effort requires strong capacity to be in place to be effective. Countries with weak database and statistical systems would need capacity building and sufficient funding. Monitoring and evaluation at the public sector reform program level, for example, requires expanded operational capacity and stability in staffing and managerial guidance. However, a more pressing policy challenge is to redress the low priority often accorded to monitoring and evaluation.

Integrating analytical results into an operation's design provides the basis for monitoring and, as necessary, further operation-related research to analyze key policy variables, impact effects, and the need for midcourse corrections. Analytical and monitoring dimensions that are well integrated into the design process and sufficiently well understood and accepted by stakeholders will improve the prospects for a relevant and feasible policy-based operation and for a favorable outcome.