

APPENDIXES

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(available on request)

- A Basic Data on Program Lending
- B Country Consultations
- C Reviews of Selected Program Loans

EVOLUTION OF THE PROGRAM LENDING FRAMEWORK

A. Before 1987¹

1. Asian Development Bank (ADB) program loans were introduced in 1978. Initially, they assisted the financing of imports to enable fuller capacity utilization in developing member countries (DMCs), especially in the agriculture sector. Essentially, program loans provided balance-of-payments (BOP) support and were evaluated in much the same way as project loans.

2. In 1983, policy reform objectives were added, to include modernization of production facilities. Policy dialogue on sector and institutional issues was required, backed by larger technical assistance (TA) funding, so as to achieve improved operations in the longer term. The country ceiling on program lending was raised from 15 to 20 percent of annual lending over a moving three-year period. However, program loans did not include conditions regarding the use or monitoring of counterpart funds. Further, the overall ADB lending limit for program lending remained at 10 percent, and the focus of assistance continued to be financing of imports for industrial and agricultural production. Because program lending involved BOP support, International Monetary Fund (IMF) endorsement was sought prior to approval to ensure compatibility of activities. IMF's standby credits, which provide liquidity support to countries experiencing BOP difficulties, were precursors to ADB's program loans.

3. A review conducted in 1987 concluded that program loans had not been an important or effective instrument of ADB lending.² They accounted for less than 5 percent of total lending, and only eight loans to six countries had been made, largely to finance imports of fertilizers and pesticides. Disbursement performance was poor. Nonetheless, the loans were viewed as generally quite successful in achieving increased production and capacity utilization.

B. The 1987 Changes³

4. To make program loans a more effective and important component of development assistance, in 1987 ADB fundamentally altered and expanded its policy-lending framework. The objective of program loans was redefined to address underlying sector needs and constraints, including policy reform, investment plans, and institutional strengthening. Program formulation was to be based on detailed and comprehensive sector analysis, and on extensive policy dialogue with country authorities to ensure that the proposed reforms enjoyed full government support. The 1987 review indicated that program formulation should be market based to ensure efficient resource allocation.

5. In order to enable wider and more effective use of the program lending instrument, some of the constraining features of the previous policy were removed. The requirement for BOP justification was abolished. The rationale for program lending was shifted from capacity

¹ This section draws from ADB, *A Review of Program Lending Policies*, November 1987; and Operations Evaluation Office, *Report of the President to the Board of Directors on Post-Evaluation Activities During 1991 and the Fourteenth Annual Review of Post-Evaluation Reports*, April 1992.

² ADB, *A Review of Program Lending Policies*, November 1987.

³ This section draws from ADB, *A Review of Program Lending Policies*, November 1987; ADB, *Review of the Bank's Program-Lending Policies*, June 1996; ADB, *Review of ADB's Program Lending Policies*, November 1999.

underutilization in a sector on account of foreign currency shortages, to soundness of the proposed sector policy reform and development plans. Further, the ceiling on program lending was raised to 15 percent of total ADB lending and the 20 percent ceiling for individual countries was abolished.⁴ The scope of lending was broadened to include the financial, industry, energy, transport and communications, and social sectors.

6. Procurement procedures were eased to facilitate fast disbursement.⁵ Loan proceeds were now disbursed against broad sector import needs defined by reference to a positive list. Retroactive financing up to 180 days prior to loan effectiveness was permitted and the threshold requirement for international competitive bidding was raised substantially. Counterpart funds, or the local currency funds accruing to the borrowing government from disposition of the imports, are normally transferred to the ministry of finance for general budgetary purposes. Conditionalities may require directed use of a portion of the counterpart funds.

7. The size of the program loan now is expected to be related to a variety of factors, including ADB's overall lending program in the relevant DMC, the importance of the sector, the scope of the reform program, and other sector-specific considerations. Most notably, adjustment costs are meant to serve as the underlying rationale for the loan amount. The 1987 review stated that policy conditions should be realistic and achievable, as well as few in number. The review also indicated that no more than two tranches would be expected in a single loan program. Program loans address medium-term objectives, covering a three- to five-year period. Where policy adjustments are required over an extended period of time, the 1987 review called for a succession of program loans—subject to satisfactory progress regarding initial programs.

8. The 1987 review cautioned that program loan conditionalities should not be expected to work in the same way as conditionalities for project loans; in the case of program loans, they must be assessed in the broad context of policy reform. To capture this, the process should be reflected in a development policy letter from the government requesting the program loan. Reform should be paced and transitional costs reduced by provision for retraining and other adjustment assistance, especially for the poor.

9. The review called for compatibility of program loans with policy reform measures of IMF and the World Bank. However, unlike earlier program loans, which were essentially BOP support, reference to a “no objection” clause from IMF was omitted.

10. ADB Board discussion of the 1987 review document supported promotion of efficiency-enhancing, market-oriented policy reforms in the DMCs. However, Board members expressed concern about the capacity of ADB to engage in the necessary policy analysis and dialogue with DMC authorities, which are essential for success. Regarding the division of tasks among multilateral financial institutions, the Board agreed that ADB would not become involved in purely macroeconomic issues and would focus on sector policy reforms. Borrowing countries expressed reservations about the new lending modality, fearing attempts to impose undesired policies on them. Board members agreed that policy dialogue should be approached in a highly sensitive manner and involve a genuine two-way exchange of views.

⁴ For Asian Development Fund (ADF) lending, an additional limit on country lending of 22.5 percent was imposed during the ADF VI replenishment.

⁵ Similar procedures had earlier been adopted by the World Bank for its sector adjustment loans.

11. The Strategy and Policy Office (SPO) undertook a preliminary assessment of the new policy approach in 1990, with a generally positive conclusion.⁶ According to the assessment, the new policy approach strengthened ADB's development role and contributed to the adoption of economic systems more conducive to sustainable growth. It stressed the importance of sector analysis to ensure a strong foundation for the policy reforms. However, during discussion of the SPO assessment, Board members, although generally endorsing the findings and recommendations, raised a number of concerns. Loan size seemed to be unrelated to any measurable criteria, and insufficient consideration had been given to the impact of program loans on indebtedness and poverty.

C. The 1996 Changes: Sector Development Programs

12. A review of ADB's program lending undertaken by SPO in 1996 reached similar conclusions to the 1990 assessment.⁷ It found that while the design of program loans was weak immediately following adoption of the new policy approach, subsequent loans were better prepared, based on comprehensive sector analysis and policy dialogue, and containing systematic conditionalities for each tranche. It also found that many program loans sought only to reduce rather than entirely eliminate major sector distortions. While this approach reflected country sensitivities, removal of sector distortions necessitated a long-term and sustained commitment to achieving market-based systems. Thus, the 1996 review recommended a building-block approach, with a succession of reform packages.

13. The 1996 review observed that second-tranche releases were normally delayed by about one year. The nature of the reforms was part of the reason for delay; such issues as privatization of state-owned enterprises, price increases, and user charges involved complex issues or political sensitivities. The manner in which they were addressed appeared to have reflected insufficient appreciation of country circumstances. Other sources of delay included legislative difficulties and problems of interagency coordination. Drawing on program performance audit reports (PPARs) and program completion reports (PCRs), the 1996 review concluded that more than 60 percent of all policy conditionalities had been fully complied with. Strong government commitment to the reform process was noted as a condition of achievement.

14. The 1996 review concluded that program loans had made a substantial contribution to reform processes. The loans contributed to macroeconomic stability and addressed costs associated with reforms that DMCs would have had great difficulty absorbing on their own. The technical advice provided by ADB in support of these loans was highly valued. Notably, the review stressed the importance of program loans in helping establish or maintain a sound macroeconomic environment, and their complementarity to structural adjustment loans provided by IMF and the World Bank. This finding appeared to be out of step with ADB's principles for program lending adopted in 1987, which de-emphasized assistance with meeting BOP difficulties or budgetary shortfalls. However, the review also cited sector needs, including adjustment costs, as underscoring the usefulness of program loans, as many interventions, including tariff reductions and restructuring of state-owned enterprises, result in budgetary costs that program loans help bridge. Moreover, policy reform can involve a reallocation of resources

⁶ The Strategy and Policy Office became the Strategy and Policy Department in November 1999.

⁷ ADB, *Review of the Bank's Program-Lending Policies*, June 1996. The review confirmed that 27 of ADB's 33 DMCs had received one or more program loans.

between the private and public sectors, resulting in transitional and distributional costs. Finally, the review noted that a program loan could facilitate the political acceptability of reforms.

15. The 1996 review acknowledged that it is very difficult to evaluate the impact of program loans. ADB-supported sectoral reforms are normally paralleled by other developments, including policy or investment initiatives of other funding agencies, and it is difficult to isolate cause and effect. The review also noted that more experience was needed at evaluating program loans. Nonetheless, some apparent examples of success were cited, such as the Bangladesh Foodcrops Development Program, the Financial Sector Program loans to Indonesia, and the contribution of program loans to overall structural adjustment programs supported by IMF and the World Bank, as in India and Sri Lanka.

16. An earlier special study on the impact of program loans on the poor indicated a limited but generally positive impact.⁸ The 1996 review reaffirmed this conclusion by reasoning that program reforms help create a positive investment climate and stimulate labor-intensive growth. It noted that environmental concerns had been addressed in a number of program loans, through policy covenants and attached TAs.

17. The 1996 review summed up as follows: program loans were generally well conceived; subsequent loans incorporated the lessons learned, leading to progressive improvement; the loans were generally successful in promoting adoption of market-based policies; and program loans provided critically needed support, especially when they formed part of an overall adjustment program. On the less positive side, the review observed that in some cases, the design of program loans was weak, greater attention was needed to strengthen local capacity, and there was inadequate appreciation of political constraints to policy reform.

18. The review may have overlooked some aspects of program lending, for example, the consequence of unrealized or unsustainable reforms. The assessment of financial sector reform may have been incomplete, given the weaknesses revealed by the 1997 financial crisis. Overall, however, an important effect of program lending has been the greater attention to policy aspects in all lending and TA activities. Sector and project loans increasingly address policy issues, backed up by relevant loan covenants. ADB's Medium-Term Strategic Framework has, since 1995, included policy support as a key operating objective. This dimension has helped transform ADB from a project-financing institution to one with a broader role as a development catalyst and agent of change.

19. To strengthen ADB's role in policy-based lending, the 1996 review proposed the introduction of sector development programs (SDPs). An SDP brings together existing modalities into a package of program, project, and TA activities. The 1996 review recognized that achievement of a more market-based sector, whether in agriculture, industry, or services, normally entails investment and capacity building, as well as policy reform. An SDP offers a more integrated and longer-term approach to sector needs, particularly suited to situations where policy and investment are highly interdependent. It broadens the scope and depth of policy reform in conjunction with sector or project loans, better ensuring that the appropriate policy and institutional framework is in place before investment is made. The investment component provides the main incentive for governments and sector institutions to adopt the

⁸ ADB, Doc. R183-92, *Technical Assistance for Study of Framework for Assessing Social Impact of Program Loans*, November 1993.

reform package. The program loan size should reflect the estimated costs of the reform program, and be set at the smallest possible level to achieve the desired reforms.

20. Critically, SDPs address a possible weakness in program lending. Counterpart funds from the latter wholly or largely accrue to the Ministry of Finance for meeting economy-wide budget or foreign currency needs, with little if any direct support to the targeted sector. By ensuring that the targeted sector is the principal beneficiary, SDPs better complement stakeholder interests. TA support is also more focused and has the potential for greater capacity-building impact.

21. The 1996 review anticipated that SDPs could eventually replace ADB's existing program and sector lending modalities. In doing so, this would help clarify the division of labor among the multilateral financial institutions, with ADB focusing on purely sector-related assistance while IMF and the World Bank take responsibility for macroeconomic management issues.

22. ADB has so far approved 16 SDPs. Consideration of these loans is preliminary since more time and experience are needed to collect evidence on their performance.

D. The 1999 Changes: Special Loans and the Cluster Program Approach

23. Another review of ADB's program lending was undertaken by SPO in 1999, with the purpose of introducing modified modalities to better meet the changing needs of DMCs.⁹ The review highlighted the two very different circumstances under which program loans had been provided:

- (i) noncrisis situations, to support changes in prevailing policies and institutions or to introduce new changes; and
- (ii) crisis situations, to help mitigate the BOP and fiscal consequences of the crisis, and address the structural causes.

Program lending was not designed originally to meet crisis situations. It was desirable to introduce a quick-disbursing instrument that could be employed under highly selective circumstances. Special program loans were proposed for this purpose, and were approved by the Board in December 1999.

24. The 1999 review also noted that noncrisis situations encompass a broad range of circumstances. Experience pointed to the need in some countries for a longer commitment than normally provided for through program loans, especially where policy solutions are not obvious and may be difficult to apply, where the costs of reform are protracted, and where time is needed to strengthen institutional capacity. The review recommended, and the Board accepted, the adoption of the program cluster approach for program loans.

25. The 1999 review concluded that the need for program loans had increased and that ADB's capacity to manage such loans had improved. Therefore, the ceiling on the share of total ADB public sector lending was raised from 15 to 20 percent on a three-year moving average basis.

⁹ ADB, *Review of ADB's Program Lending Policies*, November 1999.

26. The review provided an update on program loans, including the crisis loans. The Asian financial crisis underscored the urgency of policy reform and the need for better instruments to respond to sudden shifts in capital and investor confidence. ADB now allows provision of guarantees to commercial banks or other intermediaries involved in cofinancing aspects of program loans. These guarantees count toward any ceiling on program lending.

27. Since their introduction in 1996, SDPs had grown rapidly in importance. The 1999 review underscored the benefits of this modality, citing evidence of strong synergy between policy reform and investment. However, the fungible nature of public funds means that successful results from both program and project loans are heavily dependent on DMCs having well-structured and efficient public expenditure programs. Thus, loans and TAs in support of public sector management reform and corporate governance have been increasingly emphasized.

28. ADB has continued to strengthen the policy design of program loans. Reports and recommendations of the President now require a clear diagnostic of the policy issues, a policy matrix linking proposed actions to the identified problems, consistency with the sector strategy, tranching to ensure proper sequencing and implementation, provision for capacity building, performance indicators, and identification of the costs of policy adjustment. The 1999 review noted that successful implementation depends not only on the technical design but also on sensitivity to political economy factors critical to the reform process.

PROGRAMS AND PROGRAM LENDING, 1987-2000

Table A2.1: Total Programs, 1987-2000

	Year of Approval	Country	Loan No.	Program Name	Approval Month	Date Closed	Amount (\$ million)	PPAR Rating	PCR Rating
	1987								
1		BAN	830	Agricultural Inputs Program	April	18-Jan-90	51.7	PS	NR
2		INO	876/877	Non-Oil Export Promotion Program	December	8-Jul-88	150.0	GS	NR
	1988								
3		PHI	889/890	Forestry Sector Program	June	31-Dec-93	120.0		NR
4		BAN	891	Bangladesh Industrial Program	June	18-Oct-89	65.0	PS	NR
5		FIJ	906	Agriculture Diversification Program	September	30-Sep-88	20.0	PS	NR
6		NEP	924	Agriculture Program	November	5-Jul-91	55.0	PS	NR
7		PAK	931/932	Industrial Sector Program	December	28-May-91	200.0	GS	NR
8		INO	938/939	Financial Sector Program	December	26-Sep-89	200.0	NR	NR
	1989								
9		LAO	965	Agricultural Program	August	28-Jun-91	20.0	PS	NR
10		PHI	971/972	Fisheries Sector Program	September	31-Dec-95	80.0	PS	GS
11		SRI	994	Agricultural Program	November	14-Aug-91	80.0	PS	NR
12		SAM	995	Agriculture Development Program	November	30-Jun-92	15.0	PS	NR
13		PNG	997/998	Agriculture Sector Program	December	30-Jun-92	80.0		PS
	1990								
14		INO	1014/1015	Food Crop Sector Program	March	31-Mar-92	250.0	PS	NR
15		NEP	1040	Forestry Program	October	15-Jan-94	40.0	PS	PS
16		BAN	1045	Foodcrops Development Program	November	30-Jun-95	125.0	PS	GS
17		PHI	1046/1047	Road And Road Transport Sector Program	November	28-Sep-92	100.0	PS	NR
18		SRI	1051	Financial Sector Program	November	11-Jun-93	80.0	PS	NR
19		LAO	1061	Financial Sector Program	December	31-Dec-91	25.0		NR
20		PAK	1062	Agriculture Program	December	30-Jun-94	200.0	PS	PS
	1991								
21		SRI	1127	Second Agriculture Program	November	31-Dec-96	60.0		PS
22		BAN	1147	Second Industrial Program	December	3-Mar-94	125.0	US	US
23		IND	1148	Hydrocarbon Sector Program	December	18-Sep-97	250.0	PS	PS
	1992								
24		INO	1160	Second Financial Sector Program	March	31-Mar-93	250.0		GS
25		LAO	1180	Second Agriculture Program	October	9-Aug-95	30.0	PS	PS
26		IND	1208	Financial Sector Program	December	4-Nov-96	300.0	GS	GS
	1993								
27		NEP	1229	Industrial Sector Program	April	12-Dec-97	20.6		GS
28		MON	1244	Industrial Sector Program	August	28-Aug-95	30.0	PS	GS
	1994								
29		BAN	1310	Railway Recovery Program	September	30-Jun-96	80.0		GS
30		VIE	1340	Agriculture Sector Program	December	30-Jun-98	80.0		HS

Table A2.1: Total Programs, 1987-2000 (cont'd.)

Year of Approval	Country	Loan No.	Program Name	Approval Month	Date Closed	Amount (\$ million)	PPAR Rating	PCR Rating
1995								
31	PHI	1363	Capital Market Development Program	August	31-Dec-99	150.0		PS
32	KAZ	1406	Agriculture Sector Program	November	26-Jun-97	100.0		GS
33	KGZ	1407	Agriculture Sector Program	November	30-Jun-98	40.0		PS
34	IND	1408	Capital Market Development Program	November	31-Mar-99	250.0		GS
35	MON	1409	Agriculture Sector Program	December	31-Mar-98	35.0		PS
1996								
36	CAM	1445	Agriculture Sector Program	June	5-Sep-00	30.0		
37	LAO	1458	Second Financial Sector Program	September	30-Apr-01	25.0		
38	COO	1466	Economic Restructuring Program	September	18-Mar-98	5.0		GS
39	VIE	1485	Financial Sector Program	November	13-Dec-99	90.0		
40	IND	1506	Gujarat Public Sector Resource Management Program	December	31-Dec-00	250.0		
41	MON	1507	Education SDP	December	2-Dec-99	6.5		
	MON	1508	Education SDP (Investment)	December		9.0		
42	MON	1509	Financial Sector Program	December	30-Jul-99	35.0		S
	MON	1510	Upgrading Skills and Systems of Commercial Banks (TA L	December		3.0		
1997								
43	RMI	1513	Public Sector Reform Program	January	28-Jun-00	12.0		
44	PNG	1516/1517	Health SDP	March	8-Dec-99	50.0		
	PNG	1518	Health SDP (Investment)	March		10.0		
45	FSM	1520	Public Sector Reform Program	April	14-Jun-99	18.0		GS
46	KGZ	1546	Corporate Governance and Enterprise Reform Program	September	26-Nov-99	40.0		S
	KGZ	1547	Capacity Building in Corporate Governance and Insolvency Procedure (TA Loan)	September		4.0		
47	KGZ	1554	Education SDP	September	21-Dec-99	19.0		
	KGZ	1555	Education SDP (Investment)	September		13.7		
48	BHU	1565	Financial Sector Development Program	October		4.0		
	BHU	1566	Development Finance (Investment)	October		4.0		
49	MON	1568	Health SDP	November		4.0		
	MON	1569	Health SDP (Investment)	November		11.9		
50	PAK	1576	Capital Market Development Program	November		250.0		
	PAK	1577	Capacity Building of Securities Market (TA Loan)	November		5.0		
51	BAN	1580	Capital Market Development Program	November		80.0		
52	KAZ	1589	Pension Reform Program	December	30-Jun-99	100.0		PS
53	THA	1600	Financial Markets Reform Program	December	30-Jun-00	300.0		
54	KOR	1601	Financial Sector Program	December	7-Dec-99	4,000.0		
	KOR	1602	Institutional Strengthening of the Financial Sector (TA Loan)	December		15.0		

Table A2.1: Total Programs, 1987-2000 (cont'd.)

Year of Approval	Country	Loan No.	Program Name	Approval Month	Date Closed	Amount (\$ million)	PPAR Rating	PCR Rating
1998								
55	NEP	1604	Second Agriculture Program	January	31-Dec-00	50.0		
56	SAM	1608	Financial Sector Program	February		7.5		
57	THA	1611	Social Sector Program	March	31-Mar-00	500.0		
58	INO	1618	Financial Governance Reform SDP	June		1,400.0		
	INO	1619	Financial Governance Reform-Support Program (Investment)	June		47.0		
	INO	1620	Capacity Building for Financial Governance (TA Loan)	June		50.0		
59	INO	1622	Social Protection SDP	July	18-Feb-00	100.0		
	INO	1623	Social Protection SDP (Investment)	July		200.0		
60	VAN	1624	Comprehensive Reform Program	July	14-Dec-00	20.0		
61	SOL	1627	Public Sector Reform Program	August	27-Oct-00	25.0		
	SOL	1628	Privatization of State-Owned Enterprises	August		1.0		
62	TAJ	1651	Postconflict Infrastructure Program	December	22-Dec-00	20.0		
63	NAU	1661	Fiscal and Financial Reform Program	December		5.0		
64	PHI	1662	Power Sector Restructuring Program	December		300.0		
65	PHI	1663	Metro Manila Air Quality Improvement SDP	December		200.0		
	PHI	1664	Metro Manila Air Quality Improvement SDP (Investment)	December		25.0		
	PHI	1665	Metro Manila Air Quality Improvement SDP (Investment)	December		71.0		
1999								
66	INO	1673	Power Sector Restructuring Program	March		380.0		
67	INO	1675	Health and Nutrition SDP	March	22-Dec-00	100.0		
	INO	1676	Health and Nutrition SDP (Investment)	March		200.0		
68	INO	1677	Community and Local Government Support SDP	March		200.0		
	INO	1678	Community and Local Government Support SDP (Investment)	March		120.0		
69	PAK	1680	Trade, Export, Promotion and Industry Program	March		300.0		
	PAK	1681	Modernization of Customs Administration (TA Loan)	March		3.0		
	PAK	1682	Institutional Support for Trade Regime (TA Loan)	March		3.0		
	PAK	1683	Institutional Strengthening of the Board of Investment (TA Loan)	March		1.0		
70	TUV	1693	Island Development Program	July		4.0		
71	THA	1698	Agricultural Sector Program	September		300.0		
72	MON	1713	Governance Reform Program	December		25.0		
73	IND	1717	Madhya Pradesh Public Resource Management Program	December		250.0		
74	KGZ	1723	Financial Intermediation And Resource Mobilization Program	December		35.0		
	KGZ	1724	Commercial Bank Audits (TA Loan)	December		1.0		
75	VIE	1733/1734	State-Owned Enterprise Reform & Corporate Governance	December		100.0		

Table A2.1: Total Programs, 1987-2000 (cont'd.)

Year of Approval	Country	Loan No.	Program Name	Approval Month	Date Closed	Amount (\$ million)	PPAR Rating	PCR Rating
2000								
76	INO	1738	Industrial Competitiveness of Small and Medium Enterprises Development Program		March	200.0		
77	PHI	1739	Grains SDP	April		100.0		
	PHI	1740	Grains SDP (Investment)	April		75.0		
78	MON	1743	Second Financial Sector Program	June		15.0		
79	PHI	1745	Pasig River Environmental Management and Rehabilitation	July		100.0		
	PHI	1746	Pasig River Environmental Management and Rehabilitation (Investment)	July		75.0		
80	BHU	1762	Health Care Program	September		10.0		
81	KAZ	1779	Farm Restructuring SDP	November		25.0		
	KAZ	1780	Farm Restructuring SDP (Investment)	November		20.0		
82	SRI	1800/1801	Private Sector Development Program	December		100.0		
83	IND	1803	Gujarat Power SDP	December		150.0		
	IND	1804	Gujarat Power SDP (Investment)	December		200.0		
84	PAK	1805	Microfinance SDP	December		70.0		
	PAK	1806	Microfinance SDP (Investment)	December		80.0		
85	PAK	1807/1808	Energy Sector Restructuring Program	December		350.0		
	PAK	1809	Energy Sector Restructuring Support (TA Loan)	December		5.1		
86	MON	1821	Agriculture SDP	December		7.0		
	MON	1822	Agriculture SDP (Investment)	December		10.0		

PPAR = program performance audit report; PCR = program completion report; SDP = sector development program; TA = technical assistance.

GS = generally successful; HS = highly successful; PS = partly successful; S = successful; US = unsuccessful; NR = no rating.

Sources: Loan Financial Information System, Postevaluation Information System.

Table A2.2: Total Program Lending by Year, 1987-2000
Amounts Approved by Year of Approval (\$ million)

Year	Total Loans	Programs		Sector Development Programs			Total Program Loans	Share of Total Lending
		Program Loans	TA Loans	Program Loans	Project Loans	TA Loans		
1987	2,418.0	201.7					201.7	8.3
1988	3,041.1	660.0					660.0	21.7
1989	3,527.9	275.0					275.0	7.8
1990	3,893.3	820.0					820.0	21.1
1991	4,593.9	435.0					435.0	9.5
1992	4,911.3	580.0					580.0	11.8
1993	5,027.5	50.6					50.6	1.0
1994	3,679.0	160.0					160.0	4.3
1995	5,417.9	575.0					575.0	10.6
1996	5,151.2	435.0	3.0	6.5	9.0		441.5	8.6
1997	9,299.0	4,800.0	24.0	77.0	39.6		4,877.0	52.4
1998	5,846.4	927.5	1.0	1,700.0	343.0	50.0	2,627.5	44.9
1999	4,832.1	1,394.0	8.0	300.0	320.0		1,694.0	35.1
2000	5,694.3	675.0	5.1	452.0	460.0		1,127.0	19.8
Total	67,332.8	11,988.8	41.1	2,535.5	1,171.6	50.0	14,524.3	21.6

TA = technical assistance.

Source: Loan Financial Information System.

THE CRISIS LOANS

1. The Asian financial crisis required substantive and quick responses. The crisis began in Thailand in mid-1997 and quickly spread to other Asian countries. Capital flight threatened financial collapse, and in several countries the real sector seriously declined. Combined with other developments, the world economy came close to a severe contraction and financial turmoil.¹ In response, the International Monetary Fund (IMF) mobilized more than \$100 billion for East and Southeast Asia in 1997-1998. About 40 percent of this was in the form of “callable capital,” while the rest was “paid-in capital.” The Asian Development Bank (ADB) was one of the key contributors.

2. The crisis loans made by ADB as part of financial rescue packages were primarily in the form of program and sector development program loans (Table A3.1).² In total, some \$7.9 billion, including \$7.3 billion of program loans, were rapidly mobilized by ADB on behalf of three countries: Indonesia, Republic of Korea, and Thailand.³

Table A3.1: Crisis Program Loans, 1997-1998

Country	Approval Year	Loan No.	Program Name	Amount (\$ million)
Thailand	1997	1600	Financial Markets Reform Program	300
Thailand	1998	1611	Social Sector Program	500
Thailand	1999	1698	Agriculture Sector Program	300 ^a
Korea, Rep. of	1997	1601	Financial Sector Program	4,000 ^b
Indonesia	1998	1618	Financial Governance Reform Sector Development Program	1,499 ^c
Indonesia	1998	1622/3	Social Protection Sector Development Program	100 ^d
Indonesia	1999	1673	Power Sector Restructuring Program	380
Indonesia	1999	1675/6	Health and Nutrition Sector Development Program	100 ^e
Indonesia	1999	1677/8	Community and Local Government Support Sector Development Program	200 ^f
Total		Nine Loans		7,280

^a An additional \$300 million was made available through cofinancing with the Overseas Economic Cooperation Fund (now the Japan Bank for International Cooperation).

^b An additional \$15 million loan provided support for institutional strengthening of the financial sector.

^c There was an additional \$47 million investment component and \$50 million technical assistance loan component.

^d There was an additional \$200 million investment component.

^e There was an additional \$200 million investment component.

^f There was an additional \$120 million investment component.

Source: Loan Financial Information System.

¹ Other developments included Japan's stagnant economy and falling yen, the financial crises in the Russian Federation and Brazil, and the near collapse of the Long Term Capital Management fund in the United States.

² ADB mobilized yet further funds during the crisis. For example, the loan amount for the Rural Enterprise Credit Project for Thailand was doubled to assist in balance-of-payments support. Also, a \$50 million Export Financing Facility was established on Thailand's behalf, to leverage \$1 billion in commercial funds. Two sector development programs were approved at this time for the Philippines, although there was no overall financial rescue package.

³ Malaysia was severely affected by the crisis, but opted for capital controls rather than the more conventional IMF-led support.

3. Thailand's decision in early July 1997 to allow, in effect, the baht to float triggered the Asian crisis. The banking system was vulnerable as a result of borrowing short and lending long. Further, the Bank of Thailand had largely exhausted its reserves. Emergency measures were needed to halt the consequent capital flight, and to stabilize the exchange rate. The IMF-led \$17 billion rescue package was very restrictive, with high interest rates and expenditure cutbacks. ADB advised from the outset that a more balanced approach was needed to mitigate the real effects. By early 1998, the Government acknowledged that the package was too restrictive and introduced fiscal stimulus measures.

4. The Financial Markets Reform Program Loan approved in December 1997 complemented IMF and World Bank support. According to an interim report, achievements in capital market reforms over the intervening years had been significant, although delay in amending the Securities and Exchange Commission Act hindered full compliance, reflecting difficulties that arise when legislative matters are included as time-bound conditionalities. The \$500 million Social Sector Program Loan for Thailand approved in March 1998 was particularly timely. According to an interim report, compliance with the loan conditionalities had been largely satisfactory.⁴ The first \$150 million disbursement for the Agricultural Sector Program Loan was made in December 1999, when Thailand's economy was already strengthening. However, the loan was part of ADB's pledge when the rescue package was put together, and the Government of Thailand continued to need fiscal support.

5. The Bank of Korea had nearly exhausted its reserves at the end of 1997 as the Asian crisis spread. A \$58 billion rescue package led by IMF averted default. It was associated with policy conditions. ADB's emergency loan of \$4 billion to Republic of Korea was a major component of the rescue package. The first tranche (\$2 billion), second tranche (\$1 billion), and third tranche (\$700 million) were released in December 1997, January 1998, and December 1998, respectively. The fourth tranche of \$300 million was scheduled for release in December 1999, but was not drawn by the Government even though it had met all the conditionalities. The rebound of the economy, which grew by 10.7 percent in 1999, and a much improved reserve position of \$74 billion at year end, negated the need for the final tranche.

6. Indonesia's plight followed Thailand's but became even more severe. The sharp contraction of Indonesia's economy and the depth of social unrest revealed the extent of governance problems in the country. ADB shifted from project to program lending and in 1998-1999 approved five program or sector development program loans amounting to \$2.83 billion.⁵ As with the other crisis countries, extensive technical assistance loans and grants accompanied loan assistance. Altogether, \$1.4 billion was disbursed during 1998-1999. Government officials and implementing agencies have noted that ADB's assistance was timely and valuable, particularly in helping the Government maintain social protection and other high priority expenditures. First tranche release for the Financial Governance Reform Program Loan in June 1998 was made at a crucial juncture. Support by ADB for helping poor children to remain in school was also widely appreciated.

7. While the crisis loans to Indonesia, Republic of Korea, and Thailand included many conditionalities designed to advance policy reform, unquestionably the paramount concern was

⁴ SST:THA 99020: *Interim Assessment of ADB's Lending to Thailand During the Economic Crisis*, December 1999.

⁵ SST:INO 2001-09: *ADB's Crisis Management Interventions in Indonesia*, August 2001.

speed of response to the Asian financial crisis. Not surprisingly, given the rapidity of the crisis, the stakes involved, and the different views on how best to address its financial, economic, and social dimensions, mistakes were made. IMF has acknowledged that its prescriptions were overly restrictive during the initial stages, and it modified its approach as more experience was gained.⁶ Some experts have raised concerns about moral hazard and other issues. Questions have also been raised about the appropriateness of ADB's extensive participation in balance-of-payments (BOP) and fiscal support. At the time of the crisis, however, it would appear that ADB had little option, especially in light of its key role as the regional development bank for Asia. The strength of rebound of the Asian economies is testimony that the response by the multilateral financial institutions, backed by bilateral support, was timely and appropriate.

8. It is relevant to inquire whether program loans were a suitable modality for addressing the crisis. ADB, together with the international community generally, was ill-prepared for the Asian crisis. ADB's response was to draw on an available modality, program loans, providing as they do a quick-disbursing mechanism for lending very large sums. The pressure to formulate and implement the program loans quickly so as to meet the urgent need for BOP and fiscal support resulted in some difficult situations. Preparatory work was limited, and established processes of internal consultation and deliberation were waived or at least shortened. This weakened program design; many policy conditionalities were controversial or unrealizable in the time provided.

9. The program and sector development program loans formulated under crisis conditions, and primarily designed for BOP and/or fiscal support, were modeled in a manner similar to noncrisis program loans, that is, extensive policy reform matrices governed loan disbursement. The many conditionalities were complex. Thailand's Agriculture Sector Program Loan had 32 conditionalities, three involving legislation. Simplification of the policy matrices for crisis loans would have been desirable. Further, given that preparatory work for the policy matrices was so limited, and program implementation was so compressed, some provision for greater flexibility than normal was needed.

10. The crisis program loans covered a wide range of sectors, including the financial, social, agriculture, power, health, governance, and environment sectors. The two areas calling for emergency attention during the crisis were financial sector reform and social sector support. Governance issues were also legitimate if due recognition was given to the sensitivities involved. A key question is whether governments in deep financial, economic, and social crisis should have been made to address noncrisis issues. In the case of Indonesia, it has been argued that immediate attention to financial sector requirements was pertinent to the macroeconomic problems. At the same time, rapid social sector support required changes in financing and delivery mechanisms requiring immediate reforms. Hence quick disbursement and reform packages were both relevant to the circumstances of the crisis. However, the risk remains that incorporating considerable policy actions in the crisis loans carried an opportunity cost in distracting decision makers from focusing on urgent matters.

⁶ Professor Fred Bergsten, in "Towards a Tripartite World", *Economist*, 15-20 July 2000, observed the following: "The IMF and the United States dictated much of the Asian response to the crisis. Fealty to the "Washington Consensus" was seen as necessary to qualify for official help and to restore access to private capital markets...The widespread view that the IMF programs made things worse, at least for a while – a view proclaimed by some economists in the West itself – makes Asians still more resentful. And Malaysia's recovery without the IMF implies that acceptance of the global norms may not have been so crucial after all."

11. The crisis loans also affected ADB's financial indicators, leading to a drop in net earnings from ordinary capital resources loans.⁷ Technical assistance has been pared, contracting ADB's resource base as a knowledge institution, and Asian Development Fund lending to the poorer countries has been programmed at a slower pace.

12. In December 1999, ADB's Board of Directors approved adoption of special program loans, with shorter maturity and grace periods than normal program loans, and with higher loan charges. However, as the modality is limited to ordinary capital resources support, 15 developing member countries classified as Group A countries, eligible for Asian Development Fund support only, cannot benefit.

13. In summary, ADB's crisis loans represented about 15 percent of actual resources mobilized for the specific countries concerned. As concluded by the Strategy and Policy Department's 1999 review of program lending, "while ADB cannot, as a matter of normal course, take the responsibility of providing large-scale unanticipated assistance to crisis-affected countries, exceptional situations could arise when ADB has no option but to provide such extraordinary support".⁸ The nine program loans made to three countries were timely and highly supportive in meeting the urgent need for liquidity and to meet BOP and/or budgetary gaps. However, the loan modality had some limitations in the circumstances, prompting the Board to adopt a modified modality in late 1999.

14. Crises can be expected to recur and ADB should have a stronger capacity to shoulder its share of the response by multilateral financial institutions. In addition to financial support, this means having the expertise to understand the crises and to be convincing in offering counsel on how to respond. ADB expressed its concern about the IMF-led package for Thailand, noting in particular that the measures were unduly restrictive. Also, ADB expressed its concern about procedures for consolidating the banking systems in both Thailand and Indonesia. Since capital flows are the source of global instability, ADB needs to build its expertise in this area, and to strengthen and maintain its capacity to monitor developments in the region.

⁷ There are two key indicators: the interest coverage ratio, which measures the degree to which net income can fall without jeopardizing ADB's ability to service its financial expenses from current income; and the reserve/loan ratio, which measures the adequacy of ADB's earning base relative to its loan assets. At the end of 1998, the interest coverage ratio was 1.39 percent and the reserve/loan ratio was 27.7 percent. By the end of 1999, these ratios had fallen to 1.31 and 25.97, respectively, or close to the minimum policy levels. Risk-bearing capacity is defined as the medium-term projected net income having the capacity to absorb plausible large payment arrears or shocks, and still leaving sufficient net income after the shocks both to support loan growth and to continue to inspire investors' confidence.

⁸ ADB, *Review of ADB's Program Lending Policies*, November 1999, p. 28.

PROGRAMS BY COUNTRY AND SECTOR, AND THEIR RATINGS

Table A4.1: Total Programs and Program Lending, 1987-2000 by Country

Country	Programs				Sector Development Programs (SDPs)						Total				
	Total Programs		TA Loans		Total SDP		TA Loans		Projects		Number	Amount (\$ million)	% of Total ^a Amount	Without Crisis Loans	
	Number	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)	No.	Amount (\$ million)				Number	Amount (\$ million)
Group A															
Bhutan	1	10.0			1	4.0			1	4.0	2	14.0	0.1	14.0	0.2
Cambodia	1	30.0									1	30.0	0.2	30.0	0.4
Kyrgyz Republic	3	115.0	2	5.0	1	19.0			1	13.7	4	134.0	0.9	134.0	1.8
Lao PDR	4	100.0									4	100.0	0.7	100.0	1.4
Mongolia	5	140.0	1	3.0	3	17.5			3	30.9	8	157.5	1.1	157.5	2.2
Nepal	4	165.6									4	165.6	1.1	165.6	2.3
Samoa	2	22.5									2	22.5	0.2	22.5	0.3
Solomon Islands	1	25.0	1	1.0							1	25.0	0.2	25.0	0.3
Tajikistan	1	20.0									1	20.0	0.1	20.0	0.3
Tuvalu	1	4.0									1	4.0	0.0	4.0	0.1
Vanuatu	1	20.0									1	20.0	0.1	20.0	0.3
Subtotal	24	652.1	4	9.0	5	40.5			5	48.6	29	692.6	4.8	692.6	9.6
Group B1															
Bangladesh	6	526.7									6	526.7	3.6	526.7	7.3
Cook Islands	1	5.0									1	5.0	0.0	5.0	0.1
Marshall Islands	1	12.0									1	12.0	0.1	12.0	0.2
Micronesia, F.S.	1	18.0									1	18.0	0.1	18.0	0.2
Pakistan	5	1,300.0	5	17.1	1	70.0			1	80.0	6	1,370.0	9.4	1,370.0	18.9
Sri Lanka	4	320.0									4	320.0	2.2	320.0	4.4
Viet Nam	3	270.0									3	270.0	1.9	270.0	3.7
Subtotal	21	2,451.7	5	17.1	1	70.0			1	80.0	22	2,521.7	17.4	2,521.7	34.8
Group B2															
India	5	1,300.0			1	150.0			1	200.0	6	1,450.0	10.0	1,450.0	20.0
Indonesia	6	1,430.0			4	1,800.0	1	50.00	4	567.0	10	3,230.0	22.2	1,050.0	14.5
Nauru	1	5.0									1	5.0	0.0	5.0	0.1
Subtotal	12	2,735.0			5	1,950.0	1	50.00	5	767.0	17	4,685.0	32.3	2,505.0	34.6
Group C															
Fiji Islands	1	20.0									1	20.0	0.1	20.0	0.3
Kazakhstan	2	200.0			1	25.0			1	20.0	3	225.0	1.5	225.0	3.1
Papua New Guinea	1	80.0			1	50.0			1	10.0	2	130.0	0.9	130.0	1.8
Philippines	5	750.0			3	400.0			4	246.0	8	1,150.0	7.9	1,150.0	15.9
Thailand	3	1,100.0									3	1,100.0	7.6	-	-
Subtotal	12	2,150.0			5	475.0			6	276.0	17	2,625.0	18.1	1,525.0	21.1
Graduate															
Korea, Republic of	1	4,000.0	1	15.0							1	4,000.0	27.5	-	0.00
Total	70	11,988.8	10	41.1	16	2,535.5	1	50.00	17	1,171.6	86	14,524.3	100.0	7,244.3	100.0

SDP = sector development program; TA = technical assistance.

^a Amount of program loans, not TA and project loans.

Source: Loan Financial Information System.

**Table A4.2: Total Programs and Program Lending, 1987-2000
by Sector**

Sector/Subsector	Programs				Sector Development Programs					Total					
	Total Programs		TA Loans		Total SDP		TA Loans		Projects				Without Crisis Loans		
	Number	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)	% of Total ^a Amount	Amount (\$ million)	% of Total Amount		
Agriculture and Natural Resources															
Fisheries	1	80.0								1	80.0	0.6	80.00	1.1	
Industrial Crops and Agro-Industry					1	100.0			1	100.0	0.7	100.00	1.4		
Irrigation and Rural Development	1	51.7								1	51.7	0.4	51.70	0.7	
Forestry	2	160.0								2	160.0	1.1	160.00	2.2	
Agricultural Support Services	18	1,570.0			3	102.0			3	110.0	21	1,672.0	11.5	1,372.00	18.9
Subtotal	22	1,861.7			4	202.0			4	185.0	26	2,063.7	14.2	1,763.70	24.3
Energy															
Electric Power	3	1,030.0	1	5.1	1	150.0			1	200.0	4	1,180.0	8.1	800.00	11.0
Fuel and Minerals	1	250.0									1	250.0	1.7	250.00	3.5
Subtotal	4	1,280.0	1	5.1	1	150.0			1	200.0	5	1,430.0	9.8	1,050.00	14.5
Industry (Non-Agriculture)	8	1,090.6	3	7.0							8	1,090.6	7.5	1,090.58	15.1
Transport and Communications															
Roads and Road Transport	1	100.0									1	100.0	0.7	100.00	1.4
Railways	1	80.0									1	80.0	0.6	80.00	1.1
Subtotal	2	180.0									2	180.0	1.2	180.00	2.5
Social Infrastructure															
Education					2	25.5			2	22.7	2	25.5	0.2	25.50	0.4
Urban Development and Housing					1	200.0			1	120.0	1	200.0	1.4		
Health and Population	1	10.0			4	254.0			4	421.9	5	264.0	1.8	64.00	0.9
Subtotal	1	10.0			7	479.5			7	564.6	8	489.5	3.4	89.50	1.2
Finance Sector															
Capital Market Development	17	5,892.5	4	24.0							17	5,892.5	40.6	1,892.50	26.1
Development Finance Institution	1	300.0			2	1,404.0	1	50.0	2	51.0	3	1,704.0	11.7	4.00	0.1
Subtotal	18	6,192.5	4	24.0	2	1,404.0	1	50.0	2	51.0	20	7,596.5	52.3	1,896.50	26.2
Multisector	2	520.0									2	520.0	3.6	20.00	0.3
Public Sector Management	9	589.0	1	1.0							9	589.0	4.1	589.00	8.1
Private Sector Development and Corporate Governance	4	265.0	1	4.0							4	265.0	1.8	265.00	3.7
Environment					2	300.0			3	171.0	2	300.0	2.1	300.00	4.1
Total	70	11,988.8	10	41.1	16	2,535.5	1	50.0	17	1,171.6	86	14,524.3	100.0	7,244.28	100.0

SDP = sector development program; TA = technical assistance.

^a Amount of program loans, not TA and project loans.

Source: Loan Financial Information System.

Table A4.3: Ratings for Selected Sectors by PPAR and PCR

Agriculture											
Programs											
		GS		PS		US		NR		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		0	0.0	10	100.0	0	0.0	0	0.0	10	100.0
PCRs (without PPAR)		1	16.7	4	66.7		0.0	1	16.7	6	100.0
		HS		S		PS		US		NR	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs			0.0		0.0	2	100.0		0.0	2	100.0
PCRs (without PPAR)		1	100.0		0.0		0.0		0.0	1	100.0
Projects (incl. Sector Loans)											
		GS		PS		US		NR		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		6	60.0	1	10.0	3	30.0		0.0	10	100.0
PCRs (without PPAR)		19	43.2	15	34.1	8	18.2	2	4.5	44	100.0
		HS		S		PS		US		NR	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs			0.0	1	100.0		0.0		0.0	1	100.0
PCRs (without PPAR)		0	0.0	1	100.0		0.0		0.0	1	100.0
Industry											
Programs											
		GS		PS		US		NR		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		2	66.7	1	33.3		0.0		0.0	3	100.0
PCRs (without PPAR)		1	100.0		0.0		0.0		0.0	1	100.0
		HS		S		PS		US		NR	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs			0.0		0.0	1	50.0	1	50.0		0.0
PCRs (without PPAR)		0								0	0.0
Projects (incl. Sector Loans)											
		GS		PS		US		NR		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		2	100.0	0	0.0	0	0.0	0	0.0	2	100.0
PCRs (without PPAR)		1	25.0	2	50.0	0	0.0	1	25.0	4	100.0
		HS		S		PS		US		NR	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		0		0		0		0		0	0.0
PCRs (without PPAR)		0		0						0	0.0
Finance											
Programs											
		GS		PS		US		NR		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		1	33.3	1	33.3		0.0	1	33.3	3	100.0
PCRs (without PPAR)		2	40.0	2	40.0		0.0	1	20.0	5	100.0
		HS		S		PS		US		NR	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		0		0		0		0		0	0.0
PCRs (without PPAR)		0	0.0	1	100.0		0.0		0.0	1	100.0
Projects (incl. Sector Loans)											
		GS		PS		US		NR		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		0	0.0	5	100.0	0	0.0	0	0.0	5	100.0
PCRs (without PPAR)		8	50.0	5	31.3	1	6.3	2	12.5	16	100.0
		HS		S		PS		US		NR	
		No.	%	No.	%	No.	%	No.	%	No.	%
PPARs		0	0.0	1	100.0	0	0.0	0	0.0	1	100.0
PCRs (without PPAR)		0	0.0	2	100.0	0	0.0		0.0	2	100.0

PPAR = project/program performance audit report; PCR = project/program completion report; GS = generally successful; PS = partly successful; US = unsuccessful; NR = Source: Postevaluation Information System.

**Table A4.4: Performance of Programs and Projects, by Country
Evaluated under Three- and Four-Category Rating Systems**

Country	Three-Category Rating System										Four-Category Rating System									
	Number					Proportion (%)					Number					Proportion (%)				
	GS	PS	US	NR	Total	GS	PS	US	NR	Total	HS	S	PS	US	Total	HS	S	PS	US	Total
Group A																				
Kyrgyz																				
Programs																				
PPARs																				
PCRs		1			1	0	100	0	0	100		1			1	0	100	0	0	100
Projects																				
PPARs																				
PCRs	1				1	100	0	0	0	100										
Lao PDR																				
Programs																				
PPARs		2			2	0	100	0	0	100										
PCRs				1	1	0	0	0	100	100										
Projects																				
PPARs	1				1	100	0	0	0	100										
PCRs	5	1			6	83	17	0	0	100										
Mongolia																				
Programs																				
PPARs												1		1	0	0	100	0	0	100
PCRs		1			1	0	100	0	0	100		1		1	0	100	0	0	100	
Projects																				
PPARs	1				1	100	0	0	0	100										
PCRs	1	1			2	50	50	0	0	100										
Nepal																				
Programs																				
PPARs		1			1	0	100	0	0	100		1		1	0	0	100	0	0	100
PCRs	1				1	100	0	0	0	100										
Projects																				
PPARs	0	0	1		1	0	0	100	0	100		1		1	0	0	100	0	0	100
PCRs	7	3	1		11	64	27	9	0	100										
Samoa																				
Programs																				
PPARs		1			1	0	100	0	0	100										
PCRs																				
Projects																				
PPARs																				
PCRs	1	1	0	1	3	33	33	0	33	100										
Subtotal																				
Programs																				
PPARs	0	4	0	0	4	0	100	0	0	100	0	0	2	0	2	0	0	100	0	100
PCRs	1	2	0	1	4	25	50	0	25	100	0	2	0	0	2	0	100	0	0	100
Projects																				
PPARs	2	0	1	0	3	67	0	33	0	100	0	0	1	0	1	0	0	100	0	100
PCRs	15	6	1	1	23	65	26	4	4	100										

Table A4.4: Performance of Programs and Projects, by Country Evaluated under Three- and Four-Category Rating Systems (cont'd).

Country	Three-Category Rating System										Four-Category Rating System									
	Number					Proportion (%)					Number					Proportion (%)				
	GS	PS	US	NR	Total	GS	PS	US	NR	Total	HS	S	PS	US	Total	HS	S	PS	US	Total
Group B1																				
Bangladesh																				
Programs																				
PPARs		3			3	0	100	0	0	100				1	1	0	0	0	100	100
PCRs	1				1	100	0	0	0	100										
Projects																				
PPARs	2				2	100	0	0	0	100		1			1	0	100	0	0	100
PCRs	9	2	0	2	13	69	15	0	15	100	1	2			3	33	67	0	0	100
Cook Islands																				
Programs																				
PPARs																				
PCRs	1				1	100	0	0	0	100										
Projects																				
PPARs		1			1	0	100	0	0	100										
PCRs	1	1	1	1	4	25	25	25	25	100										
Micronesia, Fed. States																				
Programs																				
PPARs																				
PCRs	1				1	100	0	0	0	100										
Projects																				
PPARs																				
PCRs																				
Pakistan																				
Programs																				
PPARs	1				1	100	0	0	0	100			1		1	0	0	100	0	100
PCRs																				
Projects																				
PPARs	3	1			4	75	25	0	0	100	1	2			3	33	67	0	0	100
PCRs	11	9	2		22	50	41	9	0	100		3			3	0	100	0	0	100
Sri Lanka																				
Programs																				
PPARs		2			2	0	100	0	0	100										
PCRs		1			1	0	100	0	0	100										
Projects																				
PPARs	1	1			2	50	50	0	0	100										
PCRs	6	5	0	2	13	46	38	0	15	100										

Table A4.4: Performance of Programs and Projects, by Country Evaluated under Three- and Four-Category Rating Systems (cont'd).

Country	Three-Category Rating System										Four-Category Rating System									
	Number					Proportion (%)					Number					Proportion (%)				
	GS	PS	US	NR	Total	GS	PS	US	NR	Total	HS	S	PS	US	Total	HS	S	PS	US	Total
Viet Nam																				
Programs																				
PPARs																				
PCRs											1				1	100	0	0	0	100
Projects																				
PPARs																				
PCRs											1				1	0	100	0	0	100
Subtotal																				
Programs																				
PPARs	1	5	0	0	6	17	83	0	0	100	0	0	1	1	2	0	0	50	50	100
PCRs	3	1	0	0	4	75	25	0	0	100	1	0	0	0	1	100	0	0	0	100
Projects																				
PPARs	6	3	0	0	9	67	33	0	0	100	1	3	0	0	4	25	75	0	0	100
PCRs	27	17	3	5	52	52	33	6	10	100	1	6	0	0	7	14	86	0	0	100
Group B2																				
India																				
Programs																				
PPARs	1				1	100	0	0	0	100			1		1	0	0	100	0	100
PCRs	1				1	100	0	0	0	100										
Projects																				
PPARs	1	1			2	50	50	0	0	100				2	2	0	0	0	100	100
PCRs	6	2	0	2	10	60	20	0	20	100	1				1	0	0	100	0	100
Indonesia																				
Programs																				
PPARs	1	1		1	3	33	33	0	33	100										
PCRs	1				1	100	0	0	0	100										
Projects																				
PPARs	3	1	1		5	60	20	20	0	100										
PCRs	15	8	2	0	25	60	32	8	0	100										
Subtotal																				
Programs																				
PPARs	2	1	0	1	4	50	25	0	25	100	0	0	1	0	1	0	0	100	0	100
PCRs	2	0	0	0	2	100	0	0	0	100										
Projects																				
PPARs	4	2	1	0	7	57	29	14	0	100	0	0	0	2	2	0	0	0	100	100
PCRs	21	10	2	2	35	60	29	6	6	100	0	0	1	0	1	0	0	100	0	100

Table A4.4: Performance of Programs and Projects, by Country Evaluated under Three- and Four-Category Rating Systems (cont'd).

Country	Three-Category Rating System										Four-Category Rating System										
	Number					Proportion (%)					Number					Proportion (%)					
	GS	PS	US	NR	Total	GS	PS	US	NR	Total	HS	S	PS	US	Total	HS	S	PS	US	Total	
Group C																					
Fiji																					
Programs																					
PPARs		1			1	0	100	0	0	100											
PCRs																					
Projects																					
PPARs	1		1		2	50	0	50	0	100											
PCRs	1				1	100	0	0	0	100											
Kazakhstan																					
Programs																					
PPARs																					
PCRs	1	1			2	50	50	0	0	100											
Projects																					
PPARs																					
PCRs	1				1	100	0	0	0	100											
Papua New Guinea																					
Programs																					
PPARs					0																
PCRs		1			1	0	100	0	0	100											
Projects																					
PPARs	1	1			2	50	50	0	0	100											
PCRs	1	2			3	33	67	0	0	100											
Philippines																					
Programs																					
PPARs		2			2	0	100	0	0	100											
PCRs		1		1	2	0	50	0	50	100											
Projects																					
PPARs	2	5	1			8	25	63	13	0	100										
PCRs	7	4	1	1	13	54	31	8	8	100											
Subtotal																					
Programs																					
PPARs	0	3	0	0	3	0	100	0	0	100											
PCRs	1	3	0	1	5	20	60	0	20	100											
Projects																					
PPARs	4	6	2	0	12	33	50	17	0	100											
PCRs	10	6	1	1	18	56	33	6	6	100											

PPAR = project/program performance audit report; PCR = project/program completion report; GS = generally successful; PS = partly successful; US = unsuccessful; NR = no rating.
 HS = highly successful; S = successful; PS = partly successful; US = unsuccessful; NR = no rating.
 Source: Postevaluation Information System.

Table A4.5: Performance of Programs and Projects in Transition and Developing Economies Evaluated under Three- and Four-Category Rating Systems, 1987-2000

	Three-Category Rating System										Four-Category Rating System									
	Number					Proportion (%)					Number					Proportion (%)				
	GS	PS	US	NR	Total	GS	PS	US	NR	Total	HS	S	PS	US	Total	HS	S	PS	US	Total
Transition Economies ^a																				
Programs																				
PPARs	0	2	0	0	2	0	100	0	0	100	0	0	1	0	1	0	0	100	0	100
PCRs (without PPAR)	1	3	0	1	5	20	60	0	20	100	1	2	0	0	3	33	67	0	0	100
Projects																				
PPARs	2	0	0	0	2	100	0	0	0	100	0	0	1	0	0					
PCRs (without PPAR)	8	2	0	0	10	80	20	0	0	100	0	1	0	0	1	0	100	0	0	100
Developing Economies																				
Programs																				
PPARs	3	11	0	1	15	20	73	0	7	100	0	0	3	1	4	0	0	75	25	100
PCRs (without PPAR)	6	3	0	1	10	60	30	0	10	100										
Projects																				
PPARs	14	11	4	0	29	48	38	14	0	100	1	3	1	2	7	14	43	14	29	100
PCRs (without PPAR)	65	37	7	9	118	55	31	6	8	100	1	5	1	0	7	14	71	14	0	100

PPAR = project/program performance audit report; PCR = project/program completion report; GS = generally successful; PS = partly successful; US = unsuccessful; NR = no rating.

HS = highly successful; S = successful; PS = partly successful; US = unsuccessful; NR = no rating.

^a Transition economies include Kazakhstan, Kyrgyz Republic, Lao PDR, Mongolia, and Viet Nam.

Source: Postevaluation Information System.

TRANCHE RELEASES AND DELAYS

Table A5.1: Tranche Releases of Program Loans Approved and Closed, 1987-2000

Country	Program Name	Approval Date	Date of Effectiveness	Disbursed Amount (\$ mln)	Release of First Tranche				Release of Second and Other Tranches				Delay ^a (Months)	
					Expected		Actual		Expected		Actual			
					Date	Amount (\$mln)	Date	Amount (\$mln)	Date	Amount (\$mln)	Date	Amount (\$mln)		
1	BAN	Apr-87	Jul-87	54.7	----- No tranche -----									
2	INO	Dec-87	Dec-87	153.1	----- No tranche -----									
3	PHI	Jun-88	Sep-88	118.3	Sep-88	60.0	Sep-88	58.0	Sep-90	60.0	Sep-90	60.3	0.4	
4	BAN	Jun-88	Oct-88	60.3	----- No tranche -----									
5	FIJ	Sep-88	Sep-88	20.0	Sep-88	20.0	Sep-88	20.0	-----No second tranche release -----					
6	NEP	Nov-88	Dec-88	55.7	Dec-88	30.0	Jan-89	30.2	Jun-90	25.0	Jul-91	25.5	12.9	
7	PAK	Dec-88	Dec-88	200.8	Dec-88	100.0	Jan-89	100.0	Jan-90	100.0	May-91	100.8	16.1	
8	INO	Dec-88	Mar-89	198.4	Mar-89	100.0	Mar-89	100.5	Sep-89	100.0	Sep-89	97.9	-0.1	
9	LAO	Aug-89	Sep-89	21.9	Sep-89	10.0	Sep-89	10.0	Sep-90	10.0	Dec-90	11.9	2.3	
10	PHI	Sep-89	Nov-89	82.4	Nov-89	40.0	Nov-89	37.4	Nov-91	40.0	Sep-91	45.0	-1.5	
11	SRI	Nov-89	Dec-89	83.9	Dec-89	40.0	Dec-89	40.0	Dec-90	40.0	Jun-91	43.9	5.9	
12	SAM	Nov-89	Dec-89	16.3	Dec-89	7.5	Jan-90	7.8	Dec-90	7.5	Mar-91	8.5	2.5	
13	PNG	Dec-89	Dec-89	73.3	Dec-89	40.0	Apr-90	40.6	Dec-90	40.0	Dec-91	32.7	12.2	
14	INO	Mar-90	Mar-90	253.2	Mar-90	125.0	Mar-90	124.0	Dec-90	125.0	Dec-90	129.2	0.2	
15	NEP	Oct-90	Dec-90	20.0	Dec-90	20.0	Dec-90	20.0	Jun-92	20.0	cancelled			
16	BAN	Nov-90	Dec-90	130.7	Dec-90	65.4	Dec-90	65.7	Dec-91	65.3	May-94	65.0	29.2	
17	PHI	Nov-90	Dec-90	101.8	Dec-90	50.0	Dec-90	50.8	Dec-91	50.0	Sep-92	51.0	9.3	
18	SRI	Nov-90	Dec-90	79.8	Dec-90	40.0	Dec-90	40.1	Dec-91	40.0	Jun-93	39.7	17.6	
19	LAO	Dec-90	Dec-90	24.7	Dec-90	12.5	Feb-91	12.5	Dec-91	12.5	Dec-91	12.2	0.4	
20	PAK	Dec-90	Dec-90	198.4	Dec-90	100.0	Dec-90	100.0	Dec-91	100.0	Mar-94	98.4	26.9	
21	SRI	Nov-91	Feb-92	30.1	Feb-92	30.0	Mar-92	30.1	Nov-92	30.0	cancelled			
22	BAN	Dec-91	Jan-92	62.3	Jan-92	62.5	Feb-92	62.3	Dec-92	62.5	cancelled			
23	IND	Dec-91	Dec-91	125.0	Dec-91	125.0	Dec-91	125.0	Jun-93	125.0	cancelled			
24	INO	Mar-92	Mar-92	250.0	Mar-92	125.0	Mar-92	125.0	Mar-93	125.0	Mar-93	125.0	0.1	
25	LAO	Oct-92	Jan-93	28.8	Jan-93	15.0	Jan-93	13.9	Mar-94	15.0	Jan-95	14.9	10.0	
26	IND	Dec-92	Dec-92	300.0	Dec-92	150.0	Dec-92	150.0	Jun-94	150.0	Dec-94	150.0	5.8	
27	NEP	Apr-93	Jun-93	20.7	Jun-93	10.3	Jul-93	10.5	Jul-94	10.3	Dec-97	10.2	41.0	
28	MON	Aug-93	Aug-93	32.2	Aug-93	15.0	Sep-93	15.3	Dec-94	15.0	Aug-95	16.9	7.2	
29	BAN	Sep-94	Oct-94	85.6	Oct-94	48.0	Oct-94	51.4	Apr-96	32.0	Mar-96	34.2	-1.4	
30	VIE	Dec-94	Apr-95	78.9	Apr-95	40.0	May-95	41.4	Dec-96	40.0	Jun-97	37.5	5.9	

Table A5.1: *Tranche Releases of Program Loans Approved and Closed, 1987-2000 (cont'd)*

Country	Program Name	Approval Date	Date of Effectiveness	Disbursed Amount (\$ mln)	Release of First Tranche				Release of Second and Other Tranches				Delay ^a (Months)	
					Expected		Actual		Expected		Actual			
					Date	Amount (\$mln)	Date	Amount (\$mln)	Date	Amount (\$mln)	Date	Amount (\$mln)		
31	PHI Capital Market Development Program	Aug-95	Mar-97	75.0	Mar-97	75.0	Apr-97	75.0	Sep-98	75.0	cancelled			
32	KAZ Agriculture Sector Program	Nov-95	Dec-95	100.0	Dec-95	50.0	Dec-95	50.0	Dec-96	50.0	Jun-97	50.0	5.9	
33	KGZ Agriculture Sector Program	Nov-95	Apr-96	37.9	Apr-96	20.0	May-96	19.4	Dec-96	20.0	May-97	18.5	5.0	
34	IND Capital Market Development Program	Nov-95	Dec-95	250.0	Dec-95	125.0	Dec-95	125.0	Dec-96	125.0	Dec-98	125.0	24.1	
35	MON Agriculture Sector Program	Dec-95	Dec-95	33.3	Dec-95	16.5	Dec-95	17.4	Jun-97	16.5	Dec-97	15.9	6.5	
36	CAM Agriculture Sector Program	Jun-96	Oct-96	28.4	Oct-96	14.4	Dec-96	14.9	Sep-98	14.4	Sep-00	13.5	23.5	
37	LAO Second Financial Sector Program	Sep-96	Dec-96	23.7	Dec-96	11.9	Dec-96	12.4	Dec-98	11.9	Aug-00	11.3	20.2	
38	COO Economic Restructuring Program	Sep-96	Sep-96	4.8	Sep-96	3.0	Oct-96	3.0	Jul-97	2.0	Sep-97	1.8	2.0	
39	VIE Financial Sector Program Loan	Nov-96	Feb-97	86.5	Feb-97	45.0	Feb-97	43.6	Oct-98	43.6	Dec-99	42.9	13.7	
40	IND Gujarat Public Sector Resource Management Program	Dec-96	Dec-96	250.0	Dec-96	100.0	Dec-96	100.0	Dec-98	150.0	Jul-99	150.0	6.5	
41	MON Education SDP	Dec-96	Mar-97	6.2	Mar-97	4.5	Apr-97	3.1	Aug-98	4.5	Oct-98	3.1	1.2	
42	MON Financial Sector Program	Dec-96	Jan-97	33.0	Jan-97	16.5	Jan-97	16.9	Dec-98	16.2	Jul-99	16.1	7.1	
43	RMI Public Sector Reform Program	Jan-97	Feb-97	11.2	Feb-97	5.5	Feb-97	5.3	Oct-97	3.5	Sep-98	3.2	10.9	
									Oct-98	2.7	Jun-00	2.7	20.2 ^b	
44	PNG Health SDP	Mar-97	Oct-97	49.8	Oct-97	24.9	Dec-97	24.9	Nov-98	24.9	Dec-99	24.9	13.2	
45	FSM Public Sector Reform Program	Apr-97	Jun-97	17.7	Jun-97	10.0	Aug-97	10.0	Mar-98	8.0	Sep-98	7.7	6.1	
46	KGZ Corporate Governance and Enterprise Reform Program	Sep-97	Dec-97	39.0	Dec-97	19.4	Dec-97	19.7	May-99	19.3	Jul-99	19.3	1.0	
47	KGZ Education SDP	Sep-97	Mar-98	19.0	Mar-98	9.3	Mar-98	9.4	May-99	9.6	Dec-99	9.6	6.8	
48	BAN Capital Market Development Program	Nov-97	Jan-98	77.2	Jan-98	40.0	Feb-98	39.4	Aug-99	40.0	Dec-00	37.8	16.8	
49	KAZ Pension Reform Program	Dec-97	Mar-98	100.0	Mar-98	50.0	Mar-98	50.0	Jan-99	50.0	Dec-98	50.0	-0.5	
50	THA Financial Markets Reform Program	Dec-97	Dec-97	300.0	Dec-97	300.0	Dec-97	300.0	-----No second tranche release -----					
51	KOR Financial Sector Program	Dec-97	Dec-97	3,700.0	Dec-97	2,000.0	Dec-97	2,000.0	Jan-98	1,000.0	Jan-98	1,000.0	0.0	
								Dec-98	700.0	Dec-98	700.0	0.0 ^b		
								Dec-99	300.0	cancelled		0.0 ^c		
52	NEP Second Agriculture Program	Jan-98	Mar-98	48.8	Mar-98	24.5	Mar-98	24.5	Sep-99	25.2	Jun-00	24.3	9.8	
53	THA Social Sector Program	Mar-98	Mar-98	500.0	Mar-98	300.0	Mar-98	300.0	Mar-99	200.0	Oct-99	200.0	7.7	
54	INO Social Protection SDP	Jul-98	Jul-98	100.0	Jul-98	50.0	Jul-98	50.0	Jun-99	50.0	Feb-00	50.0	7.8	
55	VAN Comprehensive Reform Program	Jul-98	Aug-98	20.0	Aug-98	15.0	Aug-98	15.2	Oct-99	5.0	Dec-00	4.8	13.7	
56	SOL Public Sector Reform Program	Aug-98	Nov-98	15.7	Nov-98	15.0	Nov-98	15.7	Nov-99	10.0	cancelled			
57	TAJ Postconflict Infrastructure Program	Dec-98	Feb-99	19.1	Feb-99	9.9	Feb-99	9.9	Dec-99	10.0	Dec-00	9.2	11.9	
58	INO Health and Nutrition SDP	Mar-99	Mar-99	100.0	Mar-99	50.0	Mar-99	50.0	Mar-00	50.0	Dec-00	50.0	8.9	
Total				9,007.7^d	#####	4,887.2^e		3,474.7^b	702.7^b	300.0^c	3,149.6^b	702.7^b	0.0^c	11.4

SDP = sector development program.

^a Delay is calculated on the basis of exact dates. Negative figure means released in advance.

^b Release of third tranche.

^c Release of fourth tranche.

^d Includes three programs amounting to \$268.1 million that have no tranche.

^e Actual slightly exceeds expected in US\$ equivalent owing to exchange variation with special drawing rights.

^f Average for delayed second tranche only, in months.

**Table A5.2: Tranche Releases of Program Loans Approved and Closed, 1987 to 2000
by Country**

Country Group/Country	Release of First Tranche			Release of Second Tranche					Release of Third/Last Tranche				
	On Schedule	Delayed		On Schedule	Ahead of Schedule	Delayed		Cancelled	Proportion Delayed or Cancelled	On Schedule	Delayed		Cancelled
	Number	Number	Average Months	Number	Number	Number	Average Months	Number		Number	Number	Average Months	Number
Group A													
Cambodia		1	2.1			1	23.5						
Kyrgyz Republic	2	1	1.0			3	4.3						
Lao PDR	3	1	1.4	1		3	10.8						
Mongolia	3	1	1.3			4	5.5						
Nepal	1	3	0.8			3	21.2	1					
Samoa	1					1	2.5						
Solomon Islands	1									1			
Tajikistan	1					1	11.9						
Vanuatu	1					1	13.7						
Subtotal	13	7	1.2	1		17	10.7	2	95.0%				
Group B1													
Bangladesh	3	1	0.6		1	1.4	23.0	2					
Cook Islands	1						2.0	1					
Marshall Islands	1						10.9				1	20.0	
Micronesia, Fed. States of		1	1.3				6.1	1					
Pakistan	1	1	0.9				21.5	2					
Sri Lanka	2	1	1.0				11.8	2		1			
Viet Nam	1	1	1.1				9.8	2					
Subtotal	9	5	1.0		1	1.4	13.7	11	92.9%		1	20.0	
Group B2													
India	4						12.1	3		1			
Indonesia	5			3			8.3	2					
Subtotal	9			3			10.6	5	66.7%				
Group C													
Fiji Islands	1												
Kazakhstan	2			1			5.9	1					
Papua New Guinea		2	3.0				12.7	2					
Philippines	3	1	0.9	1	1	1.5	9.3	1		1			
Thailand	2						7.7	1					
Subtotal	8	3	2.3	2	1	1.5	9.7	5	66.7%				
Graduate Economy													
Korea, Republic of	1			1							1		1
Total	40	15	1.3	7	2	1.5	11.4	38	83.0%		1	1	20.0

Note:
 Excluding three programs that have no tranche.
 Two programs have a single tranche.
 One program has three tranches.
 One program has four tranches but the fourth tranche was cancelled.

**Table A5.3: Tranche Releases of Program Loans Approved and Closed, 1987 to 2000
by Sector**

Sector/Subsector	Release of First Tranche			Release of Second Tranche					Release of Third/Last Tranche			
	On Schedule	Delayed	Average Months	On Schedule	Ahead of Schedule	Delayed	Cancelled	Proportion Delayed or Cancelled	On Schedule	Delayed	Cancelled	
	Number	Number		Number	Number	Number			Number	Number		Number
Agriculture and Natural Resources												
Fisheries	1				1	1.5						
Forestry	2			1					1			
Agricultural Support Services	10	7	1.5	1			14	11.3	1			
Subtotal	13	7	1.5	2	1	1.5	14	11.3	2	84.2%		
Energy												
Fuel and Minerals	1								1			
Subtotal	1								1	100.0%		
Industry (Non-Agriculture)	2	2	0.8				3	21.4	1	100.0%		
Transport and Communications												
Roads and Road Transport	1						1	9.3				
Railways	1				1	1.4						
Subtotal	2				1	1.4	1	9.3		50.0%		
Social Infrastructure												
Education	1	1	1.1				2	4.0				
Health and Population	2	1	2.3				3	9.9				
Subtotal	3	2	1.7				5	7.6		100.0%		
Financial Sector												
Capital Market Development	10	3	0.9	5			7	15.0	1		1	
Development Finance Institution	1											1
Subtotal	11	3	0.9	5			7	15.0	1	61.5%	1	1
Multisector	2						2	9.8		100.0%		
Public Sector Management	5	1	1.3				5	7.8	1	100.0%	1	20.0
Private Sector Development and Corporate Governance	1						1	1.0		100.0%		
Total	40	15	1.3	7	2	1.5	38	11.4	6	83.0%	1	1

Note:
 Excluding three programs that have no tranche.
 Two programs have a single tranche.
 One program has three tranches.
 One program has four tranches but the fourth tranche was cancelled.

PROGRAM CONDITIONS

Table A6.1: Compliance with Policy Conditions of Programs Approved and with Project Completion Reports, 1987-2000

Country	Program Name	Total Policy Conditions			Before Board Consideration of Release of First Tranche				Release of Second Tranche				Waived ^a	
		Total Number	Complied With	Partly Complied With	Not Complied With	Total	Complied With	Partly Complied With	Not Complied With	Total	Complied With	Partly Complied With		Not Complied With
1	BAN	11	6	2	3	----- No tranche -----								
2	INO		----- No policy matrix -----											
3	PHI	26	25		1					26	25		1	
4	BAN	12	11		1	----- No tranche -----								
5	FIJ	36	32		4	8	6		2					
6	NEP	18	10	4	4	1	1			8	2	5	1	
7	PAK	21	15	5	1					14	11	2	1	
8	INO	29	26	1	2	9	9			3	3			
9	LAO	28	24	2	2					8	7			1
10	PHI	16	15		1					8	8			
11	SRI	24	18	3	3					5	5			
12	SAM	32	28	4		10	9	1		22	18	4		
13	PNG	25	22	2	1	11	10		1	7	5	2		
14	INO	31	17	12	2	10	9	1		7	4	3		
15	NEP	21	8	2	11	3	2		1	12	3	-	9	
16	BAN	34	33		1	19	19			15	14			1
17	PHI	39	35	2	2	11	11			20	18	2		
18	SRI	35	27	5	3	9	7	2		16	15	1		
19	LAO	25	9	13	3					13	7	1		5
20	PAK	28	24	3	1	4	4			8	8			
21	SRI	53	38	8	7	5	5			19	12	2	5	
22	BAN	37	11	12	14	6	3		3	28	4	6	18	
23	IND	33	30	2	1	7	7			20	19	1		
24	INO	36	23	11	2	6	4	2		11	10			1
25	LAO	47	42	1	4	8	8			10	10			
26	IND	53	52	1		21	21			8	7	1		
27	NEP	49	44	5		28	28			8	7	1		
28	MON	31	29		2	14	14			11	10	1		
29	BAN	34	31	1	2	5	5			9	7		1	1
30	VIE	45	45			4	4			8	8			
31	PHI	47	39	5	3					7	7			
32	KAZ	42	39	3		7	7			8	8			
33	KGZ	36	13	20	3	4	4			9	5	4		
34	IND	28	23	4	1	12	7	5		12	10	2		
35	MON	31	18	13		18	18			6	6			
36	COO	111	92	14	5	29	28	1		8	7	1		
37	MON	66	65	1		41	41			12	12			
38	FSM	109	90	16	3	55	54	1		27	26	1		
39	KGZ	43	42		1	20	20			7	7			
40	KAZ	41	37	1	3	18	18			7	7			
	Total	1,463	1,188	178	97	403	383	13	7	427	342	40	36	9
	Percentages	100.0	81.2	12.2	6.6	100.0	95.0	3.2	1.7	100.0	80.1	9.4	8.4	2.1

^a By end of program period, conditions waived at the time of second tranche release are either complied with, partly complied with, or not complied with.

Table A6.2: Compliance with Policy Conditions of Programs Approved and with Project Completion Reports, 1987-2000 by Country

Country Group/ Country	Number of Programs	Total Policy Conditions				Before Board Consideration of Release of First Tranche					Release of Second Tranche					
		Number of Policy Conditions				Number of Programs	Number of Policy Conditions				Number of Policy Conditions					
		Total	Complied With	Partly Complied With	Not Complied With		Total	Complied With	Partly Complied With	Not Complied With	Total	Complied With	Partly Complied With	Not Complied With	Waived	
Group A																
Kyrgyz Republic	2	80	56	20	4	2	24	24			2	16	12	4		
Lao PDR	3	100	75	16	9	1	8	8			3	31	24	1	6	
Mongolia	3	128	112	14	2	3	73	73			3	29	28	1		
Nepal	3	88	62	11	15	3	32	31		1	3	28	12	6	10	
Samoa	1	31	27	4		1	10	9	1		1	22	18	4		
Subtotal	12	427	332	65	30	10	147	145	1	1	12	126	94	16	10	
Percentages		100.0	77.8	15.2	7.0		100.0	98.6	0.7	0.7		100.0	74.6	12.7	7.9	4.8
Group B1																
Bangladesh	5	128	92	15	21	3	30	27		3	3	52	25	6	19	2
Cook Islands	1	111	92	14	5	1	29	28	1		1	8	7	1		
Micronesia, F.S.	1	109	90	16	3	1	55	54	1		1	27	26	1		
Pakistan	2	49	39	8	2	1	4	4			2	22	19	2	1	
Sri Lanka	3	112	83	16	13	2	14	12	2		3	40	32	3	5	
Viet Nam	1	45	45			1	4	4			1	8	8			
Subtotal	13	554	441	69	44	9	136	129	4	3	11	157	117	13	25	2
Percentages		100.0	79.6	12.5	7.9		100.0	94.9	2.9	2.2		100.0	74.5	8.3	15.9	1.3
Group B2																
India	3	114	105	7	2	3	40	35	5		3	40	36	4		
Indonesia	3	96	66	24	6	3	25	22	3		3	21	17	3	1	
Subtotal	6	210	171	31	8	6	65	57	8	-	6	61	53	7	-	1
Percentages		100.0	81.4	14.8	3.8		100.0	87.7	12.3	-		100.0	86.9	11.5	-	1.6
Group C																
Fiji Islands	1	36	32		4	1	8	6		2						
Kazakhstan	2	83	76	4	3	2	25	25			2	15	15			
Papua New Guinea	1	25	22	2	1	1	11	10		1	1	7	5	2		
Philippines	4	128	114	7	7	1	11	11			4	61	58	2	1	
Subtotal	8	272	244	13	15	5	55	52	-	3	7	83	78	4	1	-
Percentages		100.0	89.7	4.8	5.5		100.0	94.5	-	5.5		100.0	94.0	4.8	1.2	-
Total	39	1,463	1,188	178	97	30	403	383	13	7	36	427	342	40	36	9
Percentages		100.0	81.2	12.2	6.6		100.0	95.0	3.2	1.7		100.0	80.1	9.4	8.4	2.1

**Table A6.3: Compliance with Policy Conditions of Programs Approved and with Project Completion Reports, 1987-2000
by Sector**

Sector/Subsector	Compliance with Policy Conditions															
	Number of Programs	Total Policy Conditions				Before Board Consideration of Release of First Tranche						Release of Second Tranche				
		Number of Policy Conditions				Number of Programs	Number of Policy Conditions					Number of Policy Conditions				
		Total	Complied With	Partly Complied With	Not Complied		Total	Complied With	Partly Complied With	Not Complied With	Total	Complied With	Partly Complied With	Not Complied With	Waived	
Agriculture and Natural Resources																
Fisheries	1	16	15		1						1	8	8			
Irrigation and Rural Development	1	11	6	2	3											
Forestry	2	47	33	2	12	1	3	2		1	2	38	28		10	
Agricultural Support Services	15	510	403	75	32	13	109	104	2	3	14	140	112	20	6	2
Subtotal	19	584	457	79	48	14	112	106	2	4	17	186	148	20	16	2
Percentages		100.0	78.3	13.5	8.2		100.0	94.6	1.8	3.6		100.0	79.6	10.8	8.6	1.1
Energy																
Fuel Minerals	1	33	30	2	1	1	7	7			1	20	19	1		
Subtotal	1	33	30	2	1	1	7	7	-	-	1	20	19	1	-	-
Percentages		100.0	90.9	6.1	3.0		100.0	100.0	-	-		100.0	95.0	5.0	-	-
Industry (Non-Agriculture)	5	150	110	22	18	3	48	45	-	3	4	61	32	10	19	-
Percentages		100.0	73.3	14.7	12.0		100.0	93.8	-	6.3		100.0	52.5	16.4	31.1	-
Transport and Communications																
Roads and Road Transport	1	39	35	2	2	1	11	11			1	20	18	2		
Railways	1	34	31	1	2	1	5	5			1	9	7		1	1
Subtotal	2	73	66	3	4	2	16	16	-	-	2	29	25	2	1	1
Percentages		100.0	90.4	4.1	5.5		100.0	100.0	-	-		100.0	86.2	6.9	3.4	3.4
Financial Sector																
Capital Market Development	9	360	301	42	17	7	116	107	9		9	89	78	5		6
Subtotal	9	360	301	42	17	7	116	107	9	-	9	89	78	5	-	6
Percentages		100.0	83.6	11.7	4.7		100.0	92.2	7.8	-		100.0	87.6	5.6	-	6.7
Public Sector Management	2	220	182	30	8	2	84	82	2	-	2	35	33	2	-	-
Percentages		100.0	82.7	13.6	3.6		100.0	97.6	2.4	-		100.0	94.3	5.7	-	-
Private Sector Development and Corporate Governance	1	43	42	-	1	1	20	20	-	-	1	7	7	-	-	-
Percentages		100.0	97.7	-	2.3		100.0	100.0	-	-		100.0	100.0	-	-	-
Total	39	1,463	1,188	178	97	30	403	383	13	7	36	427	342	40	36	9
Percentages		100.0	81.2	12.2	6.6		100.0	95.0	3.2	1.7		100.0	80.1	9.4	8.4	2.1

PROGRAM EXAMPLES: IMPACT

A. Contribution to Reform Process	
1. Financial Sector Reform: Contrasting Outcomes of the Lao PDR and Mongolia	<p>The Lao People's Democratic Republic (Lao PDR) and Mongolia provide contrasts in reform of the financial sector. The Asian Development Bank (ADB) has been considerably more successful in Mongolia than in the Lao PDR, in large part because the Government has been much more committed to reform. Improvements in financial intermediation in Mongolia have been limited but the financial system is now much sounder than it was in the mid-1990s. The Lao PDR, in contrast, has been very slow to meet the spirit of financial sector reform. Both countries are economies in transition. Mongolia began the transition at the start of the 1990s with a Government committed to the "big bang" approach to policy reform. While subsequent governments have modified the pace of reform, there has been no question about the direction. However, reforms in public expenditure management and revenue performance may have been delayed by the availability of substantial counterpart funds. The Lao PDR, on the other hand, has chosen a more selective approach to reform, testing the way ahead with measures that often fall short of meeting the needs of a market-based system.</p> <p>Of course, clarity of direction is not the only factor in assuring a positive contribution by program loans to policy reform. Coalition governments in Mongolia during 1996-2000 encountered administrative difficulties, delaying the reform process—including reform of the financial sector. Mongolia has benefited from seven program loans totaling \$160 million to the end of 1999. This has been a major source of fiscal support for the Government. Relative macroeconomic stability has been largely maintained, but tax reform and overall revenue effort has been less than needed. The Lao PDR has benefited from an even higher overall level of external assistance. Unfortunately, recent macroeconomic management has been weak and the Lao PDR experienced hyperinflation during 1997-1999.</p>
2. The Pacific Region: Reform Driven by Public Pressure and Fiscal Crisis	<p>According to the review of ADB's policy-based lending in the Pacific,¹ the trigger for reform was growing public pressure and fiscal crisis. Consistent with the strategy adopted in 1995 to assist the Pacific developing member countries (DMCs) establish proper economic and governance environments, ADB's operations shifted from sector and project lending to program lending. Since 1995, nine program loans have focused on public sector reforms to address the root causes of poor economic performance.</p> <p>Samoa has exhibited the best track record concerning reform, followed by Vanuatu. Even in these cases, though, anomalies have occurred. More generally throughout the Pacific, reform is vulnerable to the limitations of human resources and entrenched interests. In some senses, policy-based lending has addressed the manifestations of malaise rather than the causes. Recent civil strife is a highly volatile factor impeding and potentially undermining the reform process.</p>
3. Bangladesh: Mixed Motives and Systemic Problems	<p>Several Bangladesh government officials noted that the primary motivation for seeking ADB program loans was to meet balance-of-payments and fiscal deficits. Program lending was only specifically directed to meeting adjustment costs in the case of financing retrenchment of workers under the Bangladesh Railway Recovery Program in 1994. Other program loans do not appear to have been very successful in advancing the reform process; three of the early program loans (agriculture, industrial, and foodcrops) were evaluated as partly successful, while a later industrial sector program loan was evaluated as unsuccessful. "The reforms that have so far been ineffective or have been delayed are mostly the governance ones, such as administrative, legal and financial sector reforms as well as privatization-cum-reforms of SOEs [state-owned enterprises]. These reforms must deal with economic crimes that generate huge illegal incomes, whether it be from willful default of bank loans, corruption in tax administration, electricity pilferage, leakages in public development expenditures, or</p>

¹ ADB, *Reforms in the Pacific*, Pacific Studies Series No. 17, 1999.

<p>4. Viet Nam: An Example of Self-Determined Reform</p>	<p>illegal financial deals in the running of state-owned enterprises...Policy-based lending has been counterproductive in resolving these issues."²</p> <p>Viet Nam's experience with program loans attests to both success and marginality.³ An agricultural sector program loan in 1994 was deemed a success by the Government, but the program of reform was well under way before the loan was negotiated. Conditionalities attached to the loan may have been in the right direction and consistent with the reform momentum, but probably were not essential to implementing many of the reforms. A financial sector program loan in 1996 was timely and the content appropriate, but conditionalities concerning decrees and legislation were inappropriate—especially those concerning land rights and collateral use.</p> <p>"In the critical phase of reform, the Government received and made use of international advice without the pressures or incentives of policy lending. There is little evidence that conditional lending has increased Viet Nam's receptivity to external advice. In some respects, policy-conditional lending may add to the difficulty of policy reform".⁴</p>
<p>5. The Philippines: The Transition to Democracy</p>	<p>While the literature on policy-based lending points to democratic governments as normally having a better track record, the Philippines illustrates that the time frame for implementation of program loans needs to be more flexible. The EDSA revolution of 1986 ushered in a fragile but gradually strengthening democracy. This was the context for ADB's early program loans to the Philippines (for the forestry, fisheries, and road sectors). All three were rated as only partly successful and they encountered problems with contracting, local government and nongovernment organization participation, and governance more generally. The Capital Market Development Program Loan in 1995 was terminated after the first tranche, as the Government was unable to fulfill a key second tranche conditionality—passage of a revised Securities Regulation Code. More time was needed for passage than provided for in the policy matrix: a lot was at stake regarding the legislation, entailing as it did, highly influential vested interests. A recent country assistance program evaluation for the Philippines observed: "The Bank has found it difficult to deal with the shifts and pressures that emanate from the Philippine democratic system."⁵</p>
<p>6. Policy Reform and Stakeholder Interest: The Weak Link of Program Loans</p>	<p>Generally, program loans do not have an investment component, with the result that ministries targeted for reform often have very mixed feelings about being selected. In recognition of this flaw, and in recognition of the synergy between policy reform and investment, sector development program loans were introduced in 1996. They provide a package approach that earlier program loans attempted by twinning with sector or project loans. A variant for "blend" countries was to split the program loan; in the case of the forestry and fisheries program loans to the Philippines, the investment component was financed by the Asian Development Fund and the policy component by ordinary capital resources. However, this occurred in only a few instances.</p> <p>The weak link between policy reform and stakeholder interest is illustrated by the following examples. The Agriculture Sector Program Loan to Pakistan in 1990 stipulated that the share of total government expenditure devoted to the sector should increase. Instead, the share dropped sharply. Nor did the Government succeed in raising agricultural prices to international levels. Yet farmers were expected to accept ending of fertilizer subsidies, higher irrigation fees, and other costs. Not surprisingly, there was little support for the program and the quality of compliance with the conditionalities was poor.</p> <p>The Industrial Sector Program Loan to Mongolia in 1993 included a conditionality—at the request of the Board—that some part of the funds be reserved in support of persons unemployed because of privatization of SOEs. However, this was not achieved. In light of the</p>

² Center for Policy Dialogue, *Crisis in Governance*, June 1998, quoted in World Bank, *Bangladesh: Challenges for the New Millennium*, 1999.

³ The experience is based on the first two program loans; in 1999, an additional program loan was made to Viet Nam: the State-Owned Enterprise Reform and Corporate Governance Program Loan.

⁴ ADB, *Country Assistance Program Evaluation in the Socialist Republic of Viet Nam*, December 1999.

⁵ ADB, *Country Assistance Program Evaluation for the Philippines*, Operations Evaluation Department, draft, August 2001.

⁶ ADB, *Program Performance Audit Report on the Second Industrial Program in Bangladesh*, July 2000.

<p>7. Silver Linings to Otherwise Disappointing Results: Lessons from Bangladesh</p>	<p>deficiencies of the voucher system for privatization, which left management of the firms largely unchanged and a lack of any form of social security, it is not surprising that effective privatization has been slow.</p> <p>The Agriculture Sector Program Loan to Thailand in 1999 was the cause of demonstrations, drawing attention to perceived imbalances between the real use of funds and the policy reforms. The \$300 million loan, and an additional \$300 million in cofinancing by Japan, were urgently needed by the Government for fiscal support (including meeting the costs of bank bailouts). Farmers saw little benefit from the loan. On the contrary, three core issues (land-use rights, forestry demarcation, and water user fees) proved highly controversial.</p> <p>“One positive outcome from the Second Industrial Program Loan for Bangladesh is that the Government seems committed to the strategy of private sector-led, export-oriented growth of the economy. The desirability of reducing the role of the Government in productive activities outside of some clearly defined areas is now fully established. The Government has ceased setting up new manufacturing units, and new investment in the public manufacturing enterprises (other than fertilizer) has slowed substantially...the inevitability of privatization is no longer seriously questioned.”⁶</p>
<p>B. Contribution to the Real Economy</p> <p>1. Weak Contribution to the Targeted Sector</p> <p>2. Mixed Beneficial and Negative Impacts</p>	<ul style="list-style-type: none"> ▪ The Hydrocarbon Sector Program Loan to India in 1991 was expected to result in a 20 percent increase in crude oil production by encouragement of private sector participation; actual crude oil production in 1996 was 8 percent lower. ▪ The Agriculture Sector Program Loan to Mongolia in 1995 predicted that liberalization of wheat prices, together with other measures, would lead to a doubling in output; in fact, wheat production has declined by almost 50 percent. Market-based reforms based on individual free entry rather than cooperative forms have led to a concentration of herds around potential markets, and in the context of common property have contributed to serious land degradation through overgrazing. ▪ The Financial Sector Program Loan to Indonesia in 1988 was largely superseded by government intervention, marginalizing the relevance of the program loan. The Second Financial Sector Program Loan in 1992 was expected to result in a “sound legal, regulatory, and supervisory framework for the sector”; the Asian financial crisis revealed the depth of inefficiency and weakness of the framework. ▪ The Agriculture Program Loan to Pakistan in 1990 was expected to lift productivity in the sector, backed by a long-term investment program. While the Government borrowed \$200 million ostensibly for reform of the agriculture sector, it sharply cut the sector’s share of total expenditure. Productivity showed little increase, and continued public sector intervention discouraged the private sector. ▪ The Second Industrial Program Loan to Bangladesh in 1991 foresaw improved financial discipline of the 160 public manufacturing enterprises, together with selected privatization. While the importance of the public manufacturing enterprises declined considerably, their burden on government finances increased. ▪ The Agriculture Sector Program Loan to the Kyrgyz Republic in 1995 suffered from major problems in design in terms of sequencing of reform measures. More concentrated efforts on transforming land ownership and developing land markets, as well as a more gradual transformation of ownership of non-fixed assets and supporting services would have helped in minimizing increased poverty as a result of rapid declines in livestock, poultry, and crop production during the transition period. ▪ The Industrial Sector Program Loan to Mongolia in 1995 predicted that industrial output would stabilize and that the long-term impact on employment would be beneficial, after a period of dislocation. The program, in parallel with an International Monetary Fund (IMF) enhanced structural adjustment facility, entailed a “big bang” approach to reform, including price and trade liberalization and privatization of SOEs. The decline in industrial output did halt, and economic growth resumed despite adverse commodity prices;

	<p>however, employment in industry fell by 10,000.</p> <ul style="list-style-type: none"> ▪ The Health Sector Development Program Loan to Mongolia in 1997 appears to be providing a model for reducing the traditional reliance in Mongolia on curative services in hospitals. The establishment of family group practices as the basis of a mixed system of capitation payments for essential services and private billings for noncore services is being monitored. ▪ The Comprehensive Reform Program Loan to Vanuatu in 1998 was to redefine the role of the Government and improve public sector performance, including downsizing the public service by 10-15 percent. As Vanuatu has among the lowest number of government employees per hundred inhabitants, downsizing has proven difficult. However, the number of ministries has been reduced from 28 to 9 and efficiency has improved. ▪ The Financial Sector Program Loan to Viet Nam in 1996 was expected to create a regulatory framework conducive to private sector participation, improve the performance of state-owned banks, and initiate the development of a capital market. The program accomplished a great deal but some aspects were overly ambitious, confused by problems of interpretation, or subject to conflicting advice. Moreover, the reforms will remain “paper” reforms in the Vietnamese context until consensus building and institutional capacity are more complete. ▪ The Power Sector Restructuring Program Loan to the Philippines in 1998 forecast that the cost of power would fall by 25 percent through a reduction in electricity tariffs for all industries, stimulating a 1.2 percent increase in GDP. This translates into about \$750 million annually. If realized, this would represent a huge rate of return for the \$600 million investment (including Japan Bank for International Cooperation cofinancing).
3. Where Expected Benefits Have Been Realized	<ul style="list-style-type: none"> ▪ The Financial Sector Program Loan to India in 1992 contributed to liberalization of the sector, which improved the availability of credit for the private sector, a key factor in stimulating India’s growth rate since the mid-1990s. ▪ The Non-Oil Export Promotion Program to Indonesia in 1987 facilitated realignment of the exchange rate as well as trade liberalization, leading to a marked expansion of exports; the fiscal infusion of \$150 million at a critical time enabled the Government to maintain vital social and poverty-related expenditures. ▪ The first and second Agriculture Program loans to the Lao PDR had the objective of enhancing agricultural productivity, diversity, and output, which appears to have occurred, at least in the Mekong flatlands; however, many factors contributed to this, including general liberalization and other agency support. ▪ The Education Sector Development Loan to Mongolia in 1996 has successfully led to extensive rationalization of the school system, especially in terms of reducing the number of teachers to a more sustainable level and encouraging older, less qualified teachers to retire; the investment component of the loan helped equip and upgrade the remaining schools.
4. Mongolia’s Agriculture Sector Program Loan: Unrealized Production but Improved Resource Allocation	<p>A good illustration of unrealized expectations but a release of resources to potentially more productive endeavors was the Agriculture Sector Program Loan to Mongolia. As noted earlier, wheat production declined by almost 50 percent upon introduction of the reform measures, rather than doubling as predicted. But wheat production was artificially high as a result of heavy government subsidies and import protection. Mongolia clearly does not have a comparative advantage in wheat production, given its climate and shortage of water. The Program effectively terminated government support for wheat production; some production has continued under private enterprise, but it must compete against imports, including food aid from external agencies.</p>
5. Program Loans, Fiscal Support, and Transition Economies: The Needs of the Lao PDR and Mongolia	<p>For the past decade, the Lao PDR’s revenues have never been more than 13 percent of GDP; during the Asian crisis, government revenues fell to less than 10 percent. The fiscal deficit increased to 10 percent of GDP or more.</p> <p>This situation reflects the poverty of the Lao PDR, but also hesitations concerning important elements of reform—including revenue and expenditure management. Agency assistance exceeds 20 percent of GDP, but the focus has been on capital projects, notably investment in roads. Indeed, agency assistance finances some 85 percent of total public sector investment. One of the Lao PDR’s most serious problems is the imbalance between current and capital</p>

	<p>expenditures, resulting in a sharp deterioration in health, education, and other vital services.⁷ In this context, the fiscal support provided by program loans has been most helpful. The Ministry of Finance, during discussions with the Operations Evaluation Mission, stressed the Government's need of this support. It should be noted that despite this and other support, the Lao PDR's record of macroeconomic management has been mixed.</p> <p>In the case of Mongolia, the collapse of the Soviet Union and Council of Mutual Economic Assistance resulted in a 25-30 percent drop in GDP and an even sharper drop in government revenues. The only way to stabilize the situation was a large infusion of fiscal support. The stream of program loans made to Mongolia in the 1990s, together with IMF and World Bank support, provided the necessary infusion, and limited the number of people falling into poverty. It is perfectly rational for Mongolia to borrow heavily at this stage—especially on Asian Development Fund terms. The proper degree of borrowing must weigh exchange rate implications, and current versus future consumption tradeoffs (i.e., the intergenerational issue). Mongolia's record of macroeconomic management has been relatively good.</p>
<p>C. The Lao PDR's External Debt Situation⁸</p>	<p>Largely as a result of borrowings from multilateral creditors, the Lao PDR's convertible currency debt almost doubled during 1994-1998, from \$579 million to \$1,100 million. During the 1990s, four program loans were made by ADB to the Lao PDR, totaling \$100 million. Unfortunately, the steep depreciation of the kip since the beginning of the Asian crisis sharply increased the real burden of the Lao PDR's debt. Expressed in US dollar terms, the debt to GDP ratio rose from 118 to 195 percent between 1994 and 1998; the debt service ratio rose from 3.3 to 9.9 percent. At the same time, government revenues as a percentage of GDP shrank by some three percentage points, exacerbating the difficulty of servicing the debt. Current expenditures have been badly squeezed, undermining education, health, and other services, and wasting capital investment because of insufficient maintenance.</p>
<p>D. Contribution to ADB's Goals</p> <p>1. Strong Contribution to ADB's Goals</p>	<ul style="list-style-type: none"> ▪ Concerning poverty reduction, the Social Sector Program Loan to Thailand was explicitly designed to strengthen the social safety net, and cushion the effects of unemployment and other hardships arising from the Asian crisis. ▪ With regard to poverty reduction and human development, the Social Protection Sector Development Program Loan to Indonesia helped poor children remain in school during the Asian crisis. ▪ In terms of economic growth and poverty reduction, the Agriculture Sector Program Loan to Viet Nam led to increased competition and private marketing, trade liberalization, and land-use reforms; these measures contributed to substantial gains in agricultural output and poverty reduction. ▪ In the matter of improved governance, the Comprehensive Reform Program Loan to Vanuatu helped improve public sector performance and reorient the role of the Government. ▪ With reference to economic growth and poverty alleviation, the Non-Oil Export Promotion Loan to Indonesia contributed to trade and exchange rate liberalization, helping spur export growth; also, fiscal support helped the Government maintain important social sector programs. ▪ In relation to encouragement of growth of the private sector, the Railway Recovery Program Loan to Bangladesh involved contracting out to the private sector, and commercialization of operations of the Bangladesh Railways, at that time one of the largest loss-incurring public enterprises. Agriculture program loans also promoted private

⁷ ADB and Government of the Lao PDR, *Medium-Term Expenditure Framework and the Public Investment Program*, under ADB TA 3266, July 2000.

⁸ See Frank Flatters, *Lao PDR Macroeconomic Strategy*, June 2000, UNDP. Also, *Lao PDR Financial Sector Note*, ADB and World Bank, March 2000.

2. Mixed Contribution to ADB's Goals	<p>sector investment in the plantation sector.</p> <ul style="list-style-type: none"> ▪ As regards human development, the Education Sector Development Program Loan to Mongolia supported the Government in implementing wide-ranging reform and rationalization of the education system. ▪ Concerning economic growth and poverty alleviation, the Agriculture Sector Program Loan to Sri Lanka led to the elimination of export taxes, and increased agricultural commodity exports. However, aggregate production data show little increase; better sequencing, including phasing of the ending of fertilizer subsidies, would have generated more sustainable progress with less adverse effects. ▪ In terms of encouragement of growth of the private sector, the Second Agriculture Program Loan to Sri Lanka helped transfer ownership of sugar mills to the private sector, but import tariff protection was increased to make private investment in sugar mills viable. ▪ Regarding poverty reduction, the Industrial Sector Program Loan to Mongolia called for price liberalization and privatization of SOEs, both necessary steps for a more market-based economy, but the measures may have exacerbated worsening poverty trends. The social safety net component of the loan was not effective. ▪ In the matter of economic growth and poverty alleviation, the first and second Financial Sector loans to the Lao PDR have not substantially strengthened the sector nor significantly increased credit available to the private sector and farmers.
3. Little or No Contribution to ADB's Goals	<ul style="list-style-type: none"> ▪ In the area of poverty reduction, the Agriculture Program Loan to Pakistan contained measures that bore heavily on small farmers (e.g., the end of fertilizer subsidies) with little offset (e.g., procurement prices for farm products were not raised in the manner expected). Subsidies to manufacturers of fertilizer continued, and the wealth tax on land holdings was largely ineffective. ▪ Concerning environmental protection, the industrial and agricultural program loans to Mongolia failed to anticipate the consequences of market liberalization combined with common property rights, contributing to severe overgrazing and land degradation. ▪ As regards environmental protection, the Industrial Program Loan to Bangladesh failed to establish environmental monitoring units and it was not possible, therefore, to address potential environment problems associated with the reforms (e.g., privatization of tanneries). ▪ In the matter of economic growth, the Financial Sector Program Loan to Sri Lanka was intended to reduce the costs of financial intermediation but there has been no progress in reducing interest rate spreads and hence the core objective of the loan was not realized. ▪ With regard to encouragement of growth of the private sector, the Second Industrial Program Loan to Bangladesh focused on privatization of public manufacturing enterprises, but the process was poorly designed and implemented, with the state endeavoring to retain the better performing public manufacturing enterprises and offload the loss-incurring units.¹⁰

¹⁰ The program performance audit report for the loan nonetheless acknowledged that considerable progress had been made toward the Government's goals of increasing the private sector share of employment and manufacturing investment.

PROGRAM EXAMPLES: FORMULATION AND DESIGN

<p>A. Explanations for Loan Size</p>	<ul style="list-style-type: none"> ▪ Re the Second Industrial Program Loan to Bangladesh, the size of the loan was based on considerations of the scope and extent of policy reforms, the importance of the industry sector (and the role of public manufacturing enterprises within the sector) and the funding requirements for industrial imports (approximately \$700 million per annum); ▪ Re the Capital Market Development Program Loan for Bangladesh, the loan size covers adjustment costs of \$130 million over the medium term, for restructuring the Investment Corporation of Bangladesh, rationalization of the tax structure, removal of preferential pricing on government borrowing, institutional strengthening, and other costs; ▪ Re the Financial Intermediation/Resource Mobilization Program Loan for the Kyrgyz Republic, the loan size reflects the significance of the financial sector and the costs of reform, estimated at \$65 million during 2000-2002; these include recapitalization of the banks, reimbursement of depositors, seed capital for the Deposit Insurance Scheme, severance payments for laid-off workers, and the cost to the Government of introducing a competitive primary market for Treasury bills and of eliminating capital gains taxes on securities transactions; ▪ Re the Financial Sector Program Loan to the Lao PDR, loan size reflects additional demand for foreign exchange resources for investments and imports because of the improved investment environment (\$20 million-\$30 million annually); further, recapitalization of the commercial banks and the long-term credit facility were estimated at \$15 million; ▪ Re the Capital Market Development Program for the Philippines, “reforms of the securities market and the agencies involved do not have a quantifiable cost; Asian Development Bank (ADB) provision of \$150 million will assist the Government in its macro-management of the economy”;¹ ▪ Re the Agriculture Program Loan to Pakistan, the size of the loan reflects “the scope of the policy adjustment package incorporated in the program, and it also takes into consideration the import requirements for agricultural inputs to sustain sector development”;² ▪ Re the Social Sector Program Loan to Thailand, the amount was determined by the fact that it is the only assistance for social sector issues in the International Monetary Fund (IMF)-led assistance package; the reforms will cost over \$900 million during the first two years of implementation; ▪ Re the Financial Sector Program Loan to Sri Lanka, the size of the loan “is considered reasonable in view of the size of the Sri Lanka economy, the expected impact of the proposed policy measures, and the short term costs of implementation”;³ ▪ Re the Public Sector Reform Program Loan to the Solomon Islands, loan size was based on the scope and the costs of the policy reforms, the importance and urgency of the reforms, and the state of the public finances of the Borrower; the cost of staff retrenchment was estimated to be \$1.2 million and retirement of debt arrears was estimated to be \$14 million;
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¹ Loan 1363-PHI: *Capital Market Development Program*, for \$150 million, approved on 22 August 1995.

² Loan 1062-PAK(SF): *Agriculture Program*, for \$200 million, approved on 11 December 1990.

³ Loan 1051-SRI(SF): *Financial Sector Program*, for \$80 million, approved on 20 November 1990.

	<ul style="list-style-type: none"> ▪ Re the Hydrocarbon Sector Program Loan to India, the loan “will support the high levels of investment needed in the near term”,⁴ ▪ Re the Public Sector Resources Management Program for the State of Gujarat, India, the cost of structural adjustment involved will be about \$715 million over three years.
<p>B. Inter-Agency Cooperation</p> <p>1. Bangladesh: A Call for Greater Policy Coordination</p> <p>2. Mongolia's Financial Sector Reform: An Example of ADB/World Bank Cooperation</p>	<p>Bangladesh's officials stated that major funding agencies need to collaborate more closely in providing sustained and unified support to priority issues. The contribution of funding agencies would be improved if they recognized it is politically difficult in democracies to make policy and institutional reforms across a broad range of sectors at one time. Unsuccessful efforts to promote reforms are counterproductive and set back the reform process. Greater cooperation among funding agencies is needed to identify key bottlenecks. Further, sustained effort is needed to ensure that a limited number of priority bottlenecks are successfully eliminated with clearly demonstrated benefits to the economy.</p> <p>The recent Second Financial Sector Program Loan to Mongolia is an example of cooperation with the World Bank. ADB and the World Bank, together with the Government, have agreed on a joint policy matrix. Although there are no cross-conditionalities, tranche releases are coordinated. ADB's loan of \$15 million for the financial sector addresses nonbanking financial intermediaries, and corporate governance within the banking sector. The World Bank's Financial Sector Adjustment Credit Loan of \$32 million supports, principally, banking sector restructuring. Of note, ADB's loan amount is explained in terms of meeting adjustment costs of the reform, while the World Bank frankly acknowledges its loan amount is designed to help the Government meet its fiscal deficit. The two loans follow up on ADB's Financial Sector Program Loan in 1996 and IMF's Enhanced Structural Adjustment Facility Program over the past two years, during which the two agencies worked together to guide especially difficult elements of bank restructuring.</p>

⁴ Loan 1148-IND: *Hydrocarbon Sector Program Loan*, for \$250 million, approved on 17 December 1991.

PROGRAM EXAMPLES: LESSONS LEARNED

Lessons	Incorporating Lessons in Recent Program Loans
<p>1. Lessons on Program Formulation Processes</p> <p>Program should be based on a locally defined and broadly supported set of reforms.</p> <p>Political leaders and other stakeholders from civil society need to be involved in program formulation, and need to be kept fully aware of the purpose and expected impact of reforms.</p> <p>Adequate attention should be given to ensuring a sound macro environment for reform, including good governance and supportive macroeconomic policies</p> <p>There is a need for comprehensive and structured analysis to identify sector development issues, proposed policy and institutional reforms, regional best practices, and distributional consequences of these reforms.</p> <p>There is a need for analysis capacity of executing agency, and for clear statement of potential bottlenecks and proposed solutions.</p>	<p>Indications of more substantive consultation in some program loan documentation are discussed below. Where this happens, it should help in identifying broadly supported reform programs.</p> <p>Some recent programs have had been developed with broad consultation with stakeholders from outside government (the most prominent being the Second Agriculture Program Loan in Nepal), but there is considerable variation between programs in the degree of consultation. This partly reflects the fact that more extensive consultation is needed for agriculture and social sector programs than, say, for financial sector reforms. It also results from the lack of Asian Development Bank (ADB) guidelines on consultative approaches for developing and implementing program loans. Differences in ADB staff capacity and confidence in using broader consultative approaches also affect the extent and usefulness of consultative approaches.</p> <p>Program loan documentation usually includes references to parallel the World Bank and/or International Monetary Fund support for macro policies, but some observers have noted some inconsistencies in the reform priorities of various funding agencies. There are few examples of substantive analysis of public governance issues and/or possible problems using ADB program loan resources in situations where there are widespread domestic concerns about corruption and the efficiency of public expenditure.</p> <p>Recent program loans have generally included more substantive analysis of policy issues, usually including substantive prior involvement and technical assistance addressing sector development issues. Poverty assessments included in reports and recommendations of the President represent substantial progress in addressing the distributional consequences of reform. There is only limited evidence of attempts to systematically analyze and document regional best practices in developing and promoting reform programs.</p> <p>Program loan documents now include more systematic analysis of risks, but the issue of institutional capacity and constraints to implementation appear to be glossed over, or simply “resolved” by the provision of technical assistance.</p>

Lessons	Incorporating Lessons in Recent Program Loans
<p>2. Program Design Lessons</p> <p>Program objectives should be clearly defined, and reforms prioritized and limited to manageable proportions with a stronger focus on end results.</p> <p>Links between program measures and goals—and intermediate and final performance indicators of policy and institutional reforms—should be clearly defined.</p> <p>Objectively quantifiable indicators of program implementation performance should be specified in program documentation.</p> <p>Too many loan conditions contribute to mechanical approaches to program monitoring that focus on the means rather than the intended end results of resolving bottlenecks to sector development.</p> <p>The reform process involves elements of “learning by doing”. Design guidelines should allow for flexibility to modify the program to take into account changes in the external environment and unexpected developments in the domestic environment.</p> <p>Policy reform is a lengthy process requiring regular review of reform options and consensus building.</p> <p>Efforts to increase public awareness of the need for reform should be built into program designs.</p>	<p>General agreement that program objectives are being more clearly defined, but little evidence that reform packages are focusing on more manageable numbers of prioritized reform measures.</p> <p>General perception that the quality of program loan design has improved: (i) a more comprehensive and structured approach to identifying sector development constraints, proposed solutions, and mechanisms for program monitoring; and (ii) more clearly explained links between proposed reforms and development objectives. Use of the logical framework matrix approach was frequently cited as an innovation that has improved program design.</p> <p>Recent program loans have included measures that were easily monitorable using legally binding definitions of reform measures. But this often results in a focus on implementing micro-level reform measures rather than focusing on the end results needed for substantive impacts to achieve priority program objectives. A degree of subjectivity in assessing program performance may be more productive than focusing on less important reforms that are readily monitorable.</p> <p>The above-mentioned “lesson” has led to an emphasis on micro-level reform measures (which are usually more objectively monitorable). Government officials and ADB staff note that there has been only limited, if any, progress in streamlining loan conditions. The general feeling of ADB staff is that there is positive correlation between the number of loan conditions and internal loan processing.</p> <p>The new program cluster loan modality makes provision for “learning by doing”. This was not evident in any program lending under the earlier models. On the contrary, there was a widespread perception within government and ADB staff that ADB leadership was increasingly adverse to accepting any proposed adjustments to program conditionalities to reflect changing external factors.</p> <p>This has been reflected in the recently approved ADB program cluster approach, but is yet to be reflected in program lending in the countries visited.</p> <p>Public awareness programs have been included in some recent program designs, and some programs have built on government-sponsored efforts to build support for reform.</p>

Lessons	Incorporating Lessons in Recent Program Loans
<p>3. Program Implementation and Monitoring Lessons</p> <p>There is considerable variability in the quality and commitment of consultants working on technical assistance projects, especially those supporting program implementation.</p> <p>More systematic and effective monitoring of program loans is required.</p> <p>Monitoring emphasis on checking whether large numbers of indicators are being implemented results in a focus on micro reforms that are not always crucial to sector development.</p> <p>Attention must be given to assessing public awareness, concerns, and support for reform measures during program implementation.</p> <p>Implementation is frequently more difficult and resource intensive than program design.</p> <p>Regional experts should be available to regularly review program implementation and the ongoing appropriateness of the reform agenda.</p> <p>The continuing relevance of program conditions should be regularly reviewed to take account of changing conditions.</p> <p>ADB needs to be proactive in disseminating information to civil society and government on program evaluation findings.</p>	<p>The expertise required to effectively support reform implementation is highly specialized. ADB should review whether current arrangements of competitive bidding through consulting firms leads to identification and recruitment of the best experts. ADB should consider establishing sector expert panels (with regional experts) to assist in advising on implementation.</p> <p>Government reporting on program implementation has improved but compliance with conditions requiring it to monitor and evaluate program impacts is poor, with no real evidence of improvement. The quality and level of ADB resources allocated to program monitoring show no real evidence of systematic improvement.</p> <p>ADB pressure to incorporate easily quantifiable indicators of reform progress has contributed to large numbers of reform measures being included without a clear sense of what measures are priority bottlenecks to sector development.</p> <p>While some recently program loans include specific measures to increase public awareness, the issue of civil society support for reform measures receives little attention in program monitoring reports. Staff and/or staff consultant resources allocated for program monitoring activities provide little scope for the more extensive consultations needed to address this issue.</p> <p>No tangible evidence of increased allocation of resources to support program implementation.</p> <p>Most consultants are recruited via consulting firms to address specific technical issues. Thus, there is rarely any mechanism available for substantial regular reviews of the overall reform process, and/or for regional cooperation in sharing reform experiences.</p> <p>The perception of most officials and ADB staff is that it is becoming more difficult to make changes in program conditions, regardless of the extent of changes in the external and domestic environments.</p> <p>Few government officials, and virtually no one from outside government, were aware of ADB evaluation findings on program lending. Given the overall poor program loan performance ratings, and the critical impact that reform programs can have on civil society, this a major concern. Public debate on how to improve the design of reform programs should be encouraged.</p>

PROGRAM EXAMPLES: IMPLEMENTATION AND MONITORING

<p>A. Good and Poor Quality Compliance</p>	<p>As an example of excellent compliance, the Agriculture Sector Program Loan to Viet Nam in 1994 was accompanied by government actions that fully met or exceeded the conditionality requirements. Viet Nam's National Assembly adopted ahead of schedule a commercial code that included provision for voluntary associations of traders; the Viet Nam Agriculture Bank went beyond the conditionality concerning auditing; and the Government exceeded the agreed program for land-use reforms.</p> <p>Examples where compliance has been met nominally but not substantively include the Second Agriculture Loan to the Lao People's Democratic Republic (Lao PDR) and the Comprehensive Reform Program Loan to Vanuatu; both contained a conditionality concerning passage of a foreign investment law and in both cases the conditionality was met. However, the quality of compliance was poor. For the Lao PDR, the implementing regulations have yet to be established even though the National Assembly approved the law in 1994. For Vanuatu, the law excludes many sectors from foreign investment and penalizes local residents who enter into joint ventures with foreign investors.</p>
<p>B. Sustainability</p> <p>1. Examples of Policy Reversal or Erosion Through Time</p> <p>2. Long-Term Sustainability: A Reality Check on Financial Reforms in the Lao PDR</p>	<p>In the case of several countries (e.g., Bangladesh, Nepal, and Sri Lanka) subsidies for fertilizer and other factors were reintroduced after agricultural loans from the Asian Development Bank (ADB) had been closed. In many cases, nominal increases in user fees for electricity, water, and other services have been subsequently eroded in real terms as a result of high rates of inflation. The two agriculture sector program loans to the Lao PDR included a number of conditionalities or policy actions that were largely met during the loan period but that have since been compromised or had little substance in practice. For example, tariff rates for electricity used for irrigation pumps were raised in accordance with loan conditionalities, but only in nominal terms. Hyperinflation during 1997-1999 meant that real tariffs actually decreased, and cost recovery for irrigation systems has lessened rather than strengthened. As another example of a policy reversal, Mongolia dropped a ban on the export of raw cashmere but imposed an export tax; it has also introduced a 5 percent across-the-board import tariff following earlier elimination of all trade barriers.</p> <p>In the case of the Lao PDR's financial sector, a joint report by ADB and the World Bank in early 2000 presented evidence of systemic weaknesses:¹</p> <p>"Financial depth (M2/gross domestic product [GDP]) is very low...The Lao banking system is in crisis as four major institutions holding two thirds of the banking assets are technically insolvent...About \$45 million is needed to recapitalize the banks...Eighty percent of the population lives in rural areas and 90 percent of that population do not have access to formal banking services...The microfinance industry has only started to develop in the last four years and competes with subsidized credit...The Agriculture Promotion Bank is lending at very low interest rates incompatible with cost recovery and sustainability."</p> <p>In light of this and other analysis of the financial sector, it would be hard to conclude that the Lao PDR Government had implemented and sustained the far-reaching policy actions called for in the two financial sector program loans, first in 1990 and then in 1996.</p>

¹ ADB and World Bank, *Lao PDR: Financial Sector Note*, February 2000.

<p>3. Sustainability of Policy Reform: Nepal's Perspective</p> <p>4. Sustainability and Ownership: Experience of Bangladesh and Sri Lanka</p>	<p>Nepal's agriculture sector program loans from ADB have included the ending of fertilizer subsidies for farmers. While government officials understood the general rationale for ending these subsidies, they expressed concern for farmers in poor areas unable to afford higher prices. Large subsidies are offered to farmers in northern Indian provinces, which are Nepal's main markets for agricultural goods. The subsidy issue is currently particularly sensitive as rising oil prices have driven up the price of nitrogenous fertilizers. There are now large differences in the prices of legally imported fertilizers and fertilizers smuggled from India; private suppliers in Nepal are ceasing to import fertilizers because they cannot compete, even though the quality of smuggled fertilizer is poor. Ending fertilizer subsidies is no simple matter, as external factors must be taken into account. The issue raises the question of whether ADB should take a subregional approach to addressing such issues. At the very least, compensatory measures should cushion the cost to small farmers.</p> <p>During negotiations in 1987 and 1989 with ADB concerning formation of agriculture sector program loans, both Bangladesh and Sri Lanka strongly indicated that a phased reduction of fertilizer subsidies was possible, but not outright abolishment. Bangladesh government officials indicated that ADB should recognize that the probability of completely removing fertilizer subsidies was very low and might be even less as a consequence of external intervention. In the case of Sri Lanka, the Government argued that fertilizer subsidies were not binding constraints to development of the agriculture sector. A new Government was democratically elected in 1994, with a mandate to restore fertilizer subsidies. The new Government also reversed measures to curtail Paddy Marketing Board losses. Clearly, neither Bangladesh nor Sri Lanka had much ownership of the conditionalities.</p>
<p>C. Earmarking of Counterpart Funds</p> <p>1. Ineffective Earmarking of Counterpart Funds</p> <p>2. Earmarking of Counterpart Funds</p>	<ul style="list-style-type: none"> ▪ Counterpart funds from the Agriculture Program Loan to Pakistan were meant to be used to finance the local currency costs of ongoing projects by ADB and to finance other projects in rural areas. In contrast, the Government sharply reduced funding of the agriculture sector following the loan. ▪ The Government of the Philippines was to ensure that an appropriate portion of counterpart funds was used to meet the adjustment costs of the Power Sector Restructuring Program Loan. To date, neither the Department of Energy nor the National Power Corporation has received any supplementary support to meet adjustment costs, despite employee severance payouts and other costs. ▪ Under the Industrial Sector Program Loan to Mongolia, a conditionality stipulated use of a portion of the counterpart funds to those that became unemployed as a consequence of industrial restructuring and privatization of state-owned enterprises. An operations evaluation mission was unable to find any trace of such an allocation; neither the Government nor ADB had a monitoring system for this purpose. ▪ Concerning the Health Sector Development Program Loan to Mongolia: "The counterpart funds...will be used by the Government to implement the information campaign on primary health care and health sector reforms, to develop the family group practices, to mitigate potential negative impacts on health staff affected by the reforms and for general purposes. The funds necessary for the development of the family group practices will be provided to the local governments of Ulaanbaatar and the three Project <i>aimag</i>² centers."³

² An *aimag* (province) is an administrative region.

³ Loan 1568-MON(SF): *Health Sector Development Program*, for \$4 million, approved on 4 November 1997.

	<ul style="list-style-type: none"> ▪ Counterpart funds from the Industrial Sector Program Loan to Bangladesh were intended to be used in support of rationalizing employment in public manufacturing enterprises. According to the program performance audit report, the cost of the labor redundancy program has been Tk2.8 billion, or approximately equal to the loan amount. ▪ The Social Protection Sector Development Program Loan to Indonesia stipulated that counterpart funds would be used in support of the social sector in general, and the program reforms. These were very specific, including targeted support to the poor and scholarships to young students to enable them to stay in school.
<p>D. Mongolia's Experience With Sector Development Programs</p>	<p>The Education Sector Development Program Loan in 1996 resulted in a major restructuring of the school system. The policy component financed severance payments for some 8,000 teachers and staff retired or laid off as a result of the restructuring; generous compensation encouraged older teachers to retire. However, the notion of redundancy and paying people to stop working was alien to Mongolians, resulting in some controversy. The investment component of the loan helped equip and upgrade the remaining schools, leading to better quality education. The Program appears to have been well designed and implemented. Extensive civil consultation helped build understanding and support. The new Government has indicated that it intends to continue with the human resource development strategy adopted in the early 1990s, and that further program loans for this purpose would be welcomed.</p> <p>The Health Sector Development Program in 1997 is designed to strengthen primary health care, leading to a reduction in the traditional reliance in Mongolia on curative services in hospitals. The main mechanism for accomplishing this transition is establishment of family group practices, which provide seven or eight core general medical services and refer patients to hospitals only when specialized services are required. In this manner, significant cost savings are expected. The policy loan component met the severance and other dislocational costs associated with the restructuring of the health services. Associated technical assistance helped build capacity in health management in local governments. The project loan component (at four times the policy component) provided funds for medical equipment, minor civil works, and other capital needs. Aspects of the Health Sector Development Program may be difficult to sustain. Despite an extensive information campaign, people prefer direct access to hospitals, noting that the equipment and standard of services offered by family group practices are not very good. Family group doctors are expected to be private sector-based, receiving capitation payments for providing essential health services. They are allowed to charge for services beyond those listed as essential. To date, however, family group doctors have found it difficult to generate sufficient income to upgrade their equipment and services, leading patients to prefer the traditional hospitals. The sparse, widely scattered population hinders the privatization option. Other options, including a public health system with incentives for efficiency, may have to be considered before expanding the experiment. The new Government is anxious to build on the lessons learned from the first loan, and is seeking further support for the health sector. There is considerable interest in the program cluster approach.</p>

WORLD BANK FINDINGS ON POLICY-BASED LENDING

1. The World Bank has extensively reviewed the effectiveness of its policy-based lending. A report released in 1998 was based on a review of 220 reform programs.¹ The conclusions are clear. Policy reform is dependent on a number of key political economy factors, such as commitment to reform. Financial assistance has little bearing on the speed or scope of reform. Even if loan conditionalities are met, the larger objectives of reform will only be met if the country context for reform is conducive.

2. Some variables are under the control of an external funding agency. These include the amount of preparation time; amount of supervisory staff time; number of conditions; how conditions are allocated between upfront conditionality and first, second, and third tranches; and the size of the loan. More preparation time is associated with successful loans. However, adding more conditions to loans or devoting more resources to manage them does not increase the probability of reform. The main influence on the success or failure of policy-based lending is the country commitment to reform.

3. The key to improving the contribution of policy-based lending to reform is to select promising candidate countries for support. Funding agencies must become more selective and do a better job of understanding what are positive environments for reform and what are not. This may lead to smaller volumes of lending, but greater efficacy and efficiency in generating program impacts.

4. A second more recent report by the World Bank draws even starker conclusions.² The author dismisses adjustment costs as a basis for policy-based loans, arguing that they are imprecise and simply a cover for agencies “buying” reform. The cover has been needed to give a semblance of ownership, for otherwise the implication would be that the policy changes were against government interests. Adjustment costs have been exaggerated, leading to increased loan size. The lure of quick-disbursing funds led governments to promise more than they intended to deliver, and to implement more than they could sustain. Balance-of-payments or fiscal support associated with policy-based lending reduces the urgency for a government to implement reforms, and so such assistance can delay rather than promote reform.

5. A third report by the World Bank provides a more positive perspective of policy-based lending.³ The relevant chapter, “Making Markets Work Better for Poor People,” points to the importance of “designing and implementing reforms in a way that is measured and tailored to the economic, social, and political circumstances of a country.” Promoting opportunity through market-friendly reform is one of the three elements for attacking poverty. The other elements are empowerment and enhanced security for the poor. Reforms must better reflect local institutional and structural conditions. Failed reforms are most often the result of the lack of supporting institutions, mistakes in sequencing, and the capture of the reform process by powerful individuals or groups. According to the report, reforms create winners and losers, and

¹ David Dollar and Jakob Svensson, *What Explains the Success or Failure of Structural Adjustment Programs?* World Bank, 1998.

² Paul Collier, “For a New Relationship Between Donors and Recipients: The End of Conditionality?” World Bank, February 2000. See also Paul Collier, *Consensus-Building, Knowledge and Conditionality*, World Bank, 1999.

³ World Bank, *World Development Report 2000/2001: Attacking Poverty*, Oxford University Press, 2000.

when the losers include poor people, societies have an obligation to help them manage the transition. Further, to make markets work better for poor people, attention has to be given to facilitating access to opportunity by such measures as lightening the regulatory burden so that small businesses can flourish, promoting core labor standards through information and capacity building, and improving microfinance through access to good practices.

6. According to the two first research reports cited above, one third of the World Bank's adjustment loans fail. The *World Development Report 2000/2001* presents many cases from developing countries, illustrating the mistakes made and ways for making policy-based lending more successful. The World Bank has introduced a modified form of its structural adjustment loan instrument, to add a programmatic dimension for addressing systemic social, structural, and institutional reforms over an extended period of time. Sector adjustment loans support comprehensive policy changes and institutional reforms in a specific sector. Hybrid loans support policy and institutional reforms as well as investments in the targeted sector. Special structural adjustment loans carry higher charges and are designed to meet crisis situations.

7. In summary, research by the World Bank indicates that the success of policy-based lending depends on whether countries are already undertaking reform. However, the *World Development Report 2000/2001* suggests a way for making policy-based lending more successful even in difficult environments. The analysis of change should be broadened, to identify measures that will enhance security and enforcement, and to allow a greater chance of benefiting from market opportunities.