Corporate Evaluation

Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design

Independent Evaluation ADB

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NOTE

In this report, "$" refers to US dollars.

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Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ANR	–	agriculture, natural resources and rural development
AfDB	–	African Development Bank
CAPE	–	country assistance program evaluation
CBA	–	cost–benefit analysis
CSF	–	countercyclical support facility
CPA	–	country performance assessment
CPSFRV	–	country partnership strategy final review validation
CWRD	–	Central and West Asia Department
DMF	–	design and monitoring framework
DPL	–	development policy lending
DSSP	–	devolved social services programs
FSD	–	financial sector deepening
GACAP	–	Governance and Anti-Corruption Action Plan
GDP	–	gross domestic product
IAMC	–	independent assessment of macroeconomic conditions
IDB	–	Inter-American Development Bank
IED	–	Independent Evaluation Department
IEG	–	Independent Evaluation Group
IMF	–	International Monetary Fund
LCY	–	local currency
M&E	–	monitoring and evaluation
MDB	–	multilateral development bank
MDG	–	Millennium Development Goal
OCR	–	ordinary capital resources
OJK	–	Otoritas Jasa Keuangan (Financial Services Authority of Indonesia)
OVE	–	Office of Evaluation and Oversight
PBL	–	policy-based lending
PCR	–	program completion report
PEFA	–	Public Expenditure and Financial Accountability
PPER	–	program performance evaluation report
PRSC	–	Poverty Reduction Support Credit
PSM	–	public sector management
PVR	–	program completion report validation report
RAMP	–	risk assessment and management plan
RRP	–	report and recommendation of the President
SDP	–	sector development program
SERD	–	Southeast Asia Department
SICIP	–	Secondary Investment Climate Improvement Program
SME	–	small and medium-sized enterprise
SPD	–	Strategy, Policy and Review Department
WUS	–	water and other urban infrastructure and services

Contents

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Foreword

Policy-based lending (PBL) provides developing member countries with fast-disbursing budget support while, at the same time, creating an opportunity for the Asian Development Bank (ADB) to influence policy reforms to boost growth and poverty reduction.

PBL operations amounted to $27.1 billion over 2008–2017, almost half of the total value of the PBL operations approved since the modality was first introduced 40 years ago in 1978. The evaluation notes that one of the countries' primary motivations for using PBL is that it responds to their immediate financing needs, but they also value the policy advice and technical assistance that accompanies it. PBL has supported countries through difficult times. The evaluation period covers the years of the global financial crisis of 2008–2009 which prompted spiraling demands for financial support on a scale not experienced before. ADB's total PBL approvals, a combination of conventional PBL and the countercyclical support facility, grew to nearly 45% of total sovereign lending in 2009.

PBL performance improved over the period, which is in line with performance trends at other multilateral development banks. The policy reforms it supported increasingly centered on public sector management (PSM)—mainly in public financial management and decentralization. These PBL operations produced better results in countries with initially low country performance assessment ratings for quality of governance and PSM. The evaluation also found that ADB has contributed to positive results in capital market development in several countries. However, in other areas the results were more variable. While many program completion reports registered policy reforms and positive outcomes, the criticality of the policy actions was not always clear. Furthermore, in both PSM and capital markets it was difficult to assess what difference the reforms supported had had on longer-term development outcomes, such as improved service delivery, economic growth and poverty reduction. ADB needs to be clear on why the policy reforms selected for support – increasingly in PSM – are the most urgent policy priorities that countries face, and the most effective way for ADB to contribute to longer term development outcomes through PBL.

There are several issues with PBL design that, if addressed, could enhance ADB's role in shaping the region's policy agenda. More attention to policy reforms in sectors where ADB makes significant investments could play to ADB's strengths. Corporate guidance on what types of PSM are supported and what approach to take will make it easier to select appropriate interventions. Good coordination with the International Monetary Fund (IMF) is essential. In cases where ADB's view of the macroeconomic situation diverges from that of the IMF, the risks should be assessed independently of the regional department. A focus on a few major policy actions will be effective and reduce complexity. A proliferation of process-related prior actions in policy matrixes needs to be avoided, and the results chain that links ADB-supported policy actions to reform outcomes needs to be specified more clearly. By investing additional resources in PBL design, capitalizing on ADB's role as a knowledge bank, and improving monitoring and evaluation, ADB can enhance its contributions to growth and poverty reduction in the Asia and Pacific region.

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Policy-Based Lending 2008-2017: Performance, Results, and Issues of Design

RECOMMENDATIONS

A. Strategic Recommendations

1. Make greater use of PBL in sectors where investment loans are also undertaken and ADB has experience, to ensure that policy constraints on the achievement of the overall development outcome, such as increased access to services, are supported by relevant policy reforms.

2. Develop an operational plan on the appropriate scope, objectives, and articulation of PSM interventions—which are currently very wide.

3. Ensure that (i) concessional assistance-only countries (Group A) also have access to a countercyclical facility during crisis periods; and (ii) the use of contingent disaster financing is formalized.

4. Ensure that, in cases where the regional department's view on the macroeconomic situation of a country diverges from that of the IMF, the risks are assessed independently of this regional department.

B. Operational Level

5 Strengthen PBL design by: (i)limiting the use of process-oriented actions and articulating policy actions as substantive outputs; (ii) tailoring the DMF so that policy actions, outputs, and outcomes are more clearly linked, and (iii) clearly referencing the analytical work that underpins PBL design.

6. Strengthen the assessment of PBL design at program completion, including the justification for the PBL, the relevance of the policy reforms supported, the quality of the TA, and the extent to which policy actions were critical to the results.

7. Strengthen the overall quality assurance mechanism for PBL in ADB.

This evaluation assesses policy-based lending (PBL) at the Asian Development Bank (ADB) between 2008 and 2017. ADB financed $27 billion through 181 operations, approximately 21% of its overall sovereign operations. ADB needs to improve PBL design to strengthen its influence in shaping the region's policy agenda for inclusive growth and other emerging policy challenges.

Policy-based lending (PBL) provides untied financial resources to help meet country financing needs while supporting policy reforms that promote growth and poverty reduction. Since its introduction in the Asian Development Bank (ADB), almost all developing member countries have had at least one PBL operation.

PBL has supported countries through difficult times. The global financial crisis of 2008–2009 prompted spiraling demands for PBL on a scale not experienced before. A combination of conventional PBL and the countercyclical support facility grew to nearly 45% of total sovereign lending in 2009. Indonesia, Pakistan, the Philippines, and Viet Nam accounted for about 65% of all PBL approvals by value in 2008–2017.

Direct attribution of development outcomes to PBL is difficult. As with evaluations carried out by other multilateral development banks (MDBs), this evaluation paid special attention to PBL design, while also examining operational performance and results at country level.

PERFORMANCE FINDINGS

The development performance of PBL, measured by project success rates, doubled over 2008–2017, from 43% to 80%. This was due to 5 main factors.

First, improved performance reflected greater use of programmatic (single-tranche) PBL, compared with an earlier dominant type, standalone (multitranche) PBL.

Second, the reform focus of PBL shifted to public sector management (PSM), which accounted for a high proportion of PBL approvals.

Third, conventional PBL was used to respond to crises. The balance between financial support and policy reform changes during crisis periods and, as a result, PBL tends to be used as a countercyclical facility. The success rate of these PBL operations was 93%, against 74% for non-crisis PBL.

Fourth, the number of policy actions in PBL designs fell over the period. This indicates that PBL design is improving. ADB guidelines recommend restricting the actions to those critical to the removal of policy constraints on growth and poverty reduction.

Fifth, the weight of Pakistan's poorly performing program in the total portfolio fell over the period.

RESULTS FINDINGS

PBL helped improve public finance management and capital market development, and supported countries through difficult financial periods. In other areas the performance was more variable.

ADB has supported capital market development in Bangladesh, Indonesia, the Philippines, Sri Lanka, and Viet Nam. Results are being seen in countries that have received long-term support.

PBL was important in Pacific island economies, which are highly vulnerable to external shocks. ADB has recently used conventional PBL as contingent financing for countries vulnerable to disasters.

Results were most clearly achieved in PSM, especially in concessional assistance-only (Group A) countries with lower country performance assessment scores.

PBL ISSUES

Strategic Issues

PBL is primarily directed at countries with higher incomes per capita, stronger policies, and greater institutional capacity.

Using conventional PBL to address longer-term structural reforms is not necessarily compatible with meeting urgent country financing needs during crisis years.

Policy reforms supported by ADB have increasingly concentrated on PSM, which is wide-ranging in scope and lacks a clear longer-term corporate strategic goal.

There has been limited use of PBL in ADB's traditional areas of investment and expertise.

Design and Operational Issues

Attributing results to PBL is difficult because many factors concurrent to PBL influence policy reform outcomes. Given the complexity of this modality, a strong design is imperative if ADB is to understand the added-value of its PBL.

The size of a PBL operation is related to a country's financing needs, not to the depth of policy reform required, hence larger operations do not necessarily leverage more reform and therefore not necessarily require more policy actions.

Decision-making regarding the provision of a PBL that diverges from the IMF's macroeconomic assessment may entail risks that require an independent assessment to be made independent of the regional department.

PBL operations evaluated contained many processoriented policy actions, the outcomes of which are not always clear. The practice of separating the policy matrix from the design and monitoring framework (DMF) makes the results less clear.

The critical role of policy actions to the achievement of development outcomes was not sufficiently assessed at program completion.

PBL requires independent additional scrutiny beyond the regional department.

PBL design is different to investment project operations and requires a set of specialized skills, including policy dialogue.

Executive Summary

This evaluation assessed the use of policy-based lending (PBL) by the Asian Development Bank (ADB) between 2008 and 2017, which amounted to $27.1 billion or around 21% of total sovereign operations over the period. It found that PBL was relevant to country financing needs and proved especially useful during the global financial crisis of 2008–2009. The success rate of PBL operations doubled over the evaluation period. Evidence suggests that PBL has helped countries through difficult times, contributed to achieving results in public sector management (PSM), and supported the development of capital markets. While evaluation of PBL, including its contribution to development outcomes, is difficult, it is essential to at least assess ADB's contribution to these outcomes, which starts with strong PBL design.

The evaluation found some issues with the use and design of PBL. Most PBL was to countries with higher incomes per capita and stronger institutional capacity. There was limited deployment of PBL in ADB's traditional areas of investment and expertise. PBL contained many policy actions, which complicated reform implementation and results monitoring. There is no specific training for staff who lead and design PBL, nor is there sufficient scrutiny of the management of PBL.

The evaluation contains a set of strategic and operational recommendations. Strategically, ADB should make greater use of PBL in sectors where ADB makes significant investments; and it should develop an operational plan for public sector management. A crisis-response window for concessional assistance-only (Group A) countries should be created that is exempted from the ceiling. ADB should ensure that, in cases where its view on the macroeconomic situation of a country diverges from that in the International Monetary Fund macroeconomic assessment, the risks involved are assessed independently of the regional department. ADB needs to formalize the use of the contingent disaster financing instrument. At the operational level, PBL design needs to be strengthened, as does the assessment of PBL design at program completion. Overall quality assurance for the PBL modality needs to be separated from that done by the regional departments, and a systematic review of PBL should be undertaken every 3 years. ADB should introduce a program of PBL-specific training.

The evaluation assessed the effectiveness and results of Asian Development Bank (ADB) policy-based lending (PBL) to support the financing and policy reform needs of its developing member countries between 2008 and 2017. PBL provides countries with rapidly disbursing, untied financial resources to help meet their budget or balance of payments financing needs, while at the same time supporting policy reforms intended to enhance growth and reduce poverty. It has two objectives: to help countries meet their financing needs and support policy reforms.

PBL has become one of ADB's most important lending modalities. Since 1978, ADB has approved 451 PBL loans and grants worth approximately $55 billion, with nearly half approved in the 10 years between 2008 and 2017. This was because of high demand during the 2008–2009 global financial crisis as well as growth in country demand for PBL in non-crisis years. ADB PBL is now almost similar in value to World Bank's development policy lending (DPL) in the Asia and Pacific region, and ADB is regarded by countries as a strong partner in policy reform. Since the introduction of PBL, of ADB developing member countries, only Timor-Leste and Turkmenistan have not had any.

PBL has the potential to promote fundamental reforms. This was particularly true in the evaluation period when, in addition to budget support, other inputs such as analytical work, policy dialogue, and technical assistance (TA) were also provided. Because loans can be disbursed rapidly, PBL has helped alleviate the impact of internal and external economic shocks or natural disasters on ADB developing member countries. Consultations with country officials suggested that demand for PBL is expanding, and in some countries, it is the preferred lending modality.

In line with other multilateral development banks (MDBs), which limit PBL use either formally or informally, ADB sets a ceiling on the amount of PBL as a share of total sovereign borrowing. Except for its specific crisis response instruments, ADB currently limits PBL use to 20% of total sovereign lending, on a 3-year rolling average basis. It set the ceiling to 22.5% for ADB concessional lending. Unlike the World Bank, which sets indicative ceilings, ADB's PBL ceiling for concessional resources is an explicit constraint. While the introduction of crisis instruments in 2009 allowed ordinary capital resources (OCR) countries to borrow outside the ceiling, special dispensation was needed for countries eligible for concessional finance to do so because there is no such similar instrument for these countries.

Some countries have used PBL extensively. Indonesia, Pakistan, the Philippines, and Viet Nam accounted for nearly 65% of all PBL approvals by value during 2008–2017. The Southeast Asia is the single largest recipient of PBL, and in 2008–2017 PBL represented nearly 71% of ADB's sovereign lending portfolio in Indonesia and 57% in the Philippines. The policy does not set limits at the individual country level.

This evaluation followed previous PBL evaluations by the Independent Evaluation Department (IED) in 2001 and 2007. The portfolio of operations under review included all PBL approved between 2008 and 2017. ADB approved 181 PBL operations over this period, amounting to $27.1 billion. Of these operations, 67 (37%) were evaluated by IED through its program completion report validation reports (PVRs) and program performance evaluation reports (PPERs). The portfolio of evaluation included operations that closed and were evaluated during the period. This expanded the sample of evaluated PBL operations and added to the reliability of findings.

The findings are supported by evidence from several other sources. Portfolio analysis, country field visits, literature review, and desk assessments were undertaken; as well as consultations with ADB staff, country government officials, and development partners, including the International Monetary Fund (IMF), World Bank, and Inter-American Development Bank (IDB). Consultations were undertaken in Indonesia, Kyrgyz Republic, Nepal, the Philippines, and Pakistan, as well as in ADB headquarters, while desk-based reviews were undertaken for Bangladesh and Viet Nam.

How Effectively Did Policy-Based Lending Support the Financing and Policy Reform Needs of ADB Countries?

The overarching question that the evaluation addresses is: how effectively has PBL supported the financing and policy reform needs of ADB's countries over 2008–2017? This was complemented by three subsidiary questions: (i) Is PBL well-aligned and responsive to country financing needs and the policy reform context?; (ii) Has PBL achieved its expected results?; and (iii) How well does ADB manage, monitor and measure the results of its PBL? The findings are summarized below.

Overall, the evaluation found that PBL was an effective response to country financing needs and provided ADB with an opportunity to influence policy reform in member countries. The use of PBL to respond to country financing needs helped shape the Asia and Pacific policy reform agenda. A combination of analytical work, dialogue, and PBL gave ADB the capacity to influence reforms. When this was combined with financing support from ADB's development partners, and other lending modalities, PBL can be a transformative instrument in promoting growth and poverty reduction.

PBL performed better during 2008–2017 than in prior periods. The success rate of completed and validated operations doubled compared to the rate over 2001–2007. PBL helped member countries through difficult times and was more effective in public sector management (PSM), which constituted the bulk of PBL over the evaluation period. PBL also successfully supported capital market development. There were far fewer PBL operations in energy, water, and transport and evidence of success was more limited, despite these being areas with large ADB investment operations. If ADB is to develop more integrated solutions to development issues in the main areas of its overall business, synergies between different operating modalities will be needed for ADB to achieve its overall corporate objectives.

Was Policy-Based Lending Responsive to Country Financing and Policy Reform Needs?

The evaluation found that PBL responded to country financing needs, particularly during crisis years. The global financial crisis was responsible for swelling the ranks of the poor globally in 2009. In response, a consensus on the need for fiscal stimulus emerged. Steep lending increases by ADB and other MDBs helped ensure the relevance and countercyclical nature of their crisis responses. The majority of these increases were in the form of PBL, given the need for a timely response and rapid disbursements. During this period, PBL constituted almost 45% of ADB lending, roughly double the present policy ceiling. This was possible because ADB introduced crisis response instruments that were ceiling exempt and allowed PBL from Asian Development Fund (ADF) resources to exceed the 3-year rolling average.

PBL grew substantially over the evaluation period in number of operations and value. PBL was concentrated on larger and more developed countries. Moreover, some of these more developed countries indicated that they would welcome more PBL from ADB. Therefore, a major question to be answered by ADB regarding future PBL use is how to best allocate limited PBL resources toward lower-income countries.

Country demand for PBL is growing, but the potential for ADB to meet country financing needs has fallen sharply. The average size of a PBL operation relative to a country's gross domestic product (GDP), has declined more than threefold since the late 1980s, reducing the potential effectiveness of PBL as a countercyclical device during a crisis, although some of the value of the PBL as a market confidence building device may have remained. A meaningful countercyclical response that provides a large financial package is therefore possible only in collaboration with other development partners.

ADB's ability to respond rapidly to disasters and to the post-conflict situations in several countries in 2008–2017 helped alleviate human suffering and reduced the impact of economic losses. This type of PBL continues to evolve. For example, the use of conventional PBL as contingent financing that builds country resilience before a disaster will improve future responses to similar events while building disaster management capacity.

Even during non-crisis periods, the size of PBL in middle-income countries in relation to GDP and as a share of budget financing has declined since the 1980s. As a result, the capacity of PBL to act as an incentive for policy change will likely fall further over time. This means that a greater emphasis on non-lending instruments—high-quality policy analysis, active policy dialogue, TA, and knowledge transfer—which generally accompany a PBL, will be needed for ADB to continue to influence important areas of policy development, together with collaboration with other development partners. There were good examples across the region where collaboration for budget support is now more formalized, for instance in the Pacific.

Has Policy-Based Lending Achieved Results?

The success rate of PBL operations approved and evaluated since 2008 improved sharply compared to those approved before 2008. Of the 49 PVRs for PBL operations approved and evaluated since the beginning of 2008, 80% were rated successful, almost twice that for the 70 PBL operations approved before 2008 but closed and evaluated in 2008–2017.

This positive performance can be attributed to several factors. Since the beginning of 2008, the long disbursement delays that had previously hampered the timeliness of budget financing were almost eliminated because of the increasing use of single-tranche operations, either stand-alone operations or as part of a programmatic series. ADB has concentrated its reform focus on PSM (particularly public finance management) and has reduced its support for financial sector reform and other sectors. In addition, the average number of policy actions attached to each loan has fallen. Moreover, PBL use in Pakistan, where results were especially problematic for a variety of reasons, fell significantly over the evaluation period. The improved performance was also enhanced by PBL operations that supported countries during the global financial crisis. These operations had a success rate of 93%.

The evaluation identified positive results in PSM. In line with lending from other MDBs over the evaluation period, ADB PBL increasingly concentrated on PSM reforms, which accounted for almost two-thirds of the value of PBL operations approved in 2008–2017 and which accounted for nearly half of all evaluated PBL. In countries that received two or more PBL operations in PSM (e.g., India, Indonesia, the Philippines, and Nepal) positive results were found. Decentralization was a common theme in all these countries and, while development outcomes such as equitable access to quality services will take many years to achieve, PBL has helped build foundations for further reforms.

There is evidence to suggest that PSM and public finance management in countries eligible for concessional financing is improving, although the relationship with improvements in service delivery outcomes, and growth and poverty reduction is not always clear. The evaluation found that scores for the country performance assessment (CPA) component— which measures the quality of governance and PSM—have improved in most countries eligible for concessional financing. The largest gains were in countries that started from a relatively low base and received five or more PBL operations over the period, e.g., Cambodia and Lao People's Democratic Republic. While reforms may be less effective once the quality of PSM has reached a certain level, countries with relatively well-developed systems that have received more PBL, e.g., Bhutan and Viet Nam, also achieved sizable positive changes. The evaluation found no relationship, however, between PBL use and the overall CPA score. because there are other factors at play which are exogenous to PBL.

Countries that received significant support for capital market reform, e.g., Bangladesh and Indonesia, also achieved positive results. ADB has been a major partner of the Government of Indonesia in the development of the financial sector since the late 1990s. ADB programs contributed to results mainly in government bond markets, the Islamic capital market (*sukuk*), and the insurance sector. Similar results were found for Bangladesh, where ADB has supported capital market development since the late 1980s, and where the government is actively engaged in the design of PBL. However, while the performance of financial sector PBL has improved, its relative importance in the PBL portfolio declined over the evaluation period.

Less progress was made in PBL operations that supported reforms in transport, energy, and water—areas of significant ADB project investments. PBL supported energy sector reforms in the state of Assam in India (2003), Pakistan (2000), the Philippines (2006), and Sri Lanka (2002), all of which closed and were evaluated since 2008. Common issues included energy sector financing and political interference in pricing and supply. For example, the India country assistance program evaluation (CAPE) in 2017 found that, despite success in supporting the national electricity transmission and distribution network through project investments, cost recovery remained a concern. Support for energy sector reforms in Pakistan resulted in incremental improvements in institutional architecture, roles, and capacity, but the twin reforms of unbundling and privatization were not completed. Substantial progress was made in the Philippines in the privatization of power generation and the introduction of wholesale competition, which reduced unsustainable subsidies to the sector. While these are sector-related issues, they are also connected with broader views on PSM, for instance on the appropriate role of the state in the financing, delivery, and management of essential public goods and services.

While there are several indications of PBL contributing to positive results in PSM and capital market reform, evidence that PBL-

supported policy actions were critical to these results is less conclusive. Further, while there are signs that ADB helped make a difference in PSM and capital market development, there is less evidence to establish what influence these reforms have had on improving delivery and use of public goods and services, citizens' growing confidence in governance, increased business confidence, and increased levels of investment and competitiveness. Development outcomes as proposed in the theory of change or in project documents are longer-term and may not yet be observable at program completion, implying that longer-term monitoring outside the PBL will be necessary to assess the outcomes intended by the PBL. Often, program completion reports (PCRs) indicate that outcomes have been achieved but it is not clear how critical PBL policy actions were in achieving these. These complexities aside, PBL results in ADB are constrained by design issues, such as lack of baselines and counterfactuals (i.e., what would have happened without the PBL?), as well as constraints on collecting country data and developing statistical systems.

How Well Has ADB Designed, Monitored, and Measured the Results of its Policy-Based Lending?

With the increasing demand for PBL by member countries, it is imperative that ADB improves its understanding of the results that have been achieved and the extent to which ADB contributed to these. This starts with a robust design that clearly demonstrates the role PBL and policy actions are playing. The evaluation therefore assessed several design factors of relevance to PBL use, implementation, and monitoring and evaluation to understand how well they have worked together to deliver results.

ADB needs to strengthen the design of PBL. PBL is intended to remove critical constraints on growth and poverty reduction and meaningful outcomes depend on good design, especially the identification of the right reforms and policy actions that are likely to prove critical to removing these constraints. Strong PBL design will not only help improve its impact, it will support the collection of evidence to document intended and unintended results, which will enable a better understanding of ADB's contribution. A clear results framework, which links policy actions with intended outcomes, is needed. Improvements in PBL design will help strengthen ADB's role as a partner in shaping policy in the region and in influencing reforms for inclusive growth.

ADB works closely with the IMF and other development partners. The evaluation found that ADB systematically consults with the IMF as required by the Operations Manual and relies on the IMF for macroeconomic assessments. However, there was one case during the period where the ADB assessment differed from the IMF assessment and ADB went ahead with the provision of a PBL. Another case showed ineffective communication between ADB and IMF. The macroeconomic justification for PBL was often not explicitly presented in PBL design documentation.

Key Issues in Policy-Based Lending Use

1. Strategic issues

PBL is primarily directed at countries with higher incomes per capita, stronger policies, and greater institutional capacity. This fits the view that development aid works better in countries with stronger policies and institutions, but PBL also ought to support reforms in countries with weaker institutions to lift overall development in the region. Of the four largest recipients of PBL, only Pakistan has a strong poverty-based need for development financing, yet PBL support for Pakistan has recently declined. By contrast, Indonesia, the Philippines, and Viet Nam can source financing from domestic and international capital markets. Demand for PBL is expanding but ADB supply is limited, so implicit rationing within the ceiling is inevitable.

Using conventional PBL to address longer-term structural reforms is not necessarily compatible with meeting urgent country financing needs during crisis years. The balance between PBL's twin objectives changes during crises when countries need short-term financing to help stabilize their economies and protect the vulnerable. However, the use of conventional PBL in response to crises promoted complex reforms and the lack of progress on these often delayed disbursement. With conventional PBL, there is not much clarity between which of the two objectives, financing or policy reform, takes precedence during crisis years. While this issue was addressed through the introduction of the countercyclical support facility (CSF) which provides short-term financing at appropriate cost and tenure, the facility was not available to all countries.

Policy reforms supported by ADB have increasingly concentrated on PSM, which is wide-ranging in scope and lacks a clear longer-term corporate strategic goal. Investment in PSM has grown and PBL has been a critical component of this. There is not much clarity on the overall direction in this area in the absence of a strategic guidance on PSM operations.

There has been limited use of PBL in ADB's traditional areas of investment and expertise. Combining PBL with project investments, either packaged or used in parallel to support development outcomes in ADB's traditional sectors of energy, water, and transport, has not been common. PBL has not been used strategically in these sectors to remove constraints on development outcomes that go beyond investment in physical infrastructure.

2. Design and Operational issues

Attributing results to PBL is difficult because many factors concurrent to PBL influence policy reform outcomes. Given the complexity of this modality, a strong design is imperative if ADB is to understand the added-value of its PBL. While evaluation of PBL is difficult, it was essential to at least understand ADB's contribution which starts with strong PBL design, including the quality of the policy analytical work, the extent to which policy actions are critical, and the quality of the TA provided. The value provided these inputs is likely to influence decision-making by the government, in addition to the budget support provided.

The size of a PBL operation is related to a country's financing needs, not to the depth of policy reform required, hence larger operations do not necessarily leverage more reform and therefore not necessarily require more policy actions. While ADB has tried to reduce the number of policy actions in PBL operations and to improve their quality, a further reduction would help demonstrate how policy actions develop and deepen over time, allow progress to be better monitored and assessed, and make it easier to evaluate PBL.

Decision-making regarding the provision of a PBL that diverges from the IMF's macroeconomic assessment may entail risks that require an independent assessment to be made independent of the regional department. A credible macroeconomic assessment must underpin PBL design. In general, ADB follows the G20 principles, which state that the IMF should take the lead in providing such an assessment. If ADB provides PBL against IMF advice, it faces the risk of setting a precedent. Prudence suggests that corporate risk assessment should be separate from risk-taking.

PBL operations evaluated contained many process-oriented policy actions, the outcomes of which are not always clear. PBL design did not indicate how policy actions were critical or related to the desired outcome. There was little information that clearly specified the source of policy actions, why they were selected, or why they were important to the achievement of the development outcome, growth, or poverty reduction. In other words, the theory of change in PBL design was often weak.

The practice of separating the policy matrix from the design and monitoring framework (DMF) makes the results less clear. When the outcomes specified in the DMF are achieved, PBL may appear to be successful, even where the policy actions supported may not have been critical to the outcome—and the government may have done them anyway. The application of new guidelines for DMF use in PBL design issued in 2016 may alleviate this problem.

The critical role of policy actions to the achievement of development outcomes was not sufficiently assessed at program completion. Timely and rigorous evaluation of completed programs plays a crucial role in informing future PBL but there were shortcomings in the self-evaluation of PBL performance. If the PBL design laid out in the Operations Manual is followed more closely, this may ensure that reports at program completion thoroughly review the relevance of the design, and rigorously assess the significance of the policy actions supported to the overall development outcome.

PBL requires independent additional scrutiny beyond the regional department. Unlike investment projects, PBL does not have several points at which design and implementation can be reviewed to ensure resources are well-invested and results achieved. PBL disburses in one-hit and hence the quality of design is important. Moreover, because in most cases the modality disburses against actions already undertaken by government, there is a potential conflict of interest in providing rapidly disbursing budget support for policy reforms and assuring quality monitoring of results by the same department. Further there is limited incentive for the department to monitor longer-term results after the loan is fully disbursed. Therefore, independent reporting on the quality of design, the trends in the instrument's use and the outcomes achieved is not systematically reviewed. For the multitranche financing facility, there is an annual report.

PBL design is different to investment project operations and requires a set of specialized skills, including policy dialogue. There is no specific, detailed, and in-depth training on PBL for staff leading and designing this modality. Training on PBL design standards is not mandatory.

Conclusions and Recommendations

Overall, the evaluation found that PBL responded to country financing needs while at the same time providing an opening for ADB to work with countries to influence policy reforms for growth and poverty reduction. PBL helped countries through crisis years and evidence suggests that it contributed to reforms in PSM and capital market development. However, the long-term impact of these reforms on growth and poverty reduction cannot be determined as it is difficult to attribute the contribution of PBL to development outcomes with any certainty. The range of reforms supported by PBL narrowed over the evaluation period, with almost two-thirds of reforms focused on PSM. While there were examples of good PBL use and design over the evaluation period, there is a need to strengthen ADB's use of PBL to enhance ADB's influence on policy reforms in the Asia and Pacific region.

IED has the following strategic and operational recommendations for ADB to improve the performance and results of its PBL modality.

A. Strategic Recommendations

1. **Make greater use of PBL in sectors where investment loans are also undertaken and ADB has experience, to ensure that policy constraints on the achievement of the overall development outcome, such as increased access to services, are supported by relevant policy reforms.** ADB makes significant investments in transport, energy, and water to improve service delivery and inclusive growth and it could make greater use of PBL to help unlock difficult policy settings in these sectors. PBL can also be valuable when the development objective requires more than investments in physical infrastructure. Such an approach would make ADB's investment lending more efficient and sustainable. The appropriate point at which to identify the sectors to support is the country partnership strategy, and the sector analytical work should identify the reforms to be supported.

2. **Develop an operational plan on the appropriate scope, objectives, and articulation of PSM interventions—which are currently very wide.** PSM in PBL has grown significantly and is now the largest area of ADB's policy focus. However, there is no coherent plan that clarifies ADB's approach on the subject, provides additional focus given ADB's constraints on capacity, and provides clear and consistent staff guidance. As with other areas, the plan should incorporate a theory of change for PSM interventions and provide guidance on appropriate outputs and development outcomes. An operational plan would help to better define the role of PSM in relation to ADB's investment projects and how different modalities can be better used to develop integrated solutions to development issues in the region. It would also lead to better guidance

on organizational and staffing requirements in this area.

3. **Ensure that (i) concessional assistance-only countries (Group A) also have access to a countercyclical facility during crisis periods; and (ii) the use of contingent disaster financing is formalized.** The ceiling on PBL financing from concessional resources is an explicit constraint that limits the financial support ADB can provide to vulnerable countries during crisis periods. A crisis response window, exempt from the ceiling, offering loans at a suitable cost and tenure, would ensure that ADB can respond efficiently during crisis periods. The use of contingent disaster financing can also be exempted from the ceiling. The use of this instrument has so far been limited to Pacific countries, but it is relevant to other vulnerable countries as well.

4. **Ensure that, in cases where the regional department's view on the macroeconomic situation of a country diverges from that of the IMF, the risks are assessed independently of this regional department.** In general, ADB and other MDBs and development partners rely on the IMF for its macroeconomic assessment of a country, but the G20 principles specify that each institution should remain responsible for its own lending decisions, which it should reach independently. The risks implied by ADB acting against the IMF assessment, including the reputational and precedent risks, must be fully assessed and borne by ADB. To ensure the objectivity of macroeconomic assessments, Management must ensure that risk assessment is made independently of the risk takers or departments promoting the operations.

B. Operational Level

5. **Strengthen PBL design by: (i) limiting the use of process-oriented actions and articulating policy actions as substantive outputs; (ii) tailoring the DMF so that policy actions, outputs, and outcomes are more clearly linked, and (iii) clearly referencing the analytical work that underpins PBL design.** In line with its guidelines, ADB should include only those policy actions that are critical for removing particular policy constraints. It should also avoid excessive use of process-oriented actions unless the outcome to which they contribute is specified. This would improve transparency and allow for much clearer monitoring and evaluation. Clearly linking policy actions in the policy matrix with outcomes in the DMF in a revised results framework template would encourage causal links to emerge more clearly, making it easier to evaluate PBL and allowing an assessment to be made of ADB's value added to country level outcomes. ADB should reference the analytical work that underpins PBL design even where this is produced by other development partners.

6. **Strengthen the assessment of PBL design at program completion, including the justification for the PBL, the relevance of the policy reforms supported, the quality of the TA, and the extent to which policy actions were critical to the results.** The assessment should go beyond determining the government's compliance with the policy actions. It is important that PCRs critique the quality of the policy actions and pass judgment on how the loan design contributed to the achievement of results. This would require a more detailed analysis of TA work and policy dialogue than is often seen in PCRs. PBL outcomes should be included in the CPS results framework and achievements in the medium-term assessed in the CPS final reviews.

7. **Strengthen the overall quality assurance mechanism for PBL in ADB.** This should be done through: (i) ensuring quality assurance for PBL separate to that done by the regional departments; (ii) introducing specific PBL training which addresses the design issues raised in this report; and (iii) undertaking a systematic review of PBL every 3 years. A separate unit in ADB could lead the development and future direction of PBL and provide a stronger program of PBL training. This unit would be responsible for overall quality control of PBL over the longer term. It would not oversee the detail of each PBL operation, but would provide guidance, direction, and overall reporting on performance through a rigorous systematic review every 3 years.

Findings, Issues, and References	Recommendations
Strategic Level	
(i) Given the scale of ADB investment in the energy, water, and transport sectors, there is a surprising lack of reforms supported by PBL in these sectors, even though infrastructure gaps were identified as key constraints on growth and poverty reduction in ADB's long-term strategic framework, Strategy 2020. These are also areas where ADB has significant expertise and capacity to influence reform agendas. While ADB tends to address specific sectoral reforms through other lending and non-lending instruments, this may not be sufficient to systematically remove binding constraints to growth. (para. 55) (ii) Few PBL operations were provided for the energy, transport, and water and sanitation sectors, where ADB makes significant project investments. Given the scale of ADB's investment in infrastructure, PBL could be used more strategically to help address longer-term sector constraints, many of which concern PSM issues. (para. 104) (iii) There was far less PBL in the energy, water, and transport sectors, and more limited evidence of success, despite ADB's large investment operations in these areas. (para. 173) (iv) There has been limited use of PBL in ADB's traditional areas of investment and expertise. Although there is a specific instrument for combining PBL with project investments, the sector development program, there has been limited use of PBL (either packaged or used in parallel) with investment projects to support development outcomes in ADB's traditional sectors of energy, water and transport. PBL could be used more strategically in these sectors to remove constraints on development outcomes that go beyond investment in physical infrastructure. (para. 182)	**Recommendation 1:** **Make greater use of PBL in sectors where investment loans are also undertaken and ADB has experience, to ensure that policy constraints on the achievement of the overall development outcome, such as increased access to services, are supported by relevant policy reforms.**
(i) A wide range of PBL operations that supported reforms are categorized by ADB under PSM. These include decentralization and the strengthening of service delivery at subnational levels (especially in India and Pakistan), reform of public financial management, state-owned enterprise reform, access to justice, civil service reform, investment climate reforms, and poverty reduction programs. Because PSM reform includes a range of different reform types, it accounted for nearly two-thirds of all PBL approved over the evaluation period, peaking in 2008 (78%) and 2009 (87%). PSM continues to be the focus of nearly all PBL design. PBL support for reforms in ADB's key areas of investment (transport, energy, and water) has been less common, and the use of sector development programs, which combine PBL with sector investments, has declined. (para. 50)	**Recommendation 2:** **Develop an operational plan on the appropriate scope, objectives, and articulation of PSM interventions—which are currently very wide.**

Findings, Issues, and References	Recommendations
(ii) Since 2006, scores for the CPA component, which assesses the quality of governance and PSM, have improved in most countries. The largest gains were in those countries that started from a relatively low base and received more than five PBL operations over the period […]. It should be noted that the evaluation found no relationship between PBL and the overall CPA score because the CPA measures growth and poverty reduction outcomes that are wider than those brought about by PBL. (para. 92) (iii) The outcomes of PBL operations in PSM, though they improved public financial management and sometimes decentralization of government functions, had unclear significance to goals such as government service delivery, economic growth and poverty reduction. Perhaps this is related to the weak theory of change for PBLs in PSM – ADB has not spelled out the relationship between the interventions and their impacts on the economy and society, and a registration of such impacts also does not often appear in PCRs either. (para. 115)	
(i) The share of the Pacific in total PBL approvals over the period was 0.7% by value, 2.5% of ADF and 0.2% of OCR. The use of PBL in the Pacific region appears to be linked to crisis years; the Asian financial crisis (1997), the stock market crisis in the US triggered by the bursting of the dot-com bubble (2001), and the global financial crisis (2007). Recently, ADB has used PBL to provide contingent financing operations in Cook Islands, Samoa, Tonga, and Tuvalu (Box 3). Given that this PBL disburses only in the event of a natural disaster, and that it is small in relation to overall PBL operations, removing these operations from the PBL ceiling would have little impact on ADB's capital adequacy. It would also recognize the region's fragility. (para. 41) (ii) Regular PBL operations, designed to respond to crises, supported small-island states, which are among the world's most vulnerable countries. Of the 14 regular operations that responded to crises, seven were in Pacific island countries and one was for the Maldives. Three of the 14 were follow-on loans because an initial operation did not fully restore stability. In Tuvalu, the first crisis response PBL in 2008 did not restore fiscal balance and was therefore followed by further support. The PBL in Solomon Islands in 2013, also followed on previous crisis support. Both were single-tranche PBL operations that were not linked to a policy reform series. Nearly all the PBL in the small island states were in response to the global financial crisis of 2008–2009, although in Samoa and Solomon Islands the PBL responded to a combination of the global financial crisis and natural disasters. In Marshall Islands and Nauru, PBL responded to specific crises that had severely impacted domestic revenues and the	**Recommendation 3:** **Ensure that (i) concessional assistance-only countries (Group A) also have access to a countercyclical facility during crisis periods; and (ii) the use of contingent disaster financing is formalized.**

Findings, Issues, and References	Recommendations
government's ability to provide public services. The overall objective of these PBL operations was to help support countries through crisis periods, protect fiscal space, maintain essential expenditures, and improve fiscal management to build resilience to future crises. (para. 74) (iii) PBL helped member countries through difficult times. ADB is seen as a supportive partner by the region and PBL provided valuable and much needed support that helped build confidence in member country economies facing large economic shocks from disruptions in the international financial system, especially during the global financial crisis in 2008–2009. ADB's ability during these periods to respond rapidly with PBL helped restore stability in countries, particularly in the Pacific, confronted by forces outside their direct control. This type of PBL continues to evolve and precautionary PBL, designed to build disaster resilience before a shock, will improve responses to similar events by strengthening disaster management capacity. (para. 172) (iv) Recently, innovative PBL instruments have been used in the Pacific to build disaster resilience using conventional PBL as a contingent financing instrument that disburses funding when triggered by a natural disaster. Such PBL helps countries strengthen their financial preparedness for disasters, which are frequent in Asia and the Pacific. (Box 3)	
(i) Consultation with the IMF, World Bank, and other major funding agencies is critical to PBL design. The IMF is the lead institution for assessing a country's macroeconomic conditions. The G20 principles that were produced in 2017 did not present an issue for ADB as the guidance on PBL provided in the ADB Operations Manual clearly defines the procedures for effective coordination between ADB and the IMF. In practice, ADB closely follows the G20 principles. (para. 127) (ii) For the PBL process to work effectively, ADB needs to conduct frequent and open discussions with the IMF. The G20 principles specify that each institution is responsible for the macroeconomic analysis underpinning its own lending decisions. This implies that ADB itself should maintain a robust capacity to evaluate the views of the IMF on the macroeconomic conditions of the country as part of PBL design. While, in general, ADB relies on the IMF assessment, as do other MDBs, the IMF does not provide definitive guidance in its assessment letter as the decision to proceed with PBL lies with ADB: "each institution should remain responsible for its lending decision and be independent in reaching them". Therefore, the risk implied by the IMF assessment, including the reputational and precedent setting risks of acting contrary to the IMF views, must be fully assessed and borne by ADB. (para. 128)	**Recommendation 4:** **Ensure that, in cases where the regional department's view on the macroeconomic situation of a country diverges from that of the IMF, the risks are assessed independently of this regional department.**

Findings, Issues, and References	Recommendations
Operational Level	
(i) It was difficult to discern the links between the analysis that generally underpinned PBL and the policy actions contained in RRPs. This is not to say that prior actions have no analytical underpinning but rather that the design of most PBL reviewed as part of this evaluation did not indicate how policy actions were related to the desired outcome. There was little clear specification of the source of policy actions, why they were selected, or why they would be important to the achievement of the development objective, growth, or poverty reduction. In other words, the theory of change was often weak. (para. 148) (ii) DMFs need to allow the changes that have occurred as a result of ADB-supported policy actions to be measured. However, this is often not clear. A sound results framework is important in PBL design, and it should be able to assess the scope of change that has occurred because of the policy action. If there are many policy actions and these are presented separately from the results in the DMF, this makes the link between policy actions, outputs, outcomes and indicators opaque, and evaluation difficult. (para. 151) (iii) Comprehensive sector or intersectoral analysis is a prerequisite for PBL. This will provide an assurance that the policy content of a PBL will address the most relevant distortions and constraints that limit economic growth and poverty reduction. The evaluation found that, while the majority of PBL appeared to be informed by analytical work, it was difficult to find clear references to the work that had been undertaken. Generally, the key conclusions of such analysis were not described in the RRP. (para. 122)	**Recommendation 5:** **Strengthen PBL design by: (i) limiting the use of process-oriented actions and articulating policy actions as substantive outputs; (ii) tailoring the DMF so that policy actions, outputs, and outcomes are more clearly linked, and (iii) clearly referencing the analytical work that underpins PBL design.**
(i) The quality of the analysis in PCRs was variable. Few PCRs assessed in detail the relevance of the design, the quality of the analysis underpinning the PBL, why a particular PBL variant was selected (multitranche or programmatic), the choice and significance of policy actions to the overall outcome, or the extent to which PBL processes conformed to the guidance in the ADB Operations Manual. The overall effectiveness of policy actions in achieving development outcomes was usually not assessed and the analysis of the DMF quality (i.e., whether indicators have adequately captured the outcomes of policy actions) was not reviewed, although there were exceptions to this. In addition, interviews in Bangladesh and the Philippines indicated that evaluations were not shared or discussed with country counterparts in the line ministries, meaning that the opportunity to attract potentially valuable inputs to inform assessments was lost. Shortcomings in the quality of PCR analysis are reflected in the PVRs. At program completion, an assessment of the extent to which the achievement of outcomes can be attributed to	**Recommendation 6:** **Strengthen the assessment of PBL design at program completion, including the justification for the PBL, the relevance of the policy reforms supported, the quality of the TA, and the extent to which policy actions were critical to the results.**

Findings, Issues, and References		Recommendations
	policy actions was not made. A more comprehensive account of the policy changes triggered by policy actions would improve the quality of reporting on results, and PBL evaluability. (para. 162)	
(i)	PBL requires independent additional scrutiny beyond the regional department. Unlike investment projects, PBL does not have several points at which design and implementation can be reviewed to ensure resources are well invested and results achieved. PBL disburses in one-hit and hence the quality of design is important. Moreover, because in most cases the modality disburses against actions already undertaken by government, there is a potential conflict of interest in providing rapidly disbursing budget support for policy reforms and assuring quality monitoring of results by the same department. Further there is limited incentive for the department to monitor longer-term results after the loan is fully disbursed. Therefore, independent reporting on the quality of design, the trends in the instrument's use and the outcomes achieved is not systematically reviewed. For the multitranche financing facility, there is an annual report. ADB offers no specific training for staff leading and designing PBL. (para. 189)	**Recommendation 7:** **Strengthen the overall quality assurance mechanism for PBL in ADB.**

Management Response

On 2 July 2018, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of the Management:

1. Management thanks the Independent Evaluation Department for this important and timely evaluation. Policy-Based Lending (PBL) is a key financing modality for ADB. Experience shows that PBLs are instrumental to strengthen macrofiscal management frameworks, improve public finance and resource management, and support sector-wide reforms, in many cases enhancing the sustainability of ADB's infrastructure financing interventions. PBL is also used to help member countries during times of crisis.

2. ADB is keen to ensure that this financing modality is used effectively. Indeed, ADB has benefited from earlier independent evaluations of PBLs (e.g., 2001, 2007, and 2011), and their findings have informed the strengthening of ADB PBL guidelines and practices. It is in the same great interest to learn that this evaluation study has absorbed the attention of departments across ADB and all throughout the process.

I. General Comments

3. **Evaluation Approach**. Departments have collaborated closely with IED from the very beginning of the evaluation design stage. We had intensive discussions on the approach and methodology for this study. Management had suggested clearer distinctions and more nuanced analysis among different types of PBLs (especially between conventional PBL and crisis support since they serve very different purposes). IED has taken on board some of our suggestions for greater information clarity and for recognizing important nuances in the evaluation.

4. **Methodology for Assessing Results.** We appreciate IED's efforts to assess outcomes and results. As the study rightly points out, evaluating PBL results is inherently very difficult and practices vary across multilateral development banks (MDBs). Neither the World Bank nor the Inter-American Development Bank independent evaluation departments have attempted to assess PBL results. Instead, they produced learning products on factors that influence design, policy implementation, and performance. We have reservations about using an external methodology (Theory of Change [ToC]), as a one-size-fits-all measure of PBL performance. Each PBL is unique with specific intended results captured in its Design and Monitoring Framework (DMF). To assume and treat all PBLs to have the same chain of inputs, outputs and outcomes as stipulated in Figure 1 on page 10 of the report—without reference to their DMFs—is in our view, inappropriate. For instance, the outcomes listed in Figure 1 do not conform with ADB's DMF guidelines on PBL, as "improved competitiveness of the economy" is too high level a result to be considered as an outcome in the DMF.[1] Furthermore, we found it difficult to reconcile the ToC framework with the different PBL instruments, particularly those intended for crisis response. Para. 25 on page 9 also notes that ToC was not intended to be applied to crisis support.

[1] As an example, the Kyrgyz Second Investment Climate Improvement Program (2015–2017) included well defined outcomes with quantifiable target indicators (improved investment and business climate, measured by increase in domestic credit to the private sector and public-private partnership [PPP] deals signed). Similarly, the DMF guidelines necessitate very clearly defined outputs (financial deepening and access to finance, comprehensive PPP program, and trade and investment facilitation) underpinned by substantive and measurable policy actions.

5. **PBL Results and Performance.** Overall, the study findings are mostly positive. PBL helped countries through difficult times, contributed to achieving results in public sector management, and supported the development of capital markets. Results in other sectors (transport, energy, and water) were mixed, though the evidence is predominantly based on older projects designed well before the evaluation period (early 2000s). Significant improvements in performance have been made as reflected in the high success rates (80% or almost twice that of PBLs approved before 2008). Crisis support PBLs had a success rate of 93%.

6. **Focus on PBL Design.** We note IED's heavy emphasis on assessing the design of PBLs and how ADB performed in this respect. This is not a trivial exercise, however. Well-structured assessment and judiciously designed country work are needed to ascertain what went into the processes of PBL design and implementation. Indeed, the identification of PBL potentials and the negotiations, coordination, joint analytical work with the Government, International Monetary Fund (IMF), and other development partners are not easily captured in the Reports and Recommendations of the President or Project Completion Reports. These documents often focus more on the deliberation results or policy actions, and not fully on the contexts and processes. For this concern, during the interdepartmental review of the draft report, IED was encouraged to consult closely with regional department teams to get a fuller appreciation of the work that was undertaken. We thank IED for responding constructively to the suggestion. Such interactions have helped correct factual errors and clarified areas of potential misunderstandings, although a few concerns remain. In particular, the discussion on Georgia, Pakistan, and Tajikistan in our view still remains partial, overly negative, and in part factually incorrect.

II. PBL Issues Identified by IED

7. From this evaluation, IED has identified twelve (12) key issues with PBL use in ADB. Management would like to comment and clarify its position on some of these issues.

(i) **PBL concentrated in countries with higher income per capita, stronger policies and greater institutional capacity and need for rationing.** In our view, this is an incomplete assessment. It is important to recognize the middle income transition challenges that even these more developed developing member countries (DMCs) face, and that PBLs are instrumental to support middle-income countries with necessary policy and institutional reforms while providing essential development financing. The study argues that rationing is needed and suggests allocating more PBL to smaller and weaker countries. Simply because the use of PBLs has been concentrated in certain countries does not necessarily mean that it is rationed in others. At the corporate level, rationing has not been an issue for PBL, especially as compared to Results-Based Lending (RBL). ADB has rarely breached the PBL ceiling.

(ii) **Use of conventional PBL not necessarily compatible with crisis support.** There are two distinct uses of PBL with very different objectives (conventional PBL to support long-term structural reforms and crisis support, usually over a shorter horizon). For crisis support, ADB has introduced a specific instrument—the Countercyclical Support Facility (CSF)—which is exempt from the PBL ceiling. However, concessional assistance-only countries do not have access to CSF, and ADB does not have a crisis support window for those countries. They, therefore, have to use conventional PBL for crisis support (and that is counted against the ceiling). We agree with IED that such a situation is not optimal.

(iii) **Need to further reduce the number of policy actions to support effective monitoring and evaluation.** While we agree in principle, the report gives the impression that the number of policy actions is more important than their substantive nature. In our view, it makes little sense to compare PBLs by the number of policy actions, as ADB missions need to adjust their approach to fit the particular circumstances of the policy dialogue. Caution should be exercised in giving the impression that less is always optimal. Given varied country conditions and capacities, flexibility should be maintained for ADB to be responsive in cases that would warrant more policy actions.

(iv) **Need for independent macroeconomic assessment to manage risks, when ADB views differ from IMF.** At the outset, Management notes that no PBL has been brought to the Board, unless there was IMF support for the program. There could be slight differences of views between ADB and the IMF regarding macroeconomic assessment, such as prospects for growth and fiscal deficit. The report itself mentions only two such cases out of 181 PBLs approved over 2008–2017. And in one of those cases, ADB's assessment of fiscal deficit turned out to be more accurate than that of the IMF. By highlighting this as a key strategic issue, the report gives the impression that this is a serious problem in ADB, which is misleading. In practice, ADB regularly conducts country macroeconomic assessments, and in doing so, ADB always consults with the IMF. At times, such assessments are even undertaken jointly with the IMF and other development partners, especially during crisis situations. ADB also coordinates closely regarding program content with the IMF and other development partners at different levels, starting from the program team, country office, to headquarters.

(v) **Process-oriented policy actions.** The report criticizes the use of process-oriented actions and argues that these actions could be undertaken without ADB's support. We agree that the policy matrix should address critical bottlenecks, and should try to minimize the use of process-oriented policy actions. At the same time, we should avoid generalizations that all process reforms are of low value. In multitranche or programmatic approach PBLs, reforms are sequenced over 6-8 years. Thus, what initially may appear to an outsider as a "process-oriented" reform is usually intended to progress over time to a high-impact reform. Process-oriented actions are often needed to kick start a politically sensitive reform in a phased and properly sequenced manner.

III. Recommendations

8. Management agrees with most recommendations, except for recommendation no. 2.

9. **Recommendation 1: Make greater use of PBLs in sectors where investment loans are also undertaken and ADB has experience to ensure that policy constraints on the achievement of overall development outcome are supported by relevant policy reforms.**

Management agrees to the principle underlying this recommendation, that is to ensure a greater synergy of policy and project operations. In practice, however, we cannot unilaterally force a combined approach. There might be room to expand the use of PBLs in sectors where investment operations are undertaken. Such assessment should be done at the stage of country partnership strategy and country programming exercises. Indeed, the choice of modality is context specific, drawing on country and sector analytical work and in close consultation with the relevant authorities. Management wishes to point out that even without explicitly using a combined approach, as part of a sector development program, ADB undertakes policy dialogue with central and sector agencies and supports relevant sector policy and institutional reforms. This is done either as a component of investment operations, or carried out as an accompanying technical assistance project. Finally, as this evaluation highlights, PBLs in traditional sectors like transport, energy, and water have had mixed results. Therefore, we must have clear lessons distilled from this experience to avoid repeating mistakes from the past (i.e., what should we do differently to ensure that PBL performance improves in those sectors).

10. Recommendation 2: **Develop an operational plan on the appropriate scope, objectives and articulations of public sector management (PSM) interventions**.

Management disagrees. We do not see a sufficient justification in the report for a proposal as such. The concept of a PSM operational plan (OP) was explored a few years back by the governance thematic group and was not finalized because PSM is a large and complex policy field, cutting across sectors. Country heterogeneities make it very difficult to come up with a viable PSM OP. As a result, an overarching OP could be very generic, not useful for PBLs, and possibly counterproductive. Developing policy notes or learning products on selected PSM fields (such as PSM reforms in developing member countries or good practices in promoting decentralization) may be more practical and useful. As part of Strategy 2030 implementation, ADB will prepare a broad-based thematic OP to give general guidance to ADB's work in governance and capacity development. Though not specifically serving the purpose of guiding PBL design, PSM considerations will likely feature prominently in this work.

11. Recommendation 3: **Ensure that (i) concessional assistance-only countries (Group A) also have access to a countercyclical facility during crisis period; and (ii) the use of contingent disaster financing is formalized.**

Management agrees. Building DMCs resilience to various external shocks (including economic crises and disasters) is a key objective under ADB new corporate strategy to 2030, which is reflected in ADB expanded vision to achieve a "prosperous, inclusive, resilient, and sustainable Asia and the Pacific". Under Strategy 2030, ADB commits to strengthen DMCs' financial preparedness for disaster response through such instruments as policy-based contingent financing and disaster insurance. We are currently reviewing our Disaster Assistance and Emergency Assistance Policy (2004) and our toolkit of instruments to support disaster response and prevention, so this recommendation is timely. Management also supports the suggestion to establish a crisis window for concessional assistance only countries. This will, however, need to be discussed with ADF donors during the upcoming midterm review of ADF 12 or the next replenishment cycle (ADF 13). See also para. 7.ii above.

12. Recommendation 4: **Ensure that, in cases where regional departments' views on the macroeconomic situation of a country diverges from that of the IMF, the risks are assessed independently of this regional department.**

Management agrees to the importance of conducting rigorous country macroeconomic assessments and effectively coordinating with the IMF and other partners. This practice is already in place in ADB and is being further strengthened. Management wants to reiterate that no PBL has been brought to the Board unless there was IMF support for the program. Close coordination with the IMF during PBL preparation is a requirement under ADB's policy. In addition, with the new G20 principles in place, ADB and the IMF have further strengthened collaboration at corporate level, in addition to country level. In cases when there might be divergence of views between the IMF and ADB country teams, communication channels are established between the respective Strategy, Policy, and Review Departments to address and try to resolve such concerns. Management also believes that ADB has a robust institutional capacity to conduct objective macroeconomic assessment of DMCs. Each PBL proposal goes through an interdepartmental review process, which includes the Economics and Research and Regional Cooperation Department. Overall, the existing internal mechanism is sufficient to ensure that any risks arising from a divergent view with the IMF are adequately and independently assessed.

13. **Recommendation 5: Strengthen PBL design by (i) limiting the use of process-oriented actions and articulating policy actions as substantive outputs; (ii) tailoring the DMF so that policy actions, outputs and outcomes are more clearly linked; and (ii) clearly referencing the analytical work that underpins PBL design.**

Management agrees. We are keen to further strengthen PBL design with the following comments.

(i) As noted in para. 7.v, we agree that the policy matrix should address critical bottlenecks, and we should try to minimize the use of process-oriented policy actions. At the same time, we should avoid generalizations that all process reforms are not critical or of low value. They often play an important role to ensure accomplishment of politically sensitive policy actions and their ultimate effectiveness.

(ii) The DMF guidelines will be revised this year. In this context, we will review how to better integrate the policy matrix with the DMF.

(iii) We agree that PBL should be based on solid analytical work and that this work must be adequately documented in the RRP.

14. **Recommendation 6: Strengthen the assessment of PBL design at program completion, including the justification for the PBL, the relevance of the policy reforms supported, the quality of the technical assistance, and the extent to which the policy actions were critical to the results.**

Management agrees. Integral to self-evaluation, we are keen to strengthen PCRs and to improve the feedback loop between PBL design, implementation and evaluation. As IED is currently responsible for both PCR guidelines and PCR training, we need to work with IED to implement this recommendation. As the report points out, there are different methodologies used across MDBs for evaluating PBLs at completion. As a first step, it might be useful to review our methodology to ensure that it follows best practice, including how to assess criticality of policy actions and contributions to achieving outcomes and results. At the same time, we should ensure effective implementation through adequate training and support.

15. **Recommendation 7: Strengthen the overall quality assurance mechanism for PBL in ADB.**

Management agrees. A number of measures are already under implementation.

(i) We are strengthening measures for corporate wide quality assurance. Quality assurance is ultimately the responsibility of regional departments. Each department has established respective internal quality assurance processes. This is further reinforced by an interdepartmental review process where key central departments provide functional inputs and feedback. Since 2017, SPD has been taking a more proactive role in quality assurance. A "Cross-Departmental PBL Review Team" has recently been established to provide a more focused review of selected PBLs, and to support cross-departmental learning and sharing of PBL experiences.

(ii) A coordinated ADB-wide effort is in progress to support different aspects of PBL training. Knowledge and experience on appropriate choice of modality is basic to PBL preparation. SPD is undertaking increased outreach, training, and support on ADB's lending modalities (including PBLs). A new financing modality training was introduced in 2017, with specific sessions on PBL. More advanced PBL training and knowledge sharing sessions are under development and will be implemented. Sustainable Development and Climate Change Department sector and thematic teams are organizing specific sessions relevant to PBL operations. ERCD is updating analytical guidelines for strengthening analytical underpinnings for PBL operations.

(iii) The suggestion to undertake a systematic review of PBL every three years mirrors what is being done at the World Bank. As the study points out, different institutions have different policies and practices for evaluating PBL, so this issue should be looked out more holistically. It is not clear why such review would focus only on PBL and exclude other financing modalities. We also need to ensure that ADB’s resources are spent in the most efficient way, and that we do not duplicate ongoing efforts. Perhaps such review work could be integrated in IED’s Annual Evaluation Review, Country Assistance Program Evaluations, or ADB’s Annual Portfolio Performance Review. We suggest that this recommendation be revisited during preparation of ADB’s new corporate evaluation policy (which will cover both independent and self-evaluation).

Chair's Summary: Development Effectiveness Committee

The Development Effectiveness Committee considered the Independent Evaluation Department report. Corporate Evaluation Study – Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design (IN. 133-18) on 2 July 2018. The following is the Chair's summary of the Committee discussion:

I. Corporate Evaluation Study of ADB's Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design

1. The Development Effectiveness Committee (DEC) discussed the Independent Evaluation Department's (IED) Corporate Evaluation on ADB's policy-based loans (PBLs) covering the period 2008 to 2017. This study is relevant to ADB's ongoing exercise to finalize its Strategy 2030, as well as to members who use PBLs.

2. **IED Findings and Recommendations**. This review is the first PBL evaluation conducted by a multilateral development bank that attempts to assess the results. Previously, only bilateral aid institutions evaluated PBLs. The review found that PBL is an important modality; it provides fast-disbursing financial support for members to undertake policy reforms. It also allows ADB to help shape the policy reform agenda in Asia and the Pacific. From 2008-2017, PBL demand (181 PBLs) and volume ($27.1 billion) grew, and performance improved significantly due to the greater use of single-tranche PBLs, a decrease in the number of policy actions, and change in country distribution of PBLs, among others. PBLs delivered positive results in Public Sector Management (PSM) and capital market development.

3. The review identified strategic and operational challenges in PBL design. At the strategic level, PBL concentrated in developing member countries (DMCs) with higher incomes per capita and greater institutional capacity. Moreover, PBLs increasingly concentrated on PSM, with less PBL use to support policy reform in ADB's traditional areas of investment and expertise, e.g. transport, water, energy, etc. PBL use increased during crisis years, which changed the balance between crisis support and policy reform.

4. The evaluation also found design challenges, such as (i) difficulty in attributing results to PBL; (ii) PBL size is related to the DMC's financing needs and not to the depth of policy reform; (iii) PBL contained a large number of process-oriented policy actions, making the role of policy actions unclear to achieve development results; (iv) the link between policy matrices and design and monitoring frameworks (DMF) to clarify results was weak; (v) insufficient assessment of policy actions' role in achieving outcomes in Program Completion Reports; and (vi) insufficient independent review of PBLs beyond the regional departments.

5. The review recommended (i) greater use of PBL in sectors with ADB investment loans; (ii) development of an operational plan (OP) on the appropriate scope, objectives, and articulation of PSM interventions; (iii) access to countercyclical support facility (CSF) for concessional assistance-only countries; (iv) formalizing the use of contingent disaster financing; (v) independent risk assessment in

case of divergence from IMF's view; (vi) strengthen PBL design by limiting the use of process-oriented actions, tailoring DMFs to clearly link policy actions with outputs and outcomes, and clearly reference analytical underpinnings of policy actions; and (vii) strengthen assessment of PBL design at completion by improving quality assurance mechanisms.

6. **Management response.** Management reaffirmed its commitment to continuous improvement of PBL. It raised reservations about the evaluation methodology, including the use of the theory of change as a one-size-fits-all measure of PBL performance. Management and staff collaborated closely with IED at the start of the evaluation and through to the report's finalization that helped fill information gaps and correct factual errors, however few concerns remain. The discussion on Georgia, Pakistan, and Tajikistan remains partial, negative, and in part factually incorrect.

7. Despite PBL concentration in more developed DMCs, there is no evidence suggesting the need for PBL rationing for smaller and weaker DMCs since the PBL ceiling is rarely breached. Assessing the quality of PBLs based on the number of policy actions is inappropriate as staff needs flexibility in responding to the policy reform priorities and requirements of DMCs. The content of policy actions is as important as their number.

8. Management agreed with the recommendations, except for recommendation no. 2. Management did not see sufficient justification in the report for developing a PSM OP. The concept of a PSM OP was explored years ago by the governance thematic group and was not finalized because PSM is a large and complex field that cuts across sectors. Different country contexts and circumstances also make it extremely difficult to come up with a viable PSM OP. Alternatively, developing policy notes or learning products on select PSM fields may be more practical and useful. And as part of Strategy 2030 implementation, ADB will develop an operational framework on governance and capacity development to guide ADB operations, including in the areas of PSM.

9. On recommendation no. 5, ADB works closely with and has strong cooperation with development partners (including IMF) during PBL preparations, with only two (out of 181) cases of divergence of views on borrowing countries' macroeconomic conditions noted in the report.

10. **DEC Discussion and Comments**. DEC noted the strong interest from the Board in PBLs and in this evaluation. Expanding PBL use to traditional ADB investment sectors should be considered on a case-by-case basis, as removal of binding constraints for sector development can be achieved by other measures. While PBLs work well in DMCs with strong policy frameworks, capacity and institutions, PBLs may be needed to support DMCs with weak institutions to build capacity and strengthen institutions. However, such PBLs may have to contain more process-oriented policy actions.

11. Several DEC members noted that PBL designs should drive reform through policy triggers and actions, with focus on achievement of policy outcomes, while recognizing the need for process-oriented policy actions still required by some member countries. Increased attention should also be given to technical assistance and capacity building needs.

12. PBLs with process-oriented policy actions may be justified for DMCs that are early in the reform process, have limited capacities, or need to start politically-sensitive reform, and need to map out a sequenced reform program, with the intent to deepen or evolve over time to a high impact reform.

13. PBL use in higher-income DMCs is varied and multidimensional, including access to quick-disbursing facility, policy reform support (reward for accomplished policy reform), and/or countercyclical support during crisis. PBLs help to address DMCs financing needs (usually reflected in PBL size), but in many cases, also to pursue reform requirements (including governance, investor assurance, and transparency). Depending on the design, PBL funds can act as an incentive for future reforms, past reforms, or to catalyze ongoing policy actions. The loan amount is not based on reform

costs but is determined by the development financing needs of the country at the broad macroeconomic level.

14. DEC discussed the proposal to create a crisis window for Group A (concessional-assistance only) DMCs and noted that this is a matter for ADF donors to consider during the ADF mid-term review. DEC also supported the proposal to formalize contingent disaster financing for natural disasters. Management is reviewing the Disaster and Emergency Assistance Policy, which can be amended to formalize contingent disaster financing.

15. DEC suggested that management implement all the agreed recommendations; the proposed strategic operational plan was welcomed by some DEC members.

16. Early and more frequent board involvement in PBL preparation and approval were suggested, including at the concept note and policy dialogue stages during the annual country programming missions (compared to CPS discussions which are held every five years). Non-regional board members will provide detailed suggestions for discussion to management on board involvement in PBL.

17. While agreeing to maintain IED's independence, DEC raised concerns about the disclosure and communication of IED's reports, noting that descriptions of member countries be done more carefully, and that management's response be submitted to DEC and simultaneously disclosed with IED reports for a holistic presentation of the subject under evaluation. DEC agreed to review the IED disclosure and communication policy and consider the Board Compliance Review Committee's practice/policy. Some DEC members raised concerns that management response was provided one week before the meeting, constraining thorough discussions.

18. **Next Steps.** Management will update the PBL operations manual and staff instructions, taking on board IED recommendations.

19. Management will further strengthen quality assurance mechanisms for PBLs and expand its outreach and training programs on various modalities, including PBLs.

20. The proposal to create a crisis-window for concessional assistance-only member countries will be discussed with ADF donors.

21. DEC will review IED disclosure policy, particularly issues of timing, sequencing, submission, and disclosure of IED reports. This issue could be considered as part of the upcoming corporate evaluation policy.

22. **Other Business**. The DEC Chair congratulated a member, Mr. Philip Timothy Rose, and welcomed him again to DEC in his new capacity as Executive Director.

1

INTRODUCTION

1. **Policy-based lending (PBL), offered by multilateral development banks (MDBs) and several bilateral partners provides rapidly-disbursing, untied funding against agreed policy reforms.**[1] PBL operations[2] provide borrowing countries with fungible financial resources to help them meet government budget and balance of payments financing needs. Funds are provided against an agreed set of policy actions specified in a policy matrix (traditionally referred to as policy conditionality).[3] MDB PBL thus serves a dual purpose: it helps countries meet their financing needs and supports policy reforms. PBL is one of the three major financing modalities used by the Asian Development Bank (ADB) to support development in the region, the others being investment lending and results-based lending (RBL). As Table 1 shows, each of these modalities responds to different purposes, contexts, and rationales; and the selection of each must carefully consider countries' circumstances and ADB's strategic intentions.

2. **PBL is distinct from and disburses more quickly than investment lending, funds are made available to finance budget needs,**[4] **and are not tied to the procurement of goods and services under a specific project.** PBL funds are subject to the recipient country's own fiduciary systems, and are not ring-fenced as investment lending, i.e., ADB does not indicate how the loan or grant resources should be used. PBL typically involves lower transaction costs than investment lending for both lenders and borrowers. PBL is not designed to finance a program of public expenditure in a specific sector, such as education or health, where the overall result may be increased primary enrollment or access to primary health care. ADB would consider such lending to be RBL.

3. **PBL has supported reforms across a broad range of sectors and policy areas in a variety of countries, from upper middle-income countries to fragile states emerging from conflict or countries impacted by natural disasters.** Nearly all MDBs and several bilateral partners offer one or more forms of PBL,[5] although all have capped their use—either formally or informally—relative to traditional investment lending. Typically, PBL should be no more than one-third of total lending, at least in normal (non-crisis) times (Table 2).[6] The World Bank does not constrain the use of its resources for development policy lending (DPL), although it does provide indicative ceilings. ADB's use of PBL is more restricted, requiring that PBL (except for crisis response) should not exceed 20% of total public sector lending on a 3-year moving average basis in non-crisis years. Use of ADB's concessional resources is subject to a ceiling of 22.5% of total concessional lending.[7]

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1 Other development partners have referred to such lending as budget support, development policy lending, and program lending.

2 The generic use of the term "operations" in this context encompasses grants and concessional loans in addition to non-concessional loans.

3 There have also been cases of budget support that has been structured slightly differently from ADB policy-based lending (PBL). For example, budget support from the European Commission has linked the amounts disbursed to the attainment of outcomes such as increased primary school enrollment.

4 General budget support (GBS) is not directed at a sector, whereas sector budget support (SBS) is intended to support public expenditures in specific areas such as education or health.

5 The European Bank for Reconstruction and Development (EBRD) does not have a PBL modality because it finances private sector projects.

6 This is in keeping with MDBs' original development mandate of providing financing for development projects. For instance, the World Bank's Articles of Agreement specify that the loans made or guaranteed by the Bank should finance specific projects, "except in special circumstances."

7 ADB. 2016. Policy-Based Lending. *Operations Manual.* OM D4/BP. Manila.

Table 1: Asian Development Bank Major Lending Modalities

Dimensions	Investment Lending	Policy-Based Lending	Results-Based Lending
Primary Focus	Transactions, project implementation, and delivery	Policy actions, institutional reforms	Support for government sector programs
Financing Purpose	Investments, project inputs (goods, works, services)	Budget support	Sector program and expenditure frameworks
Disbursements Linked To	Expenditure for inputs	Fulfillment of policy actions	Achievement of disbursement-linked indicators
Implementation	Contract and procurement supervision	Progress against policy priority actions	Improving program systems, institutions, sector dialogue, and results

Source: IED. 2017. *Corporate Evaluation: Results-Based Lending at the Asian Development Bank: An Early Assessment.* Manila: ADB; modified based on ADB. 2013. *Policy Paper: Piloting Results-Based Lending for Programs.* Manila.

Table 2: Limits on Policy-Based Lending Use (as of April 2017)

Fund	IDB	World Bank	AfDB	ADB	CDB
Ordinary Capital Resources	30% of total lending for 4-year cycles	None (but implicitly set at 25% of total lending)		20% of annual sovereign lending (3-year moving average)	30% of loans and guarantees
Special Funds	30% of the biennial FSO allocation	None (but Informally 30% of the IDA allocation)	25% ceiling for AfDF countries	22.5% of total ADF allocation (3-year moving average)	

ADB = Asian Development Bank, ADF = Asian Development Fund, AfDF = African Development Fund, CDB = Caribbean Development Bank, FSO = Fund for Special Operations, IDA = International Development Association, IDB = Inter-American Development Bank.

Source: Adapted from IDB. Office of Evaluation and Oversight. 2016. *Annual Report 2015: Technical Note: Design and Use of Policy-Based Loans at the IDB*. Washington, DC.

4. **ADB PBL provides "budget support in conjunction with structural reforms and development expenditure programs of developing member countries**" (footnote 7). PBL can also be used to provide balance of payments assistance. ADB PBL helps countries meet their financing needs while supporting "policy changes that improve growth prospects based on consideration of the economy and efficiency … the basis for policy-based lending to a DMC" (footnote 7). A wide range of countries use PBL—from middle-income countries such as Indonesia to fragile states emerging from conflict such as Afghanistan, Solomon Islands, and Sri Lanka.

5. **ADB has four types of PBL: programmatic (a series of single-tranche PBL operations), stand-alone (usually configured into two or more tranches, generally referred to as multitranche),[8] countercyclical, and special PBL.** Stand-alone and programmatic PBL are part of the country partnership strategy (CPS) and contribute to the achievement of country development objectives. In contrast, special PBL[9] (SPBL) and the countercyclical support facility (CSF), are crisis response instruments, which cannot be anticipated in the CPS. PBL can also be used as a precautionary instrument in the expectation that an economic or disaster-related crisis will probably occur. PBL and investment loans can be used together in a sector development program (SDP).

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[8] Stand-alone PBL can also be a single-tranche loan or grant.

[9] In practice, "special policy-based lending" has never been used.

6. **Multitranche and programmatic PBL have inherently different approaches to loan conditionality.** Multitranche PBL is approved by the ADB Board of Directors on the condition that the borrower undertakes policy reforms in the future, i.e., after loan approval, against which the loan is disbursed (Table 3).[10] Programmatic PBL is approved when policy reforms (known as prior actions) have already been implemented by the borrower, i.e., before loan approval. In the case of the CSF, a loan is disbursed against a government's countercyclical development expenditure program. In contrast, investment funds are disbursed against specific inputs, and RBL[11] against the achievement of disbursement-linked indicators (Table 1). While programmatic PBL has become the main form of ADB PBL, both types, programmatic and stand-alone, continue to be used.

A. Evolution of Policy-Based Lending

7. **At ADB and elsewhere, the character of PBL has evolved significantly since its inception.** PBL was initially aimed at relieving balance of payments distress i.e., as a crisis response instrument. In ADB's case, PBL originated in 1978 as program lending to finance imports needed for "better growth-inducing utilization of domestic productive capacity"[12] following the widespread balance of payments problems in the wake of the 1978–1979 oil price shock. PBL soon became explicitly linked to policy reforms,[13] the rationale being that the impact of investment lending would be reduced if there was macroeconomic instability or if constraints on growth limited their effectiveness.[14]

Table 3: ADB's Policy-Based Lending Instruments

Criteria	Conventional Policy-Based Lending		Crisis Response	
	Stand-Alone	Programmatic Approach	Countercyclical Support Facility	Special Policy-Based Lending
Conditionality	Supports future policy reforms; conditions need to be met after approval by the Board of Directors; the first tranche is often based on prior actions.	Policy reforms (known as prior actions) are met before approval by the Board of Directors.	Fiscal policy (countercyclical expenditures and fiscal stimulus).	Guided by crisis-specific contexts; not all structural reforms that are beneficial in the long run should be undertaken in the midst of a crisis.
Ceiling and/or Cap	Counted within corporate PBL ceiling of 20% of all sovereign lending (and 22.5% of concessional financing).	Counted within corporate PBL ceiling of 20% of all sovereign lending (and 22.5% of concessional financing).	Capped at $500 million per exogenous shock or crisis episode, within ADB's risk-bearing capacity; not counted in the ceiling.	None, although the loan must be within ADB's risk-bearing capacity; not counted in ceiling.
Eligibility	All DMCs	All DMCs	DMCs in Groups B–C, graduated countries	DMCs in Groups B–C, graduated countries

ADB = Asian Development Bank, DMC = developing member country, PBL= policy-based lending.
Source: ADB. 2016. Policy-Based Lending. *Operations Manual.* OM D4/BP. Manila.

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10 Although the first tranche in a multitranche PBL is disbursed against policy actions already undertaken. Conditions in the second tranche are then undertaken in the future.

11 Independent Evaluation Department (IED). 2017. *Results-Based Lending at the Asian Development Bank: An Early Assessment*. Manila: ADB.

12 ADB. 1978. *Program Lending*. Manila. Short-term financing was mainly used to purchase essential agricultural inputs.

13 ADB reformulated its program lending to explicitly support policy reforms in 1983. Part of the reformulation included adding a policy matrix of required reform actions and a development policy letter that set out the country's intended reform program.

14 Empirical evidence in favor of such reasoning subsequently built up: for example, Burnside and Dollar (2000) found that aid had a positive impact on growth in countries with good fiscal, monetary, and trade policies, but had little effect in the face of poor policies (C. Burnside and D. Dollar. 2000. *Aid, Policies, and Growth*. The American Economic Review. Vol. 90, No. 4 pp. 847-868. American Economic Association). However, later studies found this conclusion was not to be robust with regard to different data sets, and the debate regarding the effects of aid on growth in different policy contexts remained largely inconclusive (S. Galiani, et. al. 2014. *The Effect of Aid on Growth : Evidence from a Quasi-Experiment. Policy Research Working Paper; No. 6865.* World Bank, Washington, DC. https://openknowledge.worldbank.org/handle/10986/18338 *License: CC BY 3.0 IGO*).

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8. **Over time, PBL evolved to provide budget financing for development.**[15] PBL is also used periodically to help countries respond to crises, notably the 1997–1998 Asian financial crisis and the 2008–2009 global financial crisis.

9. **As this type of lending matured, several variants were adopted by ADB**. Initially, PBL was limited to the single loan (or stand-alone) type, typically configured in two or three tranches, with tranche release conditions specified up front (Table 3). Outside crisis periods, use of the programmatic type—a series of distinct single-tranche loans each supporting reforms sequenced in time but linked by a common medium-term framework—has increasingly became the norm in MDBs since its introduction in the late 1990s. Use of this PBL type in ADB caught on relatively slowly but it has now been mainstreamed. There are also contingent variants of PBL, which are designed to release resources immediately after an economic crisis or disaster. In the case of a disaster, policy reforms are directly related to building disaster resilience and may include building economic and fiscal resilience as well as disaster preparedness.

10. **The character of the policy reforms that PBL supports has shifted over time.** Reforms supported by PBL have moved from short-term macroeconomic adjustment and removal of relative price distortions, notably in agriculture, to second generation reforms dealing with longer-term policy, and institutional development—in short, reforms based on a more developmental perspective.[16] The design features of PBL have also evolved. Increasingly, PBL offered by MDBs has sought to focus conditions on a small number of measures deemed critical to the achievement of development objectives. The gradual shift away from multitranche to programmatic (single-tranche) PBL has meant that conditionality based on future policy reforms has been progressively replaced by measures that are implemented before loan approval .[17]

11. **The practice of using explicit results frameworks in MDB PBL spread from the mid-1990s, sharpening the focus on what the PBL aimed to achieve through the reforms it supported and providing clearer underpinnings for monitoring and evaluation (M&E).** The analytical foundations for PBL-supported reforms also increasingly came under scrutiny, as did fiduciary conditions and corruption risks related to the delivery and use of PBL funds. The focus on broad-based country ownership of PBL-supported reform agendas, and on understanding the underlying political economy, has also grown over time.

12. **The Paris Declaration in 2005 cemented country ownership of the reform agenda as the basis for budget support.** The gradual transformation of the international aid architecture in the latter part of the 1990s and early 2000s culminated in the Paris Declaration on Aid Effectiveness in 2005.[18] This formalized the growing consensus that budget support should be harmonized and aligned with a country-driven development strategy in a climate of mutual accountability, in order to promote aid effectiveness.[19]

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15 It was this shift that underlay the World Bank's 2004 change of designation of PBL from adjustment lending to development policy lending.

16 At ADB, PBL initially supported the agriculture sector but public sector management reforms now form the core of most policy-based loans.

17 Prior actions are agreed policy actions (or agreed reforms) that the government undertakes as part of the PBL. For single-tranche PBL, prior actions are undertaken before Board of Directors' approval. Approval and disbursement both follow completion of prior actions.

18 Subsequently deepened and operationalized in the Accra Agenda for Action and the Busan Declaration. *Accra Agenda for Action*, Accra, 2–4 September 2008, http://www.oecd.org/dataoecd/58/16/41202012.pdf; Organisation for Economic Co-operation and Development. 2005. *The Paris Declaration on Aid Effectiveness,* http://www.oecd.org/dac/effectiveness/34428351.pdf; Working Party on Aid Effectiveness. 2011. *Busan Partnership for Effective Development Co-operation,* http://effectivecooperation.org/files/OUTCOME_DOCUMENT_-_FINAL_EN2.pdf

19 Many development partners later abandoned joint or partnership budget support, mostly for political or broader governance-related reasons.

Box 1: Policy-Based Lending Debates

Is PBL a substitute for an IMF program or does it complement it? Because both provide hard currency funding in exchange for reforms, the distinction between IMF programs and PBL is often blurred, reinforcing the view that they are substitutes. Nevertheless, they can complement each other. For instance, crises give rise to balance of payments needs and provide a clear rationale for IMF support. But crises also often call for budgetary policy responses, such as spending increases, whether these are motivated by countercyclical fiscal stimulus or social protection scale-up. A crisis response loan can mitigate the impact on the poor of spending cutbacks that are part of an IMF program.

Do PBL operations incentivize governments to implement measures that they would not otherwise contemplate in the absence of MDB financing? The current view is that country ownership is a prerequisite for a reform program and that MDB additionality arises from the policy dialogue and technical assistance that accompanies reform, to which governments are already committed to. Thus, PBL funding should not serve to leverage reforms that the client country would not otherwise be interested in.

Are resources from PBL funds fungible? In practice, the proceeds from both investment lending and PBL have fungibility characteristics but empirical estimates of the impact of foreign assistance suggest that a dollar of assistance increases public investment by 29 cents regardless of the type of loan or grant.[a] The problem of fungibility in PBL is hence no larger than that of investment lending.

To what extent should anti-corruption and fiduciary safeguards be a prerequisite for PBL? The appeal of applying minimum thresholds for these safeguards is that they would presumably limit leakage of funds. However, rather than formally requiring minimum standards, MDB PBL has tended to focus on strengthening policies and institutions, especially those associated with public finance management. PBL operations use the fiduciary mechanisms of the recipient country and therefore PBL by MDBs has focused on strengthening the institutions associated with public finance management.

IMF = International Monetary Fund, MDB = multilateral development bank, PBL = policy-based lending.
[a] World Bank. 1998. *Assessing Aid: What Works, What Doesn't and Why (A World Bank Research Report)*. Oxford University Press, New York.
Source: Independent Evaluation Department.

13. **As the use of MDB PBL grew, several issues and debates arose.** One was whether MDB PBL crowds out International Monetary Fund (IMF) lending or complements it. Other issues include: whether PBL funds can or should buy reforms; the fungibility of PBL monies in contrast to the earmarking of funds that occurs under investment lending; and whether minimum thresholds for fiduciary standards, and anti-corruption safeguards should be a prerequisite for PBL (Box 1).

14. **As MDB use of PBL has grown since the late 1990s, more evaluations have been undertaken by ADB and other MDBs.** Independent Evaluation Department (IED) evaluated the use of PBL in 2001,[20] 2007,[21] and 2011,[22] although the last of these focused on ADB's response to the global financial crisis, which included a range of instruments. While each evaluation found PBL to be highly relevant to member country needs, especially during crisis years, they all concluded that the development impact and outcomes had been smaller and less clear-cut than anticipated. As PBL use had exceeded its prescribed limit, especially during crisis years, the 2007 evaluation recommended lifting the ceiling on PBL use, a position no longer advocated by IED.

15. **The 2001 evaluation found that loans were complex and contained too many policy actions.** At that time, ADB mainly used stand-alone (multitranche) PBL, which contained an average of 38 policy conditions per loan. These conditions could only be met by countries if they

[20] Operations Evaluation Department (OED). 2001. *Special Evaluation Study on Program Lending*. Manila: ADB.
[21] OED. 2007. *Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries*. Manila: ADB.
[22] IED. 2011. *Real-Time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009*. Manila: ADB.

extended the completion date of the loan. Hence, delays in second tranche disbursement were common; 72% were delayed and 11% were cancelled altogether. The reform impacts of PBL were found to be difficult to assess, especially the impact on poverty. While some programs were thought to have had a substantial impact on the economy, in other cases development impacts were not clearly identified or monitored. Improvements were needed in the way programs were evaluated. There was insufficient understanding of the political economy in most PBL operations that were evaluated.

16. **The 2007 evaluation found that PBL performance had improved.** This improvement was linked to several factors, including the gradual use of programmatic PBL that required policy actions to be met before loan approval, and the use of well-targeted technical assistance (TA) to ensure support for implementing agency capacity building. Nevertheless, this evaluation found that loans contained an excessive number of conditions and that there were implementation delays.

17. **In 2011, IED evaluated ADB's response to the global financial crisis.** This evaluation found that ADB had increased disbursements during the crisis, especially through the introduction of the CSF. However, in general, the countries least affected by the crisis received a greater share of ADB's overall support than those that were severely affected.[23] The evaluation concluded that timeliness was important for crisis response and that the CSF could be designated as a standby facility.

B. Experience of Other Multilateral Development Banks

18. **Although ADB's operational policy for PBL shares features with those of other MDBs, notably the World Bank and the Inter-American Development Bank (IDB), some differences remain**. One concerns the range of PBL instrument variants. This is virtually identical across the three institutions, but neither World Bank nor IDB has the equivalent of ADB's CSF, which was introduced in 2009 to help countries finance a countercyclical response to the global financial crisis. Other organizations responded by scaling up the use of existing PBL instruments. A second difference is in the rigor of macroeconomic assessment prerequisites. IDB has a formal requirement of an up-to-date (no older than 6 months) internal but independent assessment of macroeconomic conditions (IAMC) in a client country for PBL to be approved. In practice, IAMCs often mirror the IMF's views but formalize the IDB view regarding the adequacy of a country's macroeconomic policy framework. IDB ensures that the operational departments negotiating with the countries of concern and the unit in charge of assessing the macroeconomic risks involved are kept separate. Neither ADB nor the World Bank has such a formal requirement, although each is required to judge a country's macroeconomic framework as satisfactory in presenting PBL for approval, where the views of the IMF generally take precedence.

19. **PBL-related practices have also varied across the institutions.** For example, while ADB separates the policy matrix from the design and monitoring framework (DMF) in its PBL, the World Bank typically combines them into a single results matrix that sets out the loan development objectives, expected outcomes, policy actions supported, and related output and outcome indicators. In addition, World Bank enforces a limit on the number of policy actions that can be selected to those critical for removing or mitigating binding constraints.

20. **PBL evaluation policies and practices also vary across the institutions.** For example, IDB's Office of Evaluation and Oversight (OVE) does not conduct independent validations of completion reports of individual PBL operations, although it systematically reviews them as part of country program evaluations at the end of each strategy cycle. In contrast, ADB's IED and the World Bank's Independent Evaluation Group (IEG) review and validate PBL completion reports. Despite many similarities in approach,

[23] Compared with the average assistance received in 2007 and 2008, the severely affected countries received 40% more assistance in 2009 and 11% more in 2010, whereas the least affected countries received 75% more assistance in 2009 and 36% more in 2010.

there are also some differences in the way IED and IEG evaluate PBL, and in the rating scales that they use. For instance, IEG only assesses relevance and effectiveness for the outcome of the operation and makes a separate assessment of the risk to outcomes comparable with IED's sustainability rating. IED also rates efficiency in deciding the overall success rating of the operation, whereas IEG does not.

21. **Several evaluations undertaken by other MDBs emphasized the need to assess key PBL design features.** These include whether a national development strategy underlies the reform program supported, ownership of the reform program by key stakeholders, and the political economy of decision-making and reform implementation. They also include whether the PBL operation has adequate analytical foundations, the institutional capacity of the borrower to manage reform processes, and a logical framework that links key reforms supported by the operation with results sought and that specifies key assumptions and risks to performance. Other design features to be assessed include whether the operation has selected and sequenced appropriate reform instruments to reach policy targets; its analysis of economic, social, and environmental effects and mitigation where needed; its identification of risks and its risk management strategies; its rationale for the financing provided; and the M&E framework that it specifies, including the assignment of related responsibilities.

22. **The World Bank and IDB have recently completed evaluations of PBL, focusing on the quality of PBL design**. The key findings are that:

(i) Loans that incorporated a small number of critical reforms performed better in terms of improving countries' institutional and policy environments than those that contained many policy actions.

(ii) A high-quality results framework was an important determinant of the effectiveness of PBL.

(iii) A sound and credible macroeconomic framework was positively associated with good PBL outcomes.[25]

(iv) Successful PBL outcomes were strongly determined by the quality of the analytical work on which policy actions were based. Poor analysis and the failure to use available knowledge that incorporated lessons learned was frequently a prime cause of poor outcomes.[26]

(v) An assessment of the risks associated with political economy issues was a vital factor in ensuring the sustainability of reform[27]

(vi) In a wide range of country contexts, budget support was found to contribute to macroeconomic stability and improved public financial management.

(vii) Policy actions jointly identified through ongoing dialogue between partners and countries were more effective than partner-driven conditions.

23. **Neither the World Bank nor the IDB evaluations assessed the results of their respective PBL modalities.** IEG produced several learning products on the factors that influence design, policy implementation, and performance of the World Bank's DPL operations. These included an assessment of the quality of macroeconomic frameworks in DPL operations (footnote 24), the quality of results frameworks,[28] the integration of knowledge in DPL operation design (footnote 25), the use of political economy assessments (footnote 26) and lessons from environmental policy lending.[29] IDB's evaluation focused on the

[25] World Bank. 2016. *Quality of Macro-Fiscal Frameworks in Development Policy Operations. IEG Learning Product*. Washington, DC.

[26] World Bank. 2015. *How Does Knowledge on Public Expenditures Integrate with the Design of Development Policy Operations*. *IEG Learning Product.* Washington, DC.+

[27] World Bank. 2016. *The Role of Political Economy Analysis in Development Policy Operations. IEG Learning Product*. Washington, DC.

[28] World Bank. 2015. *The Quality of Results Frameworks in Development Policy Operations*. IEG Learning Product. Washington, DC.

[29] World Bank. 2016. *Lessons from Environmental Policy Lending*. Washington, DC.

"depth" of policy actions in PBL design, with depth defined as the extent to which policy conditions were sufficiently critical to trigger an institutional policy change by themselves. It found that up to 30% of policy actions were low-depth (i.e., process-oriented) measures that were easily reversible, or actions that indicated only intentions, so that they could hardly be considered "essential for the achievement of results" as expected by IDB guidelines.[30]

C. Evaluation Approach

24. **This evaluation assesses how the use of PBL has evolved and been used by ADB over the last decade, and the development results it has contributed to.** Its overarching question is: How effectively has PBL supported the financing and policy reform needs of ADB's countries? The evaluation also asked three subsidiary questions:

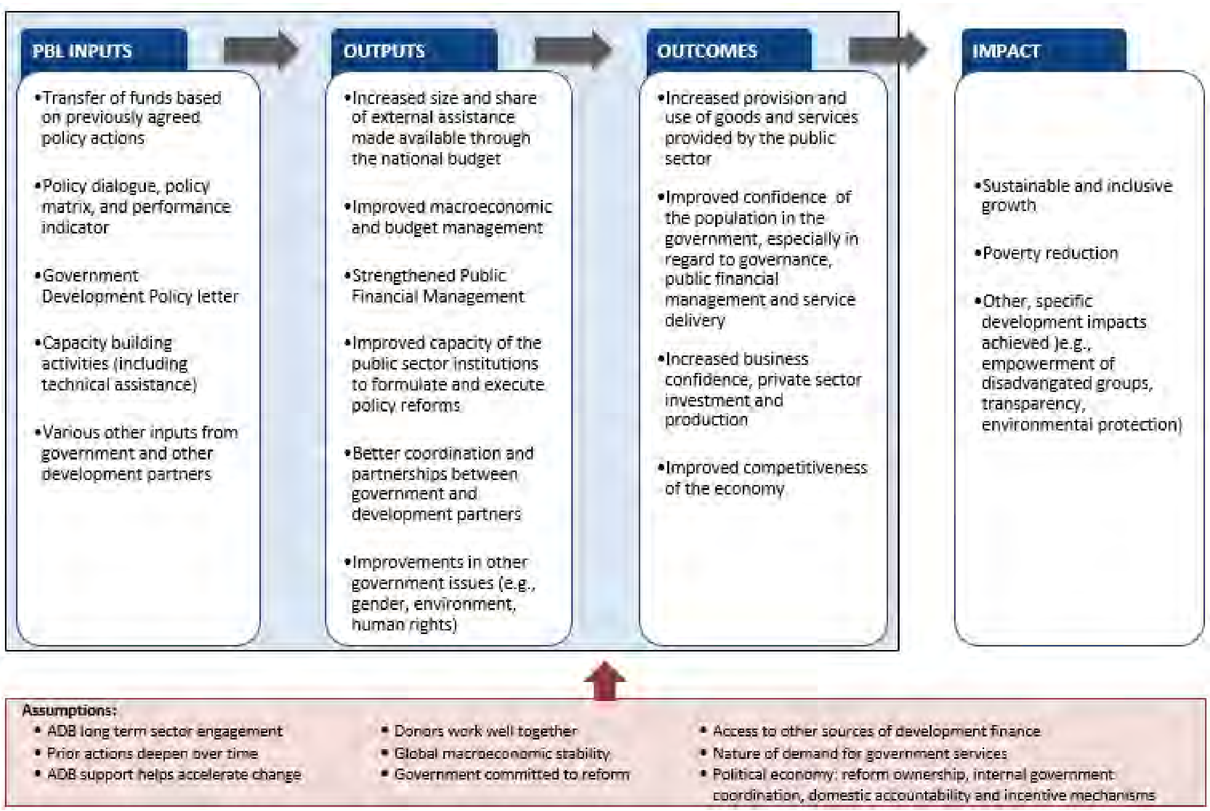
(i) Is PBL well-aligned and responsive to country financing needs and the policy reform context?
(ii) To what extent has PBL achieved its expected results and promoted policy change and institutional development?
(iii) How well does ADB manage PBL operations and monitor and measure their results?

25. **The evaluation examines whether and how PBL budget support and policy reforms over 2008–2017 supported countries' financing needs and helped remove constraints on growth and poverty reduction.** The evaluation followed the implicit theory of change embodied in PBL, i.e., it examined how interventions and policy actions were linked to the proposed reforms, and the extent to which they resulted in the achievement of development outcomes. This theory of change has best been captured in a report by the Development Assistance Committee Network on Development Evaluation of the Organization for Economic Co-operation and Development (OECD)[31] (Figure 1). The theory was based on encouraging more effective evaluation of budget support operations with respect to their targeted development outcomes and impact. It was an attempt to understand how respective development partner budget support modalities are linked to development outcomes and "to what extent and under what circumstances budget support has successfully enhanced the policies, strategies, and spending actions of the partner government so as to achieve sustainable national and/or sector level development outcomes and a positive impact on poverty reduction and growth" (footnote 30). In this respect, the theory of change is intended to apply to budget support in general, and not specifically to crisis support or to a specific development partner.

[30] IDB. Office of Evaluation and Oversight. 2016. *Annual Report 2015: Technical Note: Design and Use of Policy-Based Loans at the IDB*. Washington, DC.

[31] Organisation for Economic Co-operation and Development. 2010. *Evaluating Budget Support Methodological Approach*. Development Assistance Committee Network on Development Evaluation. Paris.

Figure 1: Policy-Based Lending Theory of Change



ADB = Asian Development Bank, PBL = policy-based lending.
Source: Adapted from Organisation for Economic Co-operation and Development. 2010. *Evaluating Budget Support Methodological Approach*. Development Assistance Committee Network on Development Evaluation. Paris.

26. **The evaluation covers 2008 to 2017 and follows on from the PBL evaluation conducted by IED in 2007.** ADB approved 181 PBL operations during this period, of which 67 (37%) were evaluated by IED through its program completion report validations (PVRs) and program performance evaluation reports (PPERs). The portfolio considered by the evaluation included all PBL approved from 2008 to 2017. This amounted to $27.1 billion (Table 4). It also included all PBL closed and evaluated over 2008–2017. This increased the evaluation portfolio to 150 operations.

Table 4: Policy-Based Lending Operations and Evaluation Portfolio, 2008–2017

Program Subtype	Programmatic	Stand-Alone	SDP	CSF	Total
Operations Portfolio (number)	**128**	**89**	**41**	**6**	**264**
Approved 2008–2017	104	58	13	6	181
Approved before 2008	24	31	28	0	83
Evaluation Portfolio (number)	**62**	**57**	**30**	**1**	**150**
Approved 2008–2017	38	26	2	1	67
Approved before 2008	24	31	28	0	83
Operations Portfolio ($ billion)	**18.5**	**14.1**	**2.5**	**3.5**	**38.6**
Approved 2008–2017	15.0	8.0	0.6	3.5	27.1
Approved before 2008	3.5	6.1	2.0	0.0	11.5

CSF = countercyclical support facility, SDP=sector development program.
Sources: Asian Development Bank loan, technical assistance, and grant equity approvals database; Controller's Department approvals database; and Independent Evaluation Department database.

27. **The evaluation is based on portfolio analysis, country field visits, several project and country desk assessments; and consultations with ADB staff, member country government officials, and staff from development partners, including the IMF, World Bank, and IDB.** The evaluation conducted a detailed review of all PBL operations approved from 2008 to 2016 for Bangladesh, Indonesia, Kyrgyz Republic, Nepal, Pakistan, the Philippines, and Viet Nam, and selected operations approved over the same period in Armenia, Cambodia, Georgia, India, Samoa, and Solomon Islands. An assessment of 99 PVRs and PPERs was undertaken to consider how results had been evaluated. A database of policy actions taken from all PBL approved from 2008 to 2017 was created, which allowed an assessment of their quantity. Consultations with government officials, other development partners, and ADB staff were undertaken in Indonesia, Kyrgyz Republic, Nepal, the Philippines, and Pakistan, as well as in ADB headquarters, while desk-based reviews were undertaken for Bangladesh and Viet Nam. These countries were selected for the following reasons. First, they are among the largest and most consistent PBL users; second, they enabled the evaluation to ensure a balance across ADB's regions; and third, they provided a mix of ordinary capital resources (OCR) and Asian Development Fund (ADF) countries. IED also conducted a literature review of the results of recent evaluations by other MDBs as well as other relevant literature. A database of PBL approvals was constructed and used to ascertain whether key relationships could be identified. For example, statistical analysis was used to examine whether there were correlations between country fiscal deficits and PBL loan size, loan size and number of policy actions, and PBL size and gross domestic product (GDP) over time.

D. Limitations

28. **The evaluation did not attempt to assess the impact of PBL on country macroeconomic conditions, including the impact on debt sustainability, exchange rates, and other macroeconomic indicators.** The ultimate impact of PBL on growth and poverty reduction was also beyond the scope of this assessment, because impact at this level would be difficult to demonstrate. Instead the evaluation considered the plausible contribution of ADB PBL policy actions to outputs and outcomes in the areas indicated in the theory of change in Figure 1. For example, the contribution of actions to improve public financial management systems, and the capacity of institutions to formulate public policy are shown as outputs in the theory of change, and development outcomes are shown as: (i) the increased provision and use of public goods and services provided by the public sector; (ii) improved confidence of the population in the government, especially with regard to governance, public financial management, and service delivery; (iii) increased business confidence, private sector investment, and production; and (iv) improved competitiveness of the economy. Hence the development effectiveness of PBL is measured by the extent to which PBL contributed to the achievement of these development outcomes or helped countries make measurable progress toward them. Even when assessing outputs and outcomes, the evaluation was also constrained by the limited information in the validated program completion report (PCR), country assistance program evaluation (CAPE), and country partnership strategy final review validation (CPSFRV) contained on actual changes or results produced by the PBL policy actions. This limited the evaluation's findings on the extent to which PBL was critical to the expected development outcomes listed above. The reasons are reviewed in detail in Chapter 4.

E. Structure of the Report

29. Chapter 2 contains an overview of ADB's PBL portfolio and assesses how PBL has responded to country financing needs. Chapter 3 assesses PBL performance and development results, while Chapter 4 covers issues related to design, implementation, quality of the DMFs, and M&E. Chapter 5 contains the conclusions of the evaluation and makes recommendations for strengthening the development effectiveness of the PBL modality in ADB.

2

USE OF POLICY-BASED LENDING

Highlights

Policy-based lending (PBL) intensified during crisis periods. The Asian Development Bank (ADB) responded to systemic crises but exceeded its own lending ceiling. ADB's capacity to support countercyclical responses will decline further as Asian economic growth outpaces the size of PBL operations.

During the evaluation period, Indonesia, Pakistan, the Philippines, and Viet Nam have consistently accounted for almost 65% of the PBL portfolio by value.

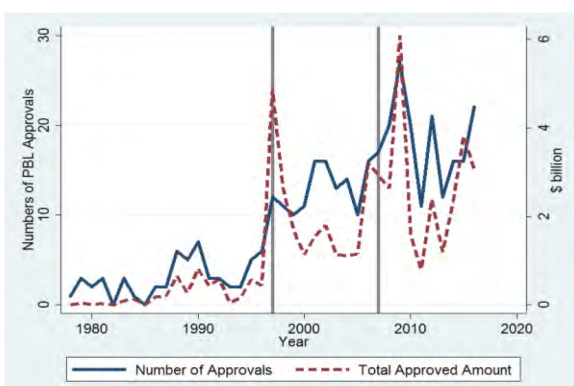
PBL absorbs ADB capital, so increasing the PBL lending ceiling may reduce ADB's sustainable level of lending in the future.

ADB PBL is particularly significant in the Pacific and in other smaller economies. Recently, ADB has used conventional PBL as contingent financing that can be disbursed in the event of climatic events, e.g., cyclones.

Financing objectives were a key motivation for countries' requests for PBL, but they also appreciated the policy advice that came with it, especially through the provision of technical assistance, long-term partnership, and policy dialogue on complex reform agendas.

30. **Since the introduction of PBL in 1978, ADB has approved 451 policy-based loans and grants worth approximately $55 billion, with ADF financing accounting for almost 21% of this amount.**[31] The average number of PBL operations approved each year has increased many times since their introduction, in terms of the number of loans and grants, the amounts lent, and the number of countries covered. Before the late 1990s on average, ADB approved about four PBL operations per year. This grew to an average of nearly 16 per year between 2000–2007, and 22 per year over 2008–2017 (Figure 2), which coincided with the global food and financial crises of 2008–2009. ADB's use of PBL is now almost equivalent in size to World Bank DPL in the Asia and Pacific region (Table 5).

Figure 2: Policy-Based Lending Over Time: Number of ADF and OCR PBL Approvals and Total Approved Amount ($)



ADF = Asian Development Fund, PBL = policy-based lending, OCR = ordinary capital resources.
Notes: First vertical line in gray corresponds to the Asian financial crisis in 1997; second vertical line in gray corresponds to the global financial crisis in 2007.
Source: Asian Development Bank Controller's Department database.

[31] Total approximate amount as of 31 December 2017.

Table 5: ADB Policy-Based Lending and World Bank Development Policy Lending in ADB Developing Member Countries, $ billion

Modality		1978–1989	1990–1999	2000–2007	2008–2016
Policy-Based	ADB	1.6	12.3	14.0	23.9
	World Bank	6.3	18.5	10.9	29.2
Investments	ADB	21.9	41.1	159.7	173.6
	World Bank	69.7	76.4	45.4	110.1

ADB=Asian Development Bank.
Note: Guarantees are not included in the World Bank investment loans and figures.
Sources: Asian Development Bank Controller's Department database; and World Bank Projects and Operations data: https://data.worldbank.org/data-catalog/projects-portfolio.

Table 6: Policy-Based Lending Ceilings in Total Sovereign Operations

1978	1983	1987	1991	1999
5% in total, 10% by country	7.5% in total, 20% by country	15% in total, no country ceiling	22.5% of ADF	20% of total sovereign lending 22.5% of ADF

ADF = Asian Development Fund.
Source: Asian Development Bank database.

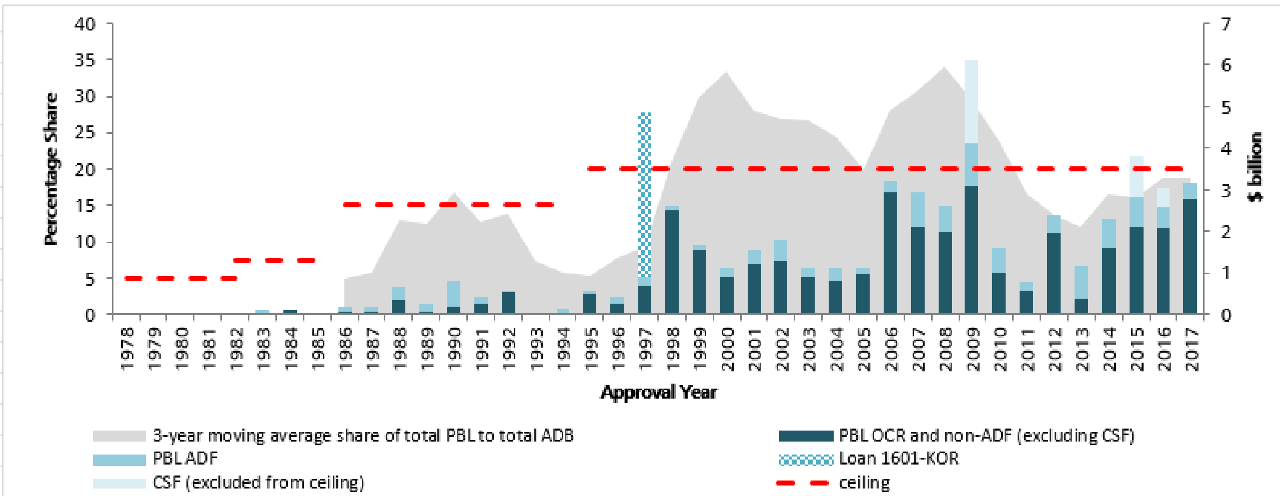
31. **Growth in country demand was initially driven by economic crises.** PBL approvals surged during the 1990 oil price shock, especially in ADF countries; the 1997–1998 Asian financial crisis, especially in OCR countries; and the global financial crisis in 2008–2009, for both OCR and ADF. During these periods, the share of PBL in ADB sovereign approvals increased sharply, showing that ADB uses this type of lending primarily to respond to country financing needs, which intensify during crisis periods, a finding common to other MDBs providing PBL-type modalities.[32] Before 1997, there was minimal use of OCR resources for PBL. Nearly half of all PBL (225 loans and grants, worth about $27.1 billion) was approved in the 10 years from 2008 to 2017, with peak lending occurring around the time of the global financial crisis. The ceiling has increased four-fold since the introduction of PBL in 1978 (Table 6).

A. Policy-Based Lending as a Crisis Response Instrument

32. **While PBL increased in response to country financing needs during two major crisis periods, it could only do so by exceeding the ADB ceiling for PBL.** The introduction of the CSF in 2009, a higher priced OCR-financed crisis response loan with no ceiling, allowed ADB to expand financial support to affected OCR countries beyond the ceiling. OCR PBL resources exceeded lending limits in 1997 and 1998. ADF-funded PBL exceeded the limit in 1990 but remained below it throughout the 1997 Asian financial crisis. ADF and OCR PBL both exceeded the ceiling during the 2008–2009 global financial crisis (Figures 3a and 3b), suggesting that the ceiling has limited relevance during crisis years.

[32] For instance, in response to the global financial crisis, DPL by the World Bank increased to around 40% of commitments and disbursements over 2009–2010.

Figure 3a: ADB Approved PBL Operations, 1978–2017

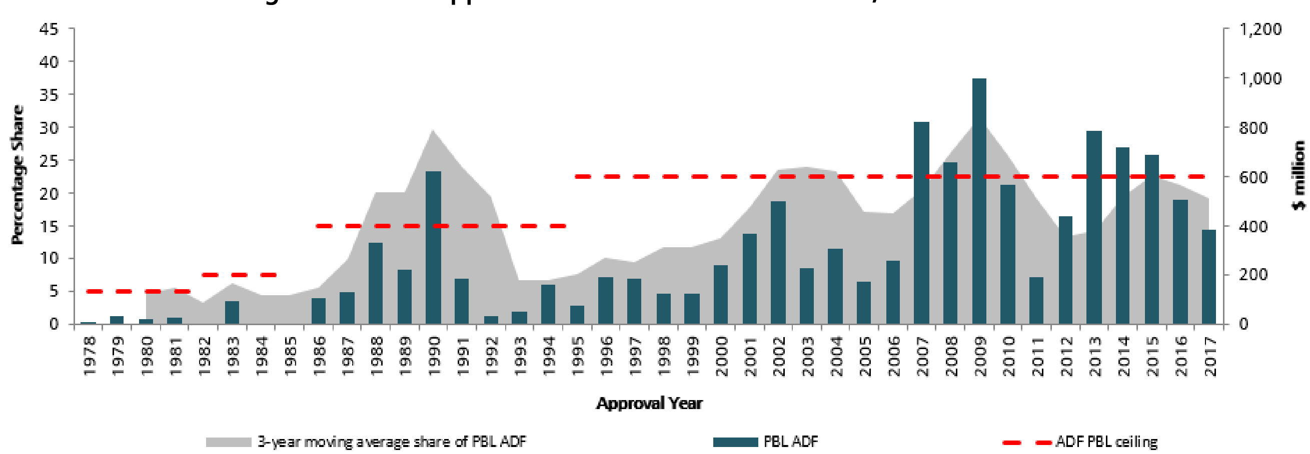


ADB = Asian Development Bank, ADF = Asian Development Fund, CSF = Countercyclical Support Facility, OCR = ordinary capital resources, PBL = policy-based lending.

Note: Loan 1601-Korea Financial Sector Program, a $4 billion stand-alone policy-based loan to the Republic of Korea approved in 1997 and the Countercyclical Support Facility (CSF) loans are not counted in the 3-year moving average. CSF loans are not counted as part of the ceiling in the Asian Development Bank.

Source: Asian Development Bank Controller's Department database.

Figure 3b: ADB Approved PBL ADF Loans and Grants, 1978–2017



ADB = Asian Development Bank, ADF = Asian Development Fund, PBL = policy-based lending.

Source: Asian Development Bank Controller's Department database.

33. **As there was no instrument similar to the CSF for ADF-only (Group A) countries, the ADB response to the crisis in these countries took the form of higher use of conventional PBL, both multitranche and programmatic.** The ceiling on the use of such PBL applied. This meant that an instrument for financing longer-term policy reform objectives was used to respond to ADF-only countries' short-term financial difficulties but, in contrast to the CSF, there was no adjustment in pricing.[33] The total amount loaned using CSF PBL during 2008–2009 therefore did not reflect the magnitude of ADB's support to countries impacted by the global

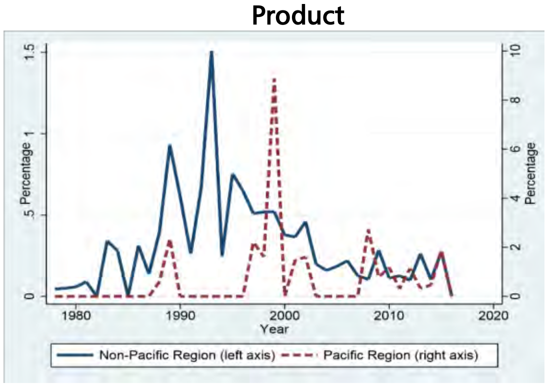
[33] The countercyclical support facility is a shorter-term, higher priced instrument.

financial crisis, because regular PBL also performed this role.

34. **However, there was no direct correspondence between the impact of the crisis on countries and the allocation of ADB support.** The evaluation of ADB's response to the global financial crisis found that, in general, the least affected countries received a greater share of ADB's overall support than those that were severely affected (footnote 22). PBL was not deployed by ADB to respond to those countries with the greatest needs. While ADB successfully mobilized significant additional resources to help countries, the intensity of its response was unevenly distributed, to the disadvantage of the most severely affected countries.[34]

35. **The potential of regular PBL to support a countercyclical response during a crisis period is limited.** First, the size of PBL relative to GDP has fallen substantially since the late 1980s. On average, the size of PBL as a percentage of countries' GDP[35] was 0.58% between 1988 and 2002, but declined to 0.17% between 2003 and 2015 because of the rapid economic growth that had taken place in many countries. The capacity for ADB to meet country financing needs in crisis and non-crisis periods has therefore fallen sharply (Figure 4).

Figure 4: Policy-Based Lending to Gross Domestic Product



Source: Asian Development Bank database.

36. Second, since the CSF does not apply to ADF-only countries, the use of regular PBL is constrained by the lending ceiling, so ADB's ability to respond to systemic crises is compromised. As a result, the potential effectiveness of PBL as a countercyclical device during a crisis, systemic or otherwise, has also fallen in general.

37. **In some cases, regular or conventional PBL helped provide relief from the impact of the global crisis, although this was often at the expense of a reduced focus on the reform content of operations.** In Pakistan, the Accelerating Economic Transformation Program (2008) responded to an imminent balance of payments crisis with a programmatic PBL operation that consisted of four subprograms with greater depth of reform in each successive subprogram.[36] The second subprogram, approved in 2009, was designed to help address the impact of higher oil and food prices, but the government appeared to lose interest in the reform agenda once the crisis had subsided.[37] In 2010, Pakistan fell off-track with the IMF, and the program was truncated, to the detriment of eventual reform implementation. A lesson learned from this experience is that it is difficult to pursue medium-term policy reforms in a country struggling to cope with a short-term crisis.

38. **The balance between financing and policy reform objectives changed during crises.** This was especially the case where countries were impacted by externalities beyond their control, e.g., by natural calamities or downturns in the global economy. After such events, if IMF support is insufficient or unavailable and ADB budget support is called upon, the objective of PBL should be to provide finance to support short-term macroeconomic stability rather than long-term policy reform. This would then make regular PBL designs much closer to CSF in terms of the overall objective. Allowing regular PBL to

[34] ADB. 2011. *Policy Paper: Review of ADB's Policy-Based Lending*. Manila.

[35] Note however, that the size of PBL relative to the size of GDP is larger in the Pacific Region, as this region includes countries with much smaller economies, Figure 4.

[36] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Grants for Subprogram 1 to the Islamic Republic of Pakistan: Accelerating Economic Transformation Program*. Manila.

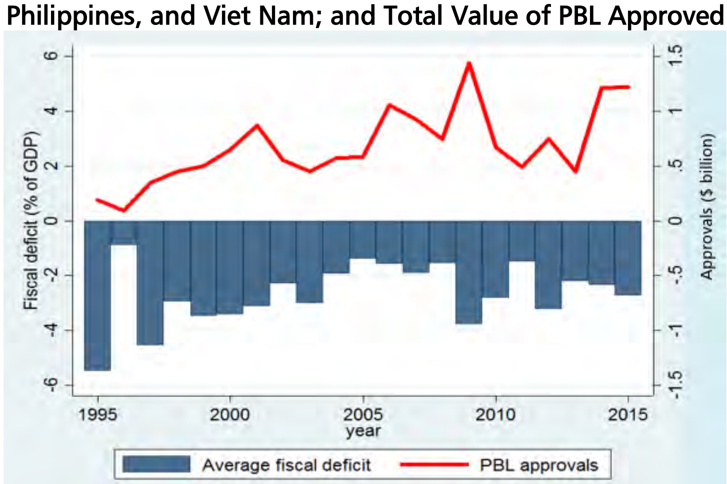
[37] ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Grants for Subprogram 2 to the Islamic Republic of Pakistan: Accelerating Economic Transformation Program*. Manila.

be used as a response to short-term country financing needs during crises (rather than expecting it to promote longer-term policy reform measures) is appropriate. However, there is a lack of clarity about which of the two objectives, financing or policy reform, should predominate and this can affect PBL design during crisis periods. For instance, the PVR for the Cook Islands Economic Recovery Support Program noted that, when designing a program that is meant to respond rapidly to an impending crisis, it is not good practice to adopt an overly complex program with a wide scope and with numerous policy actions and conditions—especially in the Pacific.[38] ADB has recently used stand-alone single-tranche PBL, which disburses resources more efficiently in response to crises. The use of PBL for crisis-related budget support, which disburses only in the event of a disaster and is conditional on building fiscal resilience and country preparedness, has also been recently introduced.

B. Country Demand for Policy-Based Lending

39. **A review of demand for PBL found that financing objectives are a key motivation for government requests for PBL.** Frequent recipients of PBL, such as Indonesia and the Philippines, base their requests for PBL on their budget needs. In the Philippines, for example, the Treasury divides the financing of the deficit between domestic currency (80%) and foreign currency (20%) financing. Foreign currency financing includes financing by MDBs, including a notional share to be funded by ADB PBL; the larger the deficit the higher the demand for PBL. This point is also illustrated in Figure 5, which shows budget deficits and PBL approvals in Bangladesh, Indonesia, Kyrgyz Republic, Nepal, Pakistan, the Philippines, and Viet Nam. PBL approvals increased after these countries experienced large fiscal deficits. This is not to say that policy reform is not an important motivating factor as well but that the size of PBL operations are not determined by such reform. The size of a PBL is correlated with the country financing needs, not with the cost of policy reforms (Box 2), which at any rate is difficult to determine.

Figure 5: Average Fiscal Deficits in Bangladesh, Indonesia, Kyrgyz Republic, Nepal, Pakistan, the Philippines, and Viet Nam; and Total Value of PBL Approved



GDP=gross domestic product, PBL=policy-based lending.
Sources: Independent Evaluation Department and IDB. Office of Evaluation and Oversight. 2016. *Annual Report 2015: Technical Note: Design and Use of Policy-Based Loans at the IDB*. Washington, DC.

[38] IED. 2016. *Validation Report: Cook Islands: Economic Recovery Support Program-Subprograms 1 and 2.* Manila: ADB.

Box 2: What Determines the Size of a Policy-Based Lending Operation?

The practice of emphasizing the costs of adjustment to determine the loan amount is problematic. Costs are often difficult to quantify, and policy changes do not always incur costs. The ADB Operations Manual prescribes basing loan amounts on the overall and sector-specific financing needs of the recipient country, factoring in support from other development partners. The World Bank and the IDB follow similar approaches. In other words, the financing provided by the PBL is for budget support and may not necessarily be used to finance the cost of policy reform, so an explicit link between the two should not be made. Indeed, if reform costs are identified, they could just as easily be funded through an investment project, or through TA. There is no necessary relationship between loan size and policy reforms. Other MDBs have delinked loan size from any notion of policy reform costs, recognizing that cost–benefit analysis should not be undertaken to justify the loan or its size.

ADB = Asian Development Bank, IDB = Inter-American Development Bank, MDB = multilateral development bank, PBL = policy-based lending, TA = technical assistance.
Source: Independent Evaluation Department.

40. **The importance of PBL in ADB's sovereign operations has varied over time and across countries.** Except for Timor-Leste and Turkmenistan, all developing member countries (a total of 38 countries) have had at least 1PBL operation (as either a loan or a grant) since the beginning of PBL. Since 1978, 6 countries have received only 1 PBL loan or grant; 19 countries, 2 to 9; 13 countries, 10 or more; and of these 7 countries received more than 20. In terms of the number of PBL operations, Pakistan has been the largest PBL recipient followed by Indonesia. Appendix 1 lists the number of PBL approvals by country from 1978 to 2017.

41. **Southeast Asia has been the largest and most consistent user of PBL since 1978, accounting for nearly 40% of the total number of approvals each year, and almost 50% by value.** Central and West Asia accounted for 25% of total approvals, and South Asia accounted for 16% (Table 7). The share of the Pacific in total PBL approvals over the period was 0.7% by value, 2.5% of ADF; and 0.2% of OCR. The use of PBL in the Pacific region appears to be linked to crisis years: the Asian financial crisis (1997), the stock market crisis in the US triggered by the bursting of the dot-com bubble (2001), and the global financial crisis (2007). Recently, ADB has used PBL to provide contingent financing operations in Cook Islands, Samoa, Tonga, and Tuvalu. Given that this PBL disburses only in the event of a natural disaster, and that it is small in relation to overall PBL operations, removing these operations from the PBL ceiling would have little impact on ADB's capital adequacy. It would also recognize the region's fragility.

Table 7: Policy-Based Lending by Region, 1978–2017

	Total ($ billion)		Share (%)	
Region	**2008–2017**	**1978–2017**	**2008–2017**	**1978–2017**
Central and West Asia	7.0	13.9	25.8	25.3
East Asia	0.8	5.0	2.8	9.0
Pacific	0.2	0.5	0.7	1.0
South Asia	3.8	8.9	14.0	16.3
Southeast Asia	15.4	26.6	56.7	48.4
Total	**27.1**	**55.0**	**100.0**	**100.0**

Source: Asian Development Bank Controller's Department database.

Figure 6: Distribution of Ordinary Capital Resources and Asian Development Fund Policy-Based Lending by Value, 2008–2017

ADF = Asian Development Fund, AZE = Azerbaijan, BAN = Bangladesh, CAM = Cambodia, GEO=Georgia, IND = India, INO = Indonesia, KAZ = Kazakhstan, MYA = Myanmar, NEP = Nepal, OCR = ordinary capital resources, PBL = policy-based lending, PHI = Philippines, PAK = Pakistan, VIE =Viet Nam.
Note: Only the larger policy-based lending recipients are labeled.
Source: Asian Development Bank database.

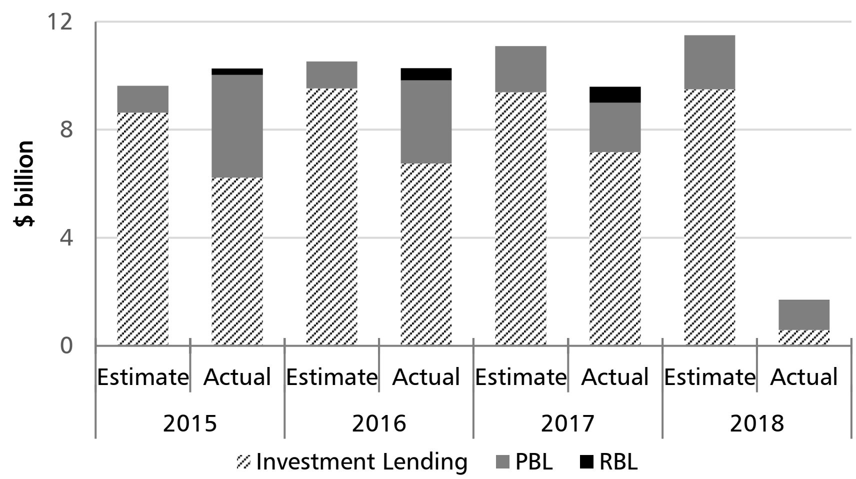
42. **Indonesia, Pakistan, the Philippines, and Viet Nam have consistently accounted for about 65% of all PBL approved by value since 1978**. These countries continue to be the largest, most frequent, and most consistent PBL users (Figure 6). This raises questions about the justification for PBL; after need and the impact of crises, it seems that the distribution of PBL across countries is affected by habit and a dependence on PBL. Since there is a ceiling on PBL, these customs may have limited the extent to which other countries can use the modality.

43. **The evaluation found that demand for PBL is growing, especially in middle-income countries.** Consultations with government officials in Indonesia and the Philippines, for instance, revealed that demand for PBL is high. Despite the ceiling on the share of PBL in total sovereign operations, in these two countries PBL occupies a much greater share of their sovereign portfolios than that indicated in the overall ceiling and this share could even potentially be higher. For instance, PBL accounted for 20% of sovereign operations in the Philippines from 1990 to 1999, and 57% from 2008 to 2017. In Indonesia, PBL accounted for 24% and 71% over the same two periods, climbing to nearly 80% of the country portfolio in 2016. While Pakistan has had the greatest number of PBL operations, the share of this type of loan in the overall country program has declined significantly in recent years from 60% in 2000–2007, to 27% over the evaluation period. By contrast, PBL approvals in Bangladesh accounted for less than 13% of the country portfolio over the evaluation period. Since 1978, PBL has not been used consistently over a long period in any Pacific country, except the Republic of the Marshall Islands. Given greater recognition, by ADB and other development partners, of Pacific countries' vulnerability to economic downturns and natural disasters, this may now be changing.

44. **Several factors explain why country demand for PBL remains high in non-crisis years.** PBL operations are processed more quickly than investment loans because they do not involve procurement and are often considered not to generate environmental and social safeguard risks. In the absence of detailed data on design costs, however, the evaluation cannot say whether PBL operations are significantly cheaper for ADB to prepare than investment projects, but

other MDBs have found this to be the case.[39] There is also evidence from an ADB workload and workforce analysis that PBL operations are designed and implemented using fewer staff resources and in less time than investment projects.[40] This has enabled ADB to respond to country requests for financing more quickly than if it had used other lending modalities. For instance, in 2015, PBL disbursements were nearly four times the 2015 target in the President's Planning Directions, and three times the 2016 target (Figure 7). While PBL disbursement in 2017 was on target, over 50% of the estimated disbursement for 2018 was made in the first 2 months of the year (Table 8). In part, this reflects the difficulty of predicting the level of country demand for PBL at the start of the financial year, but it also shows ADB can adjust the use of its modalities to meet operational targets.

Figure 7: Asian Development Bank Annual Loan Disbursements, 2015–2018[a]



PBL = policy-based lending, RBL = results-based lending.
[a] 2018 at end February.
Source: Asian Development Bank Controller's Department database.

Table 8: Policy-Based Lending Disbursement ($ billion), 2015–2018

2015		2016		2017		2018	
Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual[a]
1.0	3.8	1.0	3.1	1.7	1.8	2.0	1.1

[a] Disbursement at end February 2018.
Source: Asian Development Bank Controller's Department database.

[39] Design and Use of Policy-based Loans at the Inter-American Development Bank (IDB). IDB. Office of Evaluation and Oversight. 2016. *Annual Report 2015: Technical Note: Design and Use of Policy-Based Loans at the IDB*. Washington, DC.

[40] ADB. 2015. *Draft Note for the IBS on the 2015 Workload and Workforce Analysis and Skills Audit*. Manila.

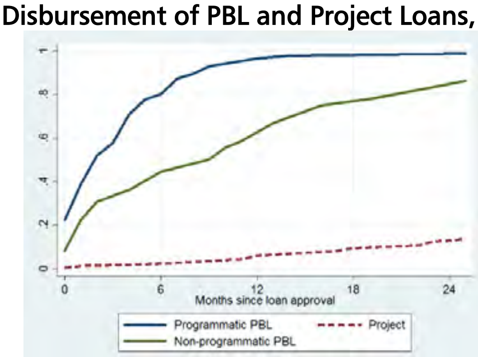
45. **The evaluation found that PBL is positively correlated with the size of fiscal deficits, and negatively correlated with GDP growth.** To test this statistically, the evaluation ran three fixed-effects panel regression models for all countries over 1978–2017 (Appendix 2).[41] The results showed that PBL was positively correlated with the lagged fiscal deficit and lagged public debt, and negatively correlated with lagged GDP growth.[42]

46. **PBL disburses much more quickly than project loans.** This means there are lower supervision costs for ADB following Board of Directors' approval than for any other kind of loan. From 2008 to 2017, over 20% of programmatic PBL disbursed all proceeds within the same month as approval, compared with 8% of stand-alone PBL. In contrast, 0.5% of investment project loans disbursed half of their proceeds in the same month as approval. Within the 6 months following approval, 80% of programmatic and 44% of non-programmatic PBL disbursed all approved amounts. By contrast, less than 3% of investment project loans had disbursed 50% of their proceeds within 6 months of approval. Moreover, PBL has many fewer disbursements than project loans. The evaluation found that, on average, a PBL disburses half of its proceeds in 1.1 disbursements, whereas a project loan requires 20.5 disbursements to reach the same point. The introduction of programmatic PBL has further accelerated the rate of disbursement (Figure 8). So, while PBL is limited as a share of total sovereign operations its share in disbursement is much higher.

C. Allocation of Policy-Based Lending

47. **While ADB should respond to country demand for budget financing, its ability to meet such demands is limited.** The ceiling means that rationing is inevitable. Strong economic growth in ADB countries and the ceiling on overall use of PBL means the size of PBL has declined relative to GDP in all countries. The significance of PBL as a source of financing in middle-income countries, especially those approaching upper-middle-income status, is shrinking. Even though these countries face new policy challenges, such as those associated with climate change and growing inequality, they are likely to have more institutional capacity and access to resources to manage these issues. Limited PBL resources may therefore be more significant in countries with lower per capita incomes, such as Bangladesh, Cambodia, Nepal, and Pakistan, or those with less well-developed institutions. While the supply of PBL should respond to country demand for budget financing, it also needs to reflect development needs over the longer term.

Figure 8: Disbursement of PBL and Project Loans, 2008–2017



PBL = policy-based lending.
Sources: Asian Development Bank Controller's Department database and IDB. Office of Evaluation and Oversight. 2016. *Annual Report 2015: Technical Note: Design and Use of Policy-Based Loans at the IDB*. Washington, DC.

41 The models were based on similar analysis conducted by OVE. See footnote 30.

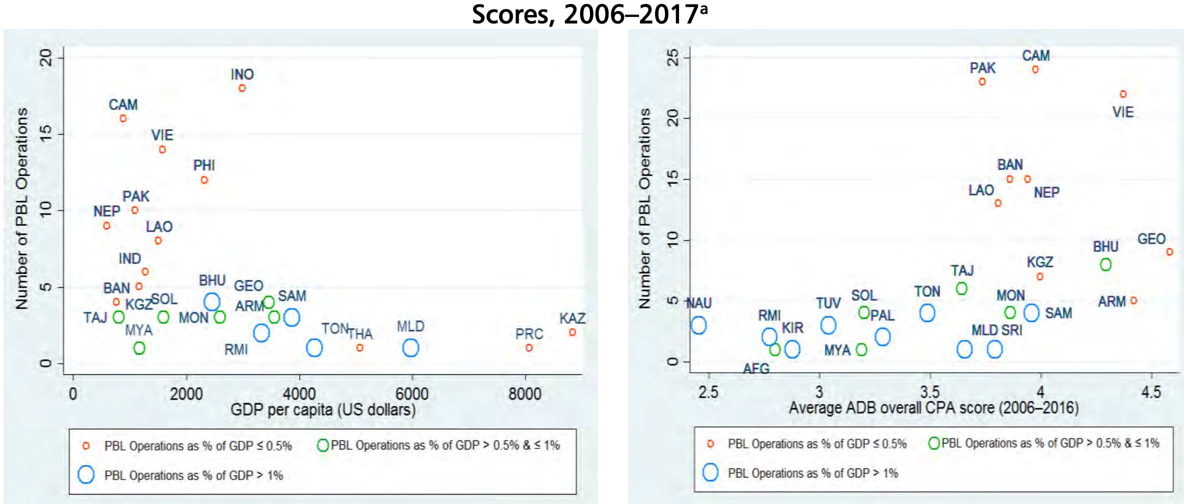
42 The three models include PBL approvals as a percentage of GDP as the dependent variable. The first uses the fiscal deficit as percentage of GDP as the explanatory variable, the second uses GDP growth, and the third includes public debt as percentage of GDP. A 1-year lag on the explanatory variable is intended to capture countries' demand for financing and aggregate economic performance in the previous year.

48. **In line with other MDBs, ADB has directed a greater share of the PBL allocation at countries with higher incomes per capita, stronger policies, and greater institutional capacity.**[43] This fits with the view that development aid works better in countries with stronger policies and institutions and more desire for policy reform. However, PBL should also support reforms in countries with weaker institutions to lift overall development in these countries and the region. Figure 9 shows that the distribution of PBL is positively related to income per capita and country performance assessment (CPA) scores. Among the four largest recipients of PBL over 2008–2017, only Pakistan has a strong poverty-based need for development financing, yet PBL support for Pakistan has recently declined. By contrast, Indonesia, the Philippines, and Viet Nam have the capacity to source financing from domestic and international capital markets.

D. What Reforms did Policy-Based Lending Support?

49. **The sectors supported by PBL have shifted from agriculture, natural resources and rural development (ANR) to public sector management (PSM).** Before the late 1990s, on average 61% of the total number of approvals per year supported ANR, as ADB provided short-term financing for the importation of agricultural inputs. However, lending for policy reform in agriculture has declined sharply since then (Figure 10). In the period leading up to the Asian financial crisis, PBL support shifted to financial sector reforms[44] and, since the mid-1990s, ADB has used PBL to support reforms in PSM, the number of which escalated in response to the global financial crisis. The shift to PSM reform is also in line with the practices of other MDBs, particularly the World Bank and IDB.

Figure 9: Distribution of Policy-Based Lending by Income Per Capita and Country Policy Assessment Scores, 2006–2017[a]



ADB = Asian Development Bank, ARM = Armenia, AFG = Afghanistan, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, CPA = country policy assessment, GDP = gross domestic product, GEO = Georgia, IND = India, INO = Indonesia, LAO = Lao People's Democratic Republic, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, KIR = Kiribati, MLD = Maldives, MON = Mongolia, MYA = Myanmar, NAU = Nauru, NEP = Nepal, PAK = Pakistan, PAL = Palau, PBL = policy-based lending, PRC = People's Republic of China, PHI = Philippines, RMI = Marshall Islands, SAM = Samoa, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, THA = Thailand, TON = Tonga, TUV = Tuvalu, VIE =Viet Nam.

[a] Country policy assessment scores are not undertaken for ordinary capital resources countries.

Source: Independent Evaluation Department.

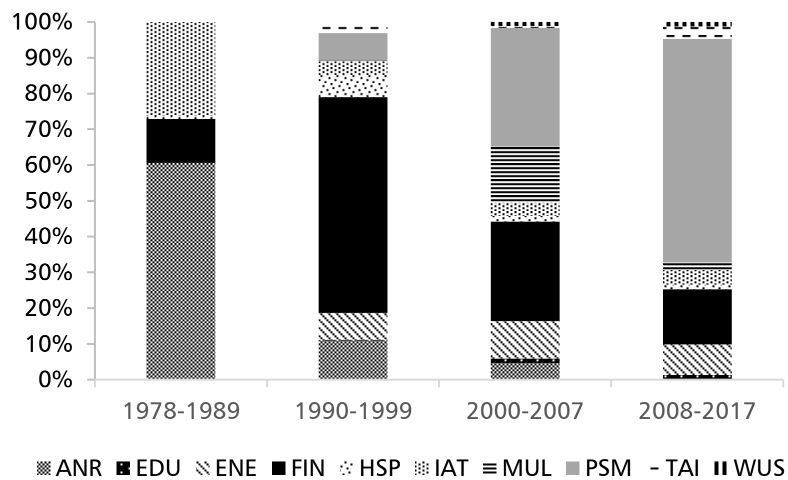
43 For instance, more World Bank PBL commitments have gone to better performing countries (those with a higher Country Policy and Institutional Assessment rating) and better performers have received a higher share of PBL in overall World Bank financing (World Bank, 2013).

44 Financial sector reforms often overlap with PSM as the focus of reform is about developing appropriate financial market regulation, removing the state from bank ownership, or introducing appropriate policies for financial market development and competition.

50. **A wide range of PBL operations that supported reforms are categorized by ADB under PSM.** These include decentralization and the strengthening of service delivery at subnational levels (especially in India and Pakistan), reform of public financial management, state-owned enterprise reform, access to justice, civil service reform, investment climate reforms, and poverty reduction programs. Because PSM reform includes a range of different reform types, it accounted for nearly two-thirds of all PBL approved over the evaluation period, peaking in 2008 (78%) and 2009 (87%). PSM continues to be the focus of nearly all PBL design (Figure 10). PBL support for reforms in ADB's key areas of investment (transport, energy, and water) has been less common, and the use of SDPs, which combine PBL with sector investments, has declined.[45]

51. **Nevertheless, in the last 3 years of the evaluation period, energy and financial sector PBL increased** (Figure 11). Recent approvals in the financial sector have focused on capital market development and improving the environment for private sector investment. Even so, it is the relevant and changing role of the state in the public sector that is the focus of attention in policy reform and hence the distinction between sectors may be less important than arriving at a clearer understanding of why particular reforms are selected for PBL support (see Chapter 4).

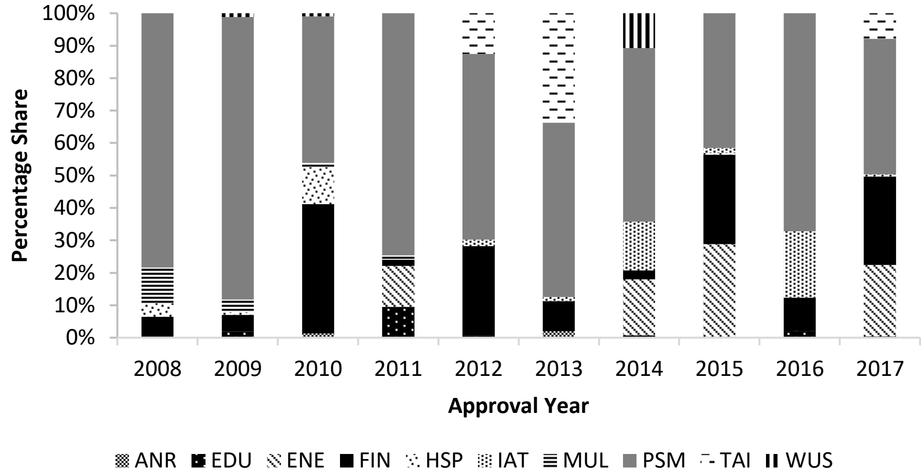
Figure 10: Policy-Based Lending by Sector



ANR = agriculture, natural resources and rural development EDU = education, ENE= energy, FIN = finance, HSP = health and social protection, IAT = industry and trade, MUL = multisector, PSM = public sector management, TAI = transport and information, WUS = water and other urban infrastructure and services.
Source: Asian Development Bank database.

[45] This is not to say that ADB does not support sector reforms but rather, these are often supported through project interventions and not necessarily through PBL.

Figure 11: Share of Policy-Based Lending Approvals by Sector, 2008–2017 ($ million)



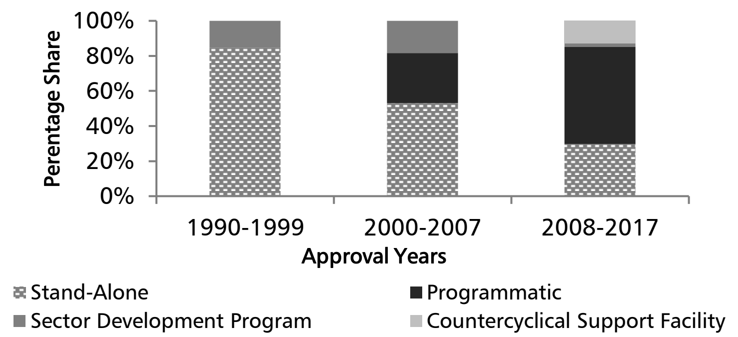
ANR = agriculture, natural resources and rural development, EDU = education, ENE = energy, FIN = finance, HSP = health and social protection, IAT = industry and trade, MUL = multisector, PSM = public sector management, TAI = transport and information, WUS = water and other urban infrastructure and services.

Source: Asian Development Bank database.

E. Single-Tranche and Multitranche Policy-Based Lending

52. **ADB and other MDBs are increasingly using single-tranche PBL** (Figure 12)**.** In this type of loan, the prior actions that constitute the conditionality are completed before loan approval. Single-tranche PBL can either be stand-alone, e.g., when used in response to a crisis, or packaged as part of a series of subprogram loans in a programmatic approach. Each subprogram loan is linked to the development objective of the policy reform program, and each subprogram loan is approved by the Board of Directors once its prior actions are completed, with disbursements occurring rapidly thereafter.[46] A substantial advantage of this type of loan, compared with multitranche PBL, is that the prior actions in subsequent subprograms can be amended to ensure that they remain relevant to changing political and economic circumstances, for instance, a change in government, a change in reform priorities, or an outbreak of civil unrest.

Figure 12: Number and Type of Policy-Based Loans, 1990–2017



Source: Asian Development Bank database.

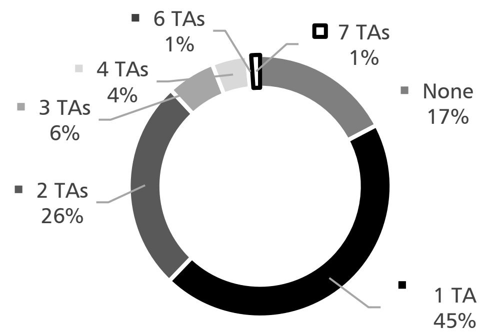
[46] This differs from the process at the World Bank where the reform program as a whole is presented to the Board of Directors along with the first subprogram. Successive subprograms are approved on a no-objection basis and do not require a Board of Directors' meeting.

53. **Multitranche PBL is more uncertain than single-tranche PBL since borrowers need to carry out the policy reforms attached to the loan after it has been approved.** Previous evaluations noted that this resulted in "significant delays relative to planned disbursements," or waivers being sought when tranche release conditions were not met. Evaluations in 2001 and 2007 (footnotes 20 and 21) described how overloading the second and subsequent tranches with complex and numerous conditions in a multitranche PBL had led to severe disbursement delays, waivers, and cancellations (discussed in Chapter 3), which was also experienced by other MDBs. To overcome this, the World Bank shifted to the use of programmatic PBL in the late 1990s, while ADB slowly introduced this form of PBL from the mid-2000s. Unlike the World Bank, ADB continues to use both approaches, although the share of multitranche PBL declined significantly over the evaluation period. Why ADB selects programmatic or multitranche PBL in each particular case is generally not clear.

F. Policy-Based Lending and Other Modalities

54. **PBL is generally accompanied by TA and in some cases, PBL, TA, and investment projects are designed as a package.** TA plays an important role in PBL design and in the implementation of reforms. When TA is not part of PBL design, existing TA is often used to support reform implementation. For example, the Pacific Private Sector Development Initiative has often been drawn upon to support state-owned enterprise reforms in Pacific countries, where it features as a policy-related action in a PBL. The evaluation estimated that 83% of the PBL approved in 2008–2016 was supported by at least one TA project (Figure 13). While obtaining Board of Directors' approval for TA as part of the PBL approval package expedites procedures, it can also delay the production of the PCR, especially where the TA continues long after the PBL funds have been disbursed.

Figure 13: Technical Assistance Support for Policy-Based Loans



TA = technical assistance project.
Source: Asian Development Bank database

55. **Knowledge work is essential to justify the choice of the reforms supported by PBL and to explain why specific policy actions have been selected.** However, as the policy analysis undertaken by other partners can be used to inform PBL design, any assessment of TA likely underrepresents the scale of the knowledge work that underpins PBL design. In the Pacific, for instance, analysis undertaken by the IMF's Pacific Financial and Technical Assistance Centre (PFTAC), based in Fiji, is often drawn on for ADB PBL, especially its analysis of fiscal policy and related public financial management reforms. The issue was not that knowledge work did not exist but that it was not specifically referenced in PBL design documents.

56. **There is evidence that some policy reforms can require several TA projects implemented over many years.** In Indonesia, for example, TA was used for more than a decade to support the establishment of an independent financial services authority, Financial Services Authority of Indonesia (OJK), as the integrated regulator to oversee the entire financial sector. Reforms can often involve substantial time and TA effort.

57. **In a limited number of cases, PBL accompanies investment lending and TA, as an SDP.** However, the use of this type of program has declined since the early 2000s. While PBL can be used to support sector policy reforms in areas where ADB provides long-term assistance through investment lending, especially in energy, transport, and water, there is no specific template for packaging different modalities together, taking into account their inherent differences and time frames. However, there are examples of investment projects and PBL being used in parallel, to help improve the policy context for investment projects more generally without packaging them as an SDP. For instance, in Indonesia, ADB supports energy sector reform through a PBL operation without a specific link to its investment projects. Recently, PBL has been used in India to support sector investments in transport and water, e.g., the Rajasthan Urban Sector Development Program[47] and the Visakhapatnam-Chennai Industrial Corridor Development Program.[48] The latter combines PBL with a multitranche financing facility (MFF) loan and TA and aims to ensure that investment in a multi-modal transport system enhances local business development through undertaking parallel policy reforms to make it easier to do business. Nevertheless, given the scale of ADB investment in the energy, water, and transport sectors, there is a surprising lack of reforms supported by PBL in these sectors, even though infrastructure gaps were identified as key constraints on growth and poverty reduction in ADB's long-term strategic framework, Strategy 2020. These are also areas where ADB has significant expertise and capacity to influence reform agendas.[49] While ADB tends to address specific sectoral reforms through other lending and non-lending instruments, this may not be sufficient to systematically remove binding constraints to growth.

G. Policy-Based Lending and Cofinancing

58. **Formal cofinancing of PBL was not common during the evaluation period, although ADB's development partners have increasingly supported policy reforms in the same sector through parallel financing and joint working arrangements.** While the total portfolio of ADB PBL in 2008–2017 amounted to $27.1 billion, the evaluation estimated that parallel financing ranged from $7 billion to $10 billion, with the most frequent partners being the World Bank, Japan, Australia, France (Agence Française de Développement, AFD), Germany (Kreditanstalt für Wiederaufbau, KfW), and the European Union. PBL operations tend to be financed in parallel rather than through formal cofinancing arrangements.[50]

59. **In a number of cases, development partners have combined their finance and technical expertise around a single set of critical reforms.** For example, ADB and World Bank both supported energy sector reforms in Indonesia, with ADB's PBL backed by parallel financing from AFD and KfW. However, to meet their respective institutional requirements, ADB and World Bank designed their own policy matrixes targeting the same development outcome, suggesting that MDB requirements may sometimes stand in the way of more efficient collaboration. Even so, parallel financing has resulted in joint policy dialogue with government officials and opportunities for coordination in other areas of policy reform.[51] In general, the policy reform agenda across Asia and the Pacific is likely to exceed the capacity of a single partner, and joint financing of critical policy reforms should be encouraged (Box 3).

47 ADB. 2014. *Proposed Loans and Technical Assistance Grant and Administration of Grant India: Rajasthan Urban Sector Development Program.* Manila.

48 ADB. 2016. *Proposed Multitranche Financing Facility, Policy Based Loan, Technical Assistance Grant, and Administration of Grant India: Visakhapatnam–Chennai Industrial Corridor Development Program.* Manila.

49 ADB. 2008. *Strategy 2020. The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020.* Manila.

50 Parallel financing allows all partners a seat at the negotiating table and an opportunity to exert influence. It also allows individual partners to withdraw their funding should country conditions change.

51 Agence Française de Développement (AFD) and Kreditanstalt für Wiederaufbau (KfW) support a number of ADB Indonesia PBL operations, and other options are being developed.

H. Summary

60. The use of PBL in ADB has been affected by both demand and supply side factors. On the demand side, PBL has provided countries with budget support that can be quickly disbursed with lower transaction costs than those associated with other financing modalities. PBL has generally been accompanied by policy advice and capacity building and has helped to build consensus for a government's reform agenda. The evaluation found that countries' main motivation for a PBL was to address actual or anticipated financing requirements, which increased in crisis years. However, countries also had a genuine interest in pursuing reforms, and valued the policy reform advice and TA that accompanied budget support. PBL has provided ADB and other development partners with a seat at the policy negotiating table and an opportunity to influence reform processes. While PBL operations have been an important source of support during crisis periods, their capacity to support a countercyclical response has been limited in practice, partly due to the ADB ceiling, which limits the use of conventional PBL, and partly because economic growth has outstripped growth in available PBL finance. During crisis periods, the balance between financing and policy reform changed; meeting urgent short-term financing for macroeconomic stability objectives (rather than longer-term structural reforms) became the primary purpose.

61. Given the growing demand for PBL, the ceiling on the share of PBL in total sovereign operations has meant that ADB has had to implicitly ration the allocation of PBL resources across countries. A greater share of PBL has been allocated to countries with stronger policies and institutional capacity, which to some extent reflected the premise that aid resources work best in countries with relatively strong institutions and good policy settings.

Box 3: Policy-Based Lending by Development Partners in the Pacific

Effective PBL partnerships, with partners collaborating in support of a joint policy matrix, are in place in the Pacific. Following the global financial crisis in 2008–2009, development partners came together to provide budget support to those Pacific countries facing substantial declines in revenue and growth. In Tonga, for example, the ADB, Australia, New Zealand, and the World Bank worked jointly to provide budget financing, which provided fiscal space for the country's recovery from the shock triggered by the global financial crisis. Partners collaborated around a joint policy matrix focused on a small number of critical institutional and policy reforms over a long period, largely to build resilience against future shocks. A clear division of labor among the partners in Tonga has emerged with ADB focused on state-owned enterprise reform, while the World Bank covers public sector pay, civil service reform (with increasing ADB involvement), fiscal policy and debt management reform. Regular consultations, including joint missions, and joint memoranda of understanding with the government have helped to support government capacity. The donor partnership has been formalized through an annual "Friends of Budget Support Meeting," which brings together representatives from the four organizations as well as from the European Union, the International Monetary Fund and the Pacific Financial Technical Assistance Centre (PFTAC), to share experience and analysis of budget support across the Pacific. Although this collaborative approach evolved in response to the global financial crisis, the development partners have committed to using a single government-owned policy matrix as the basis for policy-based loans and grants in the Pacific.

Recently, innovative PBL instruments have been used in the Pacific to build disaster resilience using conventional PBL as a contingent financing instrument that disburses funding when triggered by a natural disaster. Such PBL helps countries strengthen their financial preparedness for disasters, which are frequent in Asia and the Pacific. For example, a regional disaster contingent financing PBL was approved for Samoa, Tonga, and Tuvalu in December 2017. It was fully disbursed ($6 million) in mid-February 2018, 3 days after a category 4 tropical cyclone struck the capital on Tonga, demonstrating the very rapid response that the instrument facilitates. A similar instrument has also been approved for Cook Islands.

ADB = Asian Development Bank, PFTAC = Pacific Financial Technical Assistance Centre, PBL = policy-based lending.
Sources: Asian Development Bank and Independent Evaluation Department.

3

POLICY-BASED LENDING PERFORMANCE AND RESULTS

Highlights

Asian Development Bank's performance in policy-based lending (PBL) is improving. Success rates have doubled. Disbursement delays have almost been eliminated due to the shift to single-tranche loans with more achievable objectives.

In line with other multilateral development banks, ADB has shifted the reform focus of its PBL from agriculture and finance to public sector management (PSM) reform operations.

The average number of policy actions attached to each loan has decreased.

There is some evidence to suggest that results are moving in the right direction in PSM and capital market development.

Those countries with the lowest country performance assessment ratings that received five or more PBL operations over the period showed significant gains in their scores for governance and PSM.

There is limited evidence on the results of policy reforms in infrastructure sectors, e.g., in transport, energy, and water.

62. **This chapter assesses the overall performance of PBL and the results it has achieved.** The assessment is divided into two parts. The first assesses PBL performance (the proportion of PBL operations rated successful or highly successful) as reported or validated by IED. The second assesses the extent to which PBL has achieved results, i.e., the extent to which PBL operations have led to actual outputs and outcomes in policy and context (see the theory of change presented in paras. 24–26). The methodology draws from existing evidence in IED's PVRs, PPERs, CAPEs and CPSFRVs. It also uses ADB's CPA,[52] the Public Expenditure and Financial Accountability (PEFA) framework, other country-level indicators, and evidence collected through consultations with key stakeholders and country visits.

63. **There are limitations to assessing the results of PBL, for ADB and other development partners.** This is largely because attributing development outcomes to PBL and their many individual actions and outputs is difficult. Explanations of how policy actions achieve outputs, and how these outputs lead to outcomes are often weak both in reports and recommendations of the President (RRPs) and PCRs. Outcomes may be achieved, and the PBL may have been given a positive rating on that basis, but the PBL's role may not have been critical. In many policy areas supported by PBL, e.g., public financial management and capital market reform, ADB is rarely acting alone; it works in parallel with other development partners. Hence linking the actions of each development partner to results is difficult. The assessment below therefore considers whether countries that receive PBL are achieving results that are moving in the right direction in the areas of ADB's interventions. For instance, is public financial management improving, and are capital markets deepening? Also, despite the difficulties with attribution, an effort has been made to assess the likely contribution of ADB PBL to results achieved.

A. Performance

64. **The performance ratings for PBL operations approved and evaluated post-2008 have improved sharply.**[53] The success rate of the

[52] ADB. 2016. *Annual Report on the 2016 Country Performance Assessment Exercise*. Manila.

[53] The main sources of assessment of PBL performance in ADB are PCRs, which are validated by IED, as well as PPERs.

49 PVRs for PBL operations approved and evaluated post-2008 was 80%, nearly twice that for operations approved before 2008 and evaluated post-2008 (Table 9). In the World Bank, a similar trend can be seen during the 10-year period (2005–2014) following the adoption of DPL and the share of effective[54] operations stood consistently at or above 75%.[55] In other words, parallels can be drawn between the improvement in PBL performance in ADB and DPL performance in the World Bank that may be explained by the accumulation of experience in the use of the instruments and adaptations to the context, as will be seen in case of ADB.[56]

65. **The improvement in performance in ADB can be attributed to five main factors**. First, by using single-tranche operations (alone or as part of a programmatic series), ADB has almost eliminated the disbursement delays that dragged down earlier PBL performance. The cancellation of second or third tranches no longer affected the effectiveness of multitranche operations. Second, a large share of operations during the period were designed to respond to crisis situations, mainly those due to the global financial crisis of 2008–2009. Third, there was a change in the type of reforms supported by PBL, which increasingly focused on PSM, while support for the financial sector declined. Fourth, there were fewer policy actions attached to each loan, which more closely matched country capacity to implement them. Fifth, the reduction in the Pakistan program, which had been unsuccessful between 2001 and 2008, may have played a role in improving the overall PBL performance. Evidence supporting each of these factors is presented below.

66. **With respect to disbursement delays, PBL operations approved and evaluated before 2008 suffered from acute delays.** IED's evaluation in 2001 found that nearly three-quarters of all PBL operations (which at that time were all multitranche) were delayed, and 11% were cancelled (footnote 20), reducing the likelihood of the ultimate objective being achieved. However, the progressive use of single-tranche PBL (in a programmatic series), starting in 2004, has almost eliminated delays, especially those longer than 6 months (Figure 14).

Table 9: Evaluated Policy-Based Lending, 2008–2017

Updates	PPER/PVR	Success Rate (%)
Evaluated by Independent Evaluation Department 2008–2017	119	58
PBL Approved After 2008	49	80
PBL Approved Before 2008	70	43

PBL = policy-based lending, PPER= program performance evaluation report, PVR = program completion report validation report.
Sources: Asian Development Bank and Independent Evaluation Department databases.

[54] This measures the share of closed operations receiving summary outcome ratings of moderately satisfactory or better.

[55] The ratio has improved recently, from 75% in fiscal years 2010–2012 to 83% in 2013–2015; the increase was driven by the performance of a handful of large operations (IEG, 2017a). For investment operations, the share of effective operations was lower at 71% in 2013–2015, compared with 68% in 2010–2012 (importantly, however, the evaluation methodology differs from that for PBL). World Bank. 2017. *Results and Performance of the World Bank Group 2016*, *IEG.* Washington, DC.

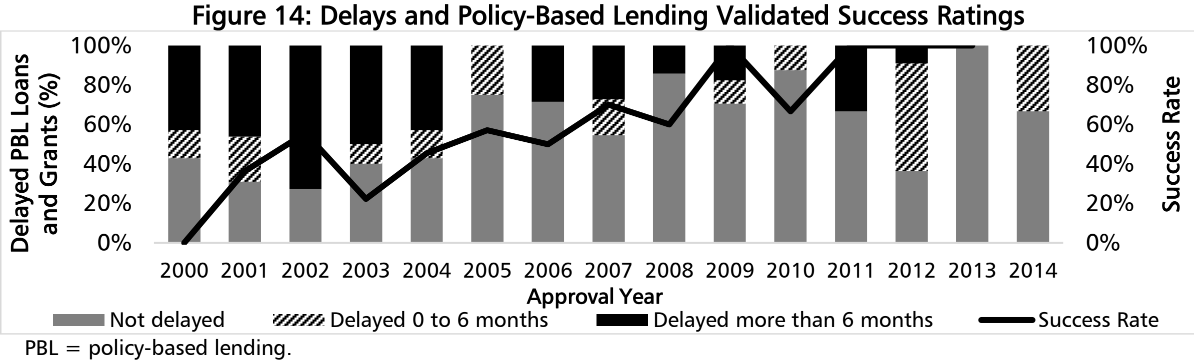
[56] However, given that the two MDBs have not used identical evaluation approaches, the success rates of their PBL operations cannot be completely compared with each other, or with those of other MDBs. For example, the African Development Bank uses a rating scale that differs from both the World Bank's and ADB's (OPEV, 2011). The World Bank does not use a success rating, but rates satisfaction with outcomes separately from risks to outcomes; the latter rating is equivalent to ADB's sustainability rating, which is subsumed under the success rating (AfDB. 2011. *Evaluation of Policy-Based Operations in the African Development Bank, 1999–2009*. Operations Evaluation Department. Côte d'Ivoire, March; World Bank. 2017. *Results and Performance of the World Bank Group 2016*, *IEG.* Washington, DC.)

67. **As disbursement delays diminished and tranches no longer cancelled, success rates improved.** The most common criticisms in PVRs for PBL approved before 2008 concerned (i) the overestimation at appraisal of the capacity or commitment of the government to undertake reforms; (ii) the excessive number of policy areas to be covered; and (iii) the unrealistically tight timing between program approval and closure, as well as between tranches (Appendix 5, Linked Document 1).

68. **To allow governments to comply with loan conditions, the implementation periods of multitranche loans were often extended.** For example, the Rural Cooperative Credit Restructuring and Development Program in India was extended twice, delaying the program by 3 years.[57] In Indonesia, the Industrial Competitiveness and Small and Medium Enterprise Development Program closed 4 years and 9 months after program approval, with cancellation of the final tranche.[58] The Banking Sector Reform Program in Lao People's Democratic Republic took 6 years instead of 3 to complete.[59] The Governance Reform Program in Nepal was delayed by 3 years and the last tranche cancelled.[60] Delays, followed by cancellations, were particularly common in Pakistan. A major restructuring of the Pakistan portfolio in 2007–2009 also contributed to PBL cancellations. Among factors that contributed to the poor performance of multitranche loans before 2008 was that too many complex policy conditions were backloaded to second and subsequent tranches. Combined with weak capacity in government agencies, the design of PBL operations resulted in delays and cancellations, which undermined its purpose of providing timely financial support.

69. **Improved disbursement coincided with increased use of programmatic PBL, which expanded progressively over the evaluation period.** The number of multitranche PBL operations in the post-2008 PVR cohort fell by two-thirds from 61 to 22, while the number of single-tranche operations increased by the same proportion from 9 to 27 (which is the combined total of stand-alone single-tranche and programmatic). Policy actions in single- tranche PBL operations are completed before loan approval, which means that PBL operations are effective on approval and funds can be disbursed soon thereafter. In the cohort of operations approved before 2008 but evaluated from 2008 to 2017, efficiency ratings averaged 37% because of the time taken for countries to fulfill policy conditions after loan approval, which led to disbursement delays, cancellations, and low effectiveness ratings (Figure 15). A low rating was also given for sustainability because reforms were slow to materialize. Efficiency and effectiveness ratings in the cohort of PVR for PBL approved after 2008 have doubled and sustainability has also improved, largely because the completion of policy actions is no longer in doubt. The overall success rate has correspondingly improved significantly.

Figure 14: Delays and Policy-Based Lending Validated Success Ratings



PBL = policy-based lending.
Source: Independent Evaluation Department.

[57] IED. 2015. *Validation Report: Rural Cooperative Credit Restructuring and Development Program in India.* Manila: ADB.

[58] IED. 2010. *Validation Report: Industrial Competitiveness and Small and Medium Enterprise Development Program in Indonesia*. Manila: ADB.

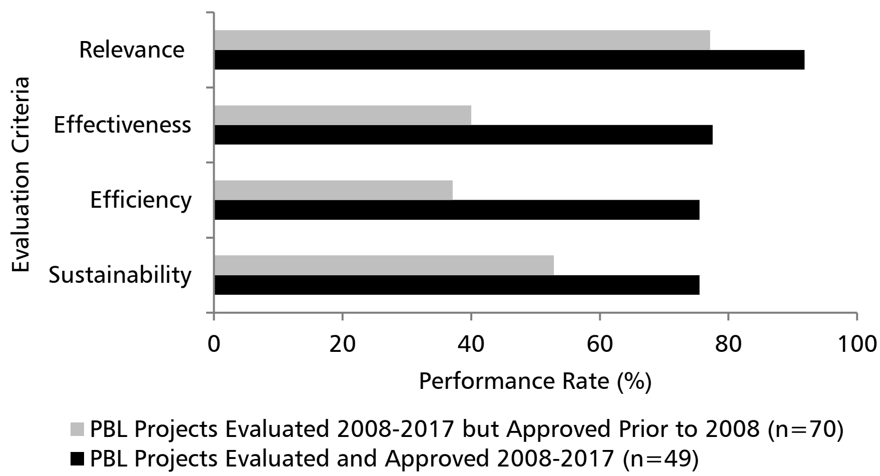
[59] IED. 2011. *Validation Report: Banking Sector Reform Program in Lao People's Democratic Republic*. Manila: ADB.

[60] IED. 2010. *Validation Report: Governance Reform Program in Nepal.* Manila: ADB.

70. **ADB introduced single-tranche PBL as part of a program cluster approach (now known as programmatic PBL) in its 1999 policy update but it took many years before this was mainstreamed.**[61] Except for South Asia Department (SARD), all regional departments shifted to the use of programmatic PBL or used both programmatic and multitranche. In general, SARD continued to use multitranche loans.[62] In some instances, programmatic approaches have also been designed using a multitranche PBL, but this variant is not well suited to the programmatic concept because it carries the risk of locking countries and ADB into conditions whose implementability cannot be predicted in advance.

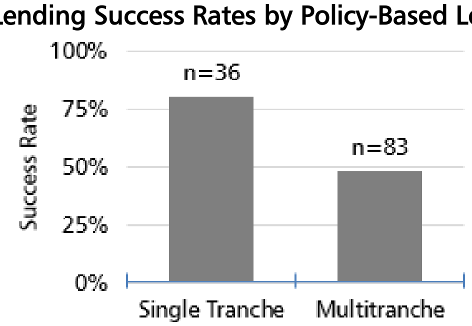
71. **In the sample of evaluated PBL, programmatic PBL performed significantly better than multitranche loans.** The introduction of programmatic PBL has improved the overall performance of PBL (Figure 16), and the performance of multitranche PBL approved since 2008 has also significantly improved. While programmatic PBL operations were introduced gradually from 2004, they have become ADB's preferred type of PBL.

Figure 15: Policy-Based Lending Operations Performance Ratings by Evaluation Criterion, 2008–2017



n = number, PBL = policy-based lending
Source: Independent Evaluation Department.

Figure 16: Policy-Based Lending Success Rates by Policy-Based Lending Type, 2008–2017



Note: n = the number of project validation reports completed in 2008–2017.
Source: Independent Evaluation Department.

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[61] ADB. 1999. *Review of ADB's Program Lending Policies.* Manila.

[62] Although SARD sometimes used multiltranche PBL as a cluster (programmatic) series.

72. **The second factor that contributed to improved performance was that the evaluation sample contained a number of regular, conventional PBL operations that were a direct response to either the global financial crisis or to specific country crises.**[63] The evaluation counted 14 out of the 49 PVRs as falling under this category (see Appendix 3). The combined success rate of the 14 operations was 93%, even though many of them suffered disbursement delays, which reduced their overall effectiveness as a crisis response instrument. If these 14 regular PBL are excluded, the overall success rate falls from 80% to 74%.

73. **The balance between the financing and policy reform objectives in PBL shifted during a crisis period.** PBL operations that respond to crises had a stronger emphasis on meeting short-term financing needs, rather than on longer-term fundamental reforms. Regular PBL operations that were designed to respond to a crisis focused on returning countries to their pre-crisis growth paths and on bolstering public expenditure amid severe revenue shocks to protect the vulnerable. However, in general a regular PBL operation that was designed to respond to a crisis aimed to transfer resources as quickly as possible to subvert further damage and cost to the economy. Timeliness was critical, especially when PBL supported essential public expenditures and was designed to have countercyclical impact. Against this trend, there were significant delays in the use of multitranche PBL to respond to crises, especially in the Pacific.

74. **Regular PBL operations, designed to respond to crises, supported small-island states, which are among the world's most vulnerable countries.** Of the 14 regular operations that responded to crises, 7 were in Pacific island countries and 1 was for the Maldives.[64] Three of the 14 were follow-on loans because an initial operation did not fully restore stability. In Tuvalu,[65] the first crisis response PBL in 2008 did not restore fiscal balance and was therefore followed by further support.[66] The PBL in Solomon Islands[67] in 2013, also followed on previous crisis support.[68] Both were single-tranche PBL operations that were not linked to a policy reform series. Nearly all the PBL in the small island states were in response to the global financial crisis of 2008–2009, although in Samoa[69] and Solomon Islands the PBL responded to a combination of the global financial crisis and natural disasters. In Marshall Islands[70] and Nauru,[71] PBL responded to specific crises that had severely impacted domestic revenues and the government's ability to provide public services. The overall objective of these PBL operations was to help support countries through crisis periods, protect fiscal space, maintain essential expenditures, and improve fiscal management to build resilience to future crises.

75. **The remaining regular PBL that was designed to respond to crises supported Armenia, Georgia (two PBL operations), Kazakhstan (the only CSF in the sample), and Mongolia; countries that were either recovering from conflict or dependent on commodity exports.** Georgia also received a follow-on

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63 ADB's response to the Asian financial crisis was not as significant as its response to the global financial crisis. The sample of PBL operations approved prior to 2008 therefore does not include a large share of crisis response operations

64 ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Loan and Technical Assistance Grant to the Republic of Maldives: Economic Recovery Program.* Manila.

65 In Tuvalu, crisis was triggered by the global financial crisis which reduced revenues from its sovereign wealth fund.

66 ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to Tuvalu: Strengthening Public Financial Management*. Manila.

67 In Solomon Islands the crisis was triggered by a series of natural disasters and the global financial crisis.

68 ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to Solomon Islands: Economic and Financial Reform Program*. Manila.

69 ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Subprogram 2 to the Independent State of Samoa: Economic Recovery Support Program.* Manila.

70 ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Loan for Subprogram 1, and Technical Assistance Grant to the Republic of the Marshall Islands: Public Sector Program*. Manila.

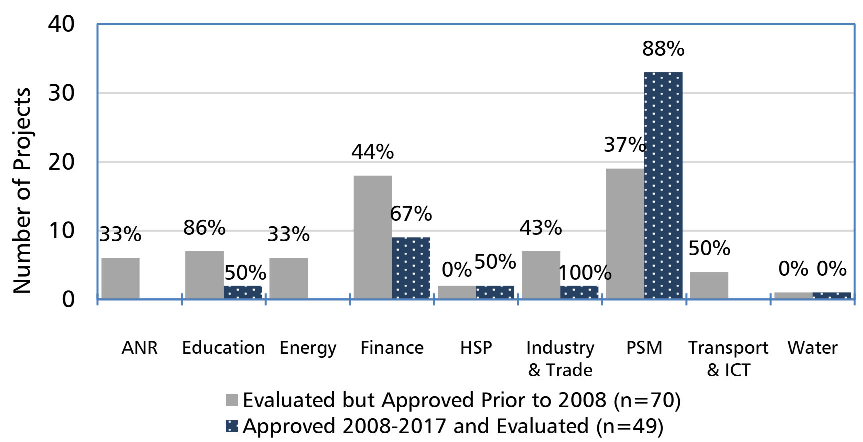
71 ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to Nauru: Public Financial Management Reform Program*. Manila.

single-tranche PBL because the 2009 response to the crisis did not fully address the problems the country faced in a post-conflict situation, which was also exacerbated by the global financial crisis.[72]

76. **The third factor behind the rise in performance was the change of focus in policy reform.** Since the early days of PBL, the character of the reforms supported by MDBs, including in ADB, has evolved. The focus during the 1980s on macroeconomic stabilization and removal of price distortions changed progressively to second-generation reforms dealing with long-run structural, social, and institutional issues—in short, the MDBs adopted a more developmental perspective. The 1990s saw a shift toward reforms in PSM, financial and private sector development, and the social sectors, away from industry, energy, and agriculture policy. This reflected a shift in countries' own agendas, as well as a growing realization on the part of the development community that social, political and economic institutions matter for sustained implementation of sound macroeconomic policies, growth and poverty reduction. The change also reflected concerns about the high social costs of structural adjustments.

77. **In line with other MDBs, over 2008–2017, ADB increasingly focused its policy reform efforts on PSM, and less on the financial sector, which had not performed well before 2008.**[73] While a range of reforms continued to be supported, PSM became the dominant sector supported by PBL and doubled its share from one-third of the value of PBL approvals in 2000–2007 (30% by number) to nearly two-thirds of the value of approvals in 2008–2017 (56.9% by number). PSM accounted for almost half of all evaluated PBL operations over the evaluation period (Figure 17). A total of 52 PVRs assessed PSM reforms across 25 countries. The majority of these were in Pakistan (7); Indonesia (6); Viet Nam (4); India, Mongolia, Nepal, the Philippines and Tuvalu (3 each), and Armenia, Georgia, and Samoa (2 each) while 14 countries had 1 PSM-related PVR each.

Figure 17: ADB Support to Public Sector Management: Evaluated and Policy-Based Lending Success Rates,[a] 2008–2017



ANR = agriculture, natural resources and rural development, HSP = health and social protection, ICT = information communication and technology, PBL = policy-based lending, PSM = public sector management.

[a] Success rates are shown above each bar as a percentage.

Source: Asian Development Bank database.

[72] ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia: Social Services Delivery Program*. Manila.

[73] The financial sector success rate was 44% before 2008. Of the 18 PBL approved before 2008 but evaluated over the evaluation period, eight were rated successful. PSM was 37% before 2008, and increased to 88% after 2008.

78. **The performance of PBL that supported PSM reforms increased sharply, from a success rate of 37% in 1999–2007 to 88% in 2008–2017.** One explanation for this is that those PBL operations that supported PSM and were approved and evaluated after 2008 concentrated on public expenditure and financial management (PEFM) with policy actions that were within the direct control of finance ministries, the major stakeholder in PBL design. Of the 49 PVRs, 26 supported PEFM, whereas in the previous cohort only 7 PVRs were PEFM-related. Furthermore, the types of reforms supported, while important for longer-term growth and development, became less politically controversial because they focused on technical areas that were within finance ministries' scope of work, i.e., reforms concerning budget preparation; the introduction of medium-term fiscal frameworks; and treasury management, which match the existing functions of finance ministries.[74]

79. **The fourth factor that explains the improved performance of PBL is the reduction in the number of policy actions.** This could be related to lessons having been learned, as well as reduced complexities or more realistic ambitions over the years. The evaluation found that the median number of policy actions per PBL operation fell from 24 in 2008 to 16.5 in 2017.[75] However, there was some variation across countries and operations (Figure 18). For example, in Indonesia PBL averaged 41 actions per operation, although this figure was skewed by 5 operations approved during 2008–2011 that contained a total of 448 policy actions, or an average of nearly 90 policy actions per loan. A similar pattern was observed in other countries. In the Philippines, the 12 operations approved during the evaluation period contained no fewer than 463 policy actions, which increased to 663 if sub-actions were also counted. As in Indonesia and Viet Nam, PBL in the Philippines often drew a distinction between "core or trigger actions," on which loan approval or tranche release was based, and "non-core" measures, but this was not an ADB-wide practice. In Bangladesh and the Kyrgyz Republic, PBL contained fewer policy actions, but still more than double the number in a typical World Bank development policy operation (which averages eight policy actions per loan). Only two operations in Bangladesh contained the minimum number of critical measures, in line with PBL guidelines. In Viet Nam, the Support for the Implementation of Poverty Reduction Program,[76] which supported the reform program backed by World Bank poverty reduction support credits, contained among the fewest policy actions in the ADB PBL portfolio. Across the regions, Pacific PBL contained the fewest policy actions (an average of 15 per tranche or subprogram), a benefit for these small island states. This reflects the extent to which joint work with other development partners on the PBL modality has become more formalized.

80. **The evaluation discovered that ADB's PBL operations are becoming simpler, but the typical PBL is still too complex.** The average number of policy actions has been declining in all countries over the last few years, which may have come from a recognition of limited country capacity to implement and monitor many policy actions, as well as the difficulties involved in linking large numbers of policy actions to outputs and outcomes in the DMF. However, the key issue is the degree of variation around the median, which shows that the approach deviates from the guidelines, which calls for policy actions to be restricted to a minimum, critical for the removal of the policy constraint (Figure 18). The average number of policy actions supported by a PBL over the evaluation period was 23, nearly 3 times the average number supported by recent World Bank development policy loans.

[74] This is not to say that PSM does not involve other ministries, but that the type of reforms undertaken are within the scope of the finance ministry functions, i.e., macroeconomic management and reform of public financial management.

[75] Although the declining trend in the median number of policy actions in a PBL operation is modest, the downward trend in the highest policy action count observed is much more marked.

[76] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to the Socialist Republic of Viet Nam: Support for the Implementation of the Poverty Reduction Program IV*. Manila.

81. **A fifth factor is that the poorly performing Pakistan portfolio no longer dominated the ADB PBL after 2008.** The 2013 Pakistan CAPE[77] attributed the overall poor performance of ADB PBL in the country to the ambitious designs of many operations; a major restructuring of ADB's portfolio in 2007–2009; a change in government in 2008; and the suspension of the IMF standby credit facility in 2010, which also led to some PBL cancellations, lowering the overall success rate. A reduction in the number of Pakistan operations in the post-2008 portfolio has helped raise the overall success rate of PBL in the more recent evaluation period. Pakistan accounted for 17 (24%) of all PBL PVRs undertaken from 2001–2008 and for only 3 (6%) after 2008. Without Pakistan, the overall success rate before 2008 would have been 55% (up by 12 percentage points from 43%) and 85% after 2008 (up by 5 percentage points from 80%).

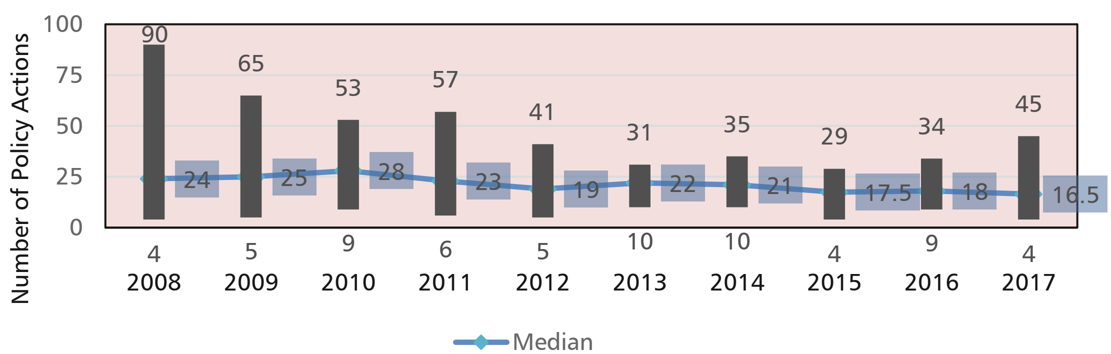
B. Has Policy-Based Lending Led to Development Results?

82. **A deeper understanding and assessment of PBL results over the evaluation period requires a more detailed examination of the changes that have taken place at the country level.** A significant feature of PBL support over the period was the shift in focus from financial sector reforms, which had received significant support following the Asian financial crisis of 1997–1998, to PSM in 2008–2017. In the following analysis, the emphasis is therefore on results in PSM reform, although reference is also made to reforms in financial markets and in the energy, transport, and water sectors.

1. Public Sector Management Results

83. **PSM was the main sector supported by PBL during the evaluation period.** ADB's PBL interventions aimed to improve public financial management systems at national and subnational levels, on both the expenditure and revenue sides. Reform areas included debt management, audit, fiscal consolidation, and budget management. The objective was often to build resilience to future economic shocks, improve public finance management, and strengthen overall macroeconomic management.

Figure 18: Numbers of Policy Actions in Policy-Based Lending



Note: For each year, the policy based lending operations with the highest and lowest numbers of policy actions are given.
Source: Asian Development Bank database.

[77] IED. 2013. *Country Assistance Program Evaluation: Continuing Development Challenges in Pakistan, 2002–2012.* Manila: ADB.

84. **A common feature of PSM-related reforms in India, Indonesia, Nepal, Pakistan, and the Philippines was decentralization and strengthening of state-level public finance management, e.g., in West Bengal and Assam in India, Sindh Province in Pakistan, and broader decentralization processes in Indonesia and the Philippines.** ADB also supported initial efforts to strengthen local capacity in Nepal. Decentralization was a common element of reform efforts in the PSM sector in these countries but less so in the 13 countries for which only 1 PVR was undertaken.

85. **In India, project and country field evaluation evidence indicated that PSM support was closely linked to country priorities and had strong government ownership.** The program aimed to tackle fiscal imbalances, which had led to underinvestment in infrastructure and the social sectors and poor basic services. The India CAPE[78] in 2017 regarded ADB's support as effective, as the major reform objectives and fiscal targets supported by the programs were largely achieved. The objectives of the completed programs in Assam and West Bengal were to (i) support fiscal consolidation and create fiscal space through reforms in revenue, expenditure, and debt management; and (ii) support key areas such as infrastructure investment and service delivery. Targets were achieved for fiscal deficits and revenue collection, including the states' own-tax revenue and debt management. Consultations undertaken by IED with key stakeholders in Assam and West Bengal found that views on the effectiveness of these programs were positive overall. In Assam, by program completion, information technology systems had improved, government officers had been trained, and fiscal indicators had improved. However, several years after completion, some indicators such as capital expenditure levels, had regressed slightly. The CAPE concluded that, given the state government's commitment to achieving fiscal consolidation, the results of the West Bengal PSM program were likely to be sustained. It was too early to assess the likelihood of longer-term results, such as the impact public financial management (PFM) reforms would have on service delivery. However, a similar PBL operation in the state of Mizoram did not have the same impact. The PVR for this program noted that the targets were ambitious and the capacity to implement the reforms may have been overestimated.[79] The DMF was complex, and there were many policy actions.

86. **The most recent IED assessment of the Philippines program found that ADB directly contributed to major policy and institutional reforms, improved PSM, and laid the foundations for more business investment.**[80] PSM support contributed to the government's policy reform agenda and helped build capacity in revenue and public expenditure management, decentralization, and public–private partnerships (PPPs). The institutional strengthening for PPP was particularly evident, with a PPP center established, 80 improvements made to the legal framework, and a pipeline of PPPs established, which led to the implementation of infrastructure initiatives. ADB also supported a review of the Local Government Code, with two bills in Congress focusing on local government revenue generation. The CPSFRV did not find evidence of progress in ADB's support for court administration, however, or for policy reforms in the judiciary. This long-standing support had stagnated compared with the early 2000s.

87. **In Indonesia, PBL supported the strengthening of audit functions, decentralization, public financial management, and public service delivery.** ADB has been extensively involved in Indonesia's decentralization reforms, with a focus on financial management systems in regional governments. Since 2005, reforms have slowly given tax autonomy to regional and local governments. Preparatory work to develop options for gradually devolving property tax administration to the regions was implemented. ADB has worked with the government to strengthen the management of regional reserves and debts through the development of bond ratings in a number of regional

[78] IED. 2017. *Country Assistance Program Evaluation: India, 2007–2015*. Manila: ADB.

[79] IED. 2017. *Validation Report: Mizoram Public Resource Management Program in India*. Manila: ADB.

[80] IED. 2016. *Validation Report: Country Partnership Strategy Final Review in the Philippines, 2011–2016*. Manila: ADB.

governments, together with a restructuring of nonperforming debts. Although over half of public expenditure in Indonesia is now undertaken at the subnational level, the process of decentralization to date has produced variable results in terms of increasing citizens' access to local services. While there has been general improvement and regional convergence in access to services, the quality remains poor and the regional disparity is widening.[81] While access to basic services is now better than before decentralization, further reforms are needed to raise quality. The World Bank's 2011 PEFA[82] assessment noted steady progress in strengthening the quality of PFM systems in Indonesia between 2007 and 2011, with some reforms in progress. The results demonstrate that, while improved service delivery through decentralization remains a long-term development objective, the foundations have been laid.

88. **In Viet Nam, ADB's PSM efforts were largely focused on restructuring state-owned enterprises and improving the business environment**. ADB targeted financial restructuring and equitization of several of the country's general corporations, which required lengthy changes to laws, decrees, and regulations. These reform efforts have been largely successful.[83] In 2017, the Ministry of Planning and Investment finalized a list of 375 state-owned enterprises to be wholly or partially divested by 2020.[84]

89. **In Nepal, initial PBL support for PSM reforms to 2012 was found to "have had modest results."**[85] However, the 2014 PEFA assessment suggested that Nepal has since made substantial progress in deepening the structures and processes of PFM, particularly in the use of information technology. Investment efficiency gains were achieved, despite the political transition period (2006–2010) during which reform was not a high priority.[86] This finding demonstrates that reform results may not be immediately visible, so longer-term monitoring outside the PBL timeframe is necessary.

90. **PBL operations in Pakistan at the federal and provincial levels were also weighted toward PSM.** There were few lasting or major results, however, because of the difficult reform context (Table 10). The PEFA report also shows that there were positive improvements only in some areas. Consultations with government officials revealed that they saw the results of the PBL more positively than ADB evaluations, which recorded very low success rates for all completed PBL operations.[87] These officials felt that the incremental nature of the reforms that had arisen from numerous PBL operations was to be expected. The slow progress was at least partly the result of some sector reforms not being supported strongly enough by government and development partners. This was particularly the case for civil service reform and anti-corruption initiatives, which were not directly tackled by PBL operations, or by national institutions. In this fraught political context, officials regarded incremental progress as sufficient justification for the programs.

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81 World Bank. 2017. *Indonesia Economic Quarterly: Decentralization that Delivers, December*. Jakarta.

82 World Bank. 2012. *Indonesia: Repeat Public Expenditure and Financial Accountability (PEFA) Report and Performance Indicators*. Washington, DC.

83 IED. 2016. *Validation Report: Viet Nam Country Partnership Strategy Final Review Validation, 2012–2015, Linked Document. Assessment of Public Sector Management*. Manila: ADB.

84 E. Cook. 2017. *Vietnam Gears up to Divest State Owned Enterprises in 2018.* The Diplomat. Asia.

85 IED. 2013. *Validation Report: Country Partnership Strategy Final Review in Nepal, 2010–2012.* Manila: ADB.

86 World Bank. 2015. *Public expenditure and financial accountability (PEFA) assessment : Nepal PFM second performance assessment as of FY2013-14 (English)*. Washington, DC.: World Bank Group. http://documents.worldbank.org/curated/en/483831467998500044/Public-expenditure-and-financial-accountability-PEFA-assessment-Nepal-PFM-second-performance-assessment-as-of-FY2013-14

87 Pakistan Federal Government. 2012. *Public Financial Management and Accountability Assessment.* Islamabad.

Table 10: ADB Policy-Based Lending Support for Public Sector Management Reforms in Pakistan, 2008–2016

Key Reform Agenda	Key ADB Reform Contribution	Overall Reform Trajectory
Decentralized public sector management. National support for provincial frameworks for local government; improved PFM of provinces and local government (planning, budgeting, audits, service standards, achievement of MDGs); capitalized pensions and provident funds of provincial civil servants.	Minor contribution to pension funds and the introduction of minimum service delivery standards, mainly in Punjab and in the health sector. Health Commission assisted in Punjab. No support from ADB since program completion.	The Legal Framework Order (2003) and provincial local government ordinances of 2001 were reversed in 2008. Provinces remained without local government for some years, and systems have only recently been reestablished, tailored by each province; these have yet to fulfill a meaningful version of devolution.
Economic structural transformation. Reduced food and fuel subsidies, better safety net targeting, more efficient liberalized markets for major agricultural commodities, enhanced private sector role, private–public partnerships.	Elimination of the food subsidy approach was of doubtful value. No significant progress since program completion, save some preparatory steps for eventual privatization of public sector enterprises.	Food and energy subsidies are still problematic and being reformed. The government has vacillated on policies for privatizing SOEs. The focus now is on revamping loss-making SOEs, with the possible goal of privatizing them at a later point.
Stabilization, Recovery, Reconstruction. Balance of payments, support to address a financial crisis (countercyclical), emergency response; earthquake disaster response.	Provided liquidity at critical points in the economic crisis (in 2000 and 2008) and disaster recovery after the earthquake of 2005.	The IMF Stand-By Agreement (2008) was disrupted, and the Extended Fund Facility (2013) had run its course by 2016. Earthquake reconstruction has been completed.
Expanding fiscal space for development expenditures. Increasing provincial government revenues, raising subnational social sector expenditures; incentivized transfers to districts.	More expensive debt was retired with the proceeds of loans. Some of the funds were channeled to districts as performance-based grants to expand social services. No support from ADB since program completion.	Local government was disrupted in 2008. The 18th constitutional amendment in 2010 adjusted provincial functions and associated financing, which no longer necessitated the direct financing from PBL.
Justice reform. Improving access to justice for the poor; strengthening justice institutions; and increasing accountability.	AJP's attempts at regulatory reform were not supported by the legal profession and improvements in court procedures were moderate.	Rule of law is still a government commitment, but reform has been slow; delays, access, and accountability issues persist.

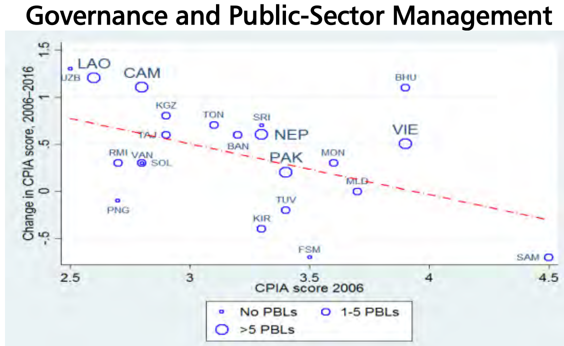
ADB = Asian Development Bank, AJP = Access to Justice Program, IMF = International Monetary Fund, MDG = Millennium Development Goal, PBL = policy-based lending, PFM = public financial management, PSE = Pakistan Stock Exchange, SOE = state-owned enterprises.
Source: Independent Evaluation Department.

91. **Overall, the PEFA shows that country systems for public financial management are improving, bearing in mind that improving PFM can take years, and is not the same as improved government service delivery** (Appendix 5, Linked Document 2). More generally, trends in PSM results at the country level can also be assessed through the CPA, although in ADB this applies only to countries receiving funding from concessional resources. CPAs for these countries are conducted annually to determine the allocation of resources across countries, so the analysis that follows does not cover Indonesia, the Philippines, and other OCR-only countries. The CPA is based on the principle that aid is most effective in accelerating economic growth and poverty reduction in countries where policy and institutional performance is strong, which also reflects the main purpose of PBL. A CPA assesses a country's policy and institutional framework for promoting poverty reduction, sustainable growth, and how effectively it uses concessional

assistance.[88] One way of assessing PBL performance is to analyze the relationship between numbers of PBL operations provided and corresponding changes in CPA scores. However, an assessment of this kind generally produces inconclusive results because a wide range of factors, beyond PBL, determine growth and poverty reduction. Nevertheless, Figure 20 shows the relationship between PBL and the CPA component that measures the quality of governance and PSM, a key outcome objective in PSM operations.

92. **Since 2006, scores for the CPA component, which assesses the quality of governance and PSM, have improved in most countries** (Figure 19). The largest gains were in those countries that started from a relatively low base and received more than five PBL operations over the period. For example, Cambodia and the Lao People's Democratic Republic had low governance and PSM scores in 2006 (shown on the horizontal axis) and experienced significant changes in their 2016 scores (shown on the vertical axis).[89] The red line indicates an inverse relationship, i.e., reforms may be less effective once the quality of public management has achieved a certain level. However, countries that received high scores in 2006 and that have received more PBL operations, for example Bhutan and Viet Nam, also achieved sizable positive changes. Some countries that started from a relatively high position in 2006 struggled to achieve further change, especially those in the Pacific, including Kiribati, Federated States of Micronesia, Samoa, and Tuvalu. This could reflect the fragility of countries in the Pacific region and the capacity of institutions to sustain reform gains. It should be noted that the evaluation found no relationship between PBL and the overall CPA score because the CPA measures growth and poverty reduction outcomes that are wider than those brought about by PBL.[90] Even so, an improved CPA score in governance and PSM suggests that reforms are making a difference, at least at the institutional level and in overall capacity, which provides a foundation for further support.

Figure 19: ADB Policy-Based Lending and Country Performance Assessment Scores for Quality of Governance and Public-Sector Management



ADB = Asian Development Bank, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, CPA = country performance assessment, FSM = Federated States of Micronesia, LAO = Lao People's Democratic Republic, KGZ = Kyrgyz Republic, KIR = Kiribati, MLD = Maldives, MON = Mongolia, NEP = Nepal, PBL = policy-based lending, PAK = Pakistan, PNG = Papua New Guinea, RMI = Republic of Marshall Islands, SAM = Samoa, SRI = Sri Lanka, SOL = Solomon Islands, TAJ = Tajikistan, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu, VIE =Viet Nam.

[a] The government and public-sector management component of the country performance assessment consists of the following: property rights and rule-based governance, the quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, transparency, accountability, and corruption in the public sector.

Sources: Asian Development Bank country performance assessment scores.

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88 Each country's performance is based on a composite score constructed from the following: (i) an assessment of the quality of its macroeconomic management, (ii) the coherence of its structural policies, (iii) the degree to which its policies and institutions promote equity and inclusion, (iv) the quality of its governance and public-sector management, and (v) performance of its concessional assistance project portfolio.

89 The finding is also supported by PVR ratings which show that ADF countries (concessional assistance-only) performed better overall (76% successful) than the five largest PBL borrowers (excluding Pakistan), which had an average 62% successful rating.

90 A similar result was found for the impact of World Bank DPL on country performance and institutions assessments (See IEG. 2015. *The Quality of Results Frameworks in Development Policy Operations*. Washington, DC.).

2. Financial Sector Reforms

93. **Financial market development, particularly of capital markets, was the primary focus of financial sector PBL operations after 2008.** The number of PBL operations supporting financial sector reform fell sharply from pre-2008 levels. Before 2008, PBL supported a wide range of financial reforms including access to rural finance, banking sector reform, financial market regulation, and private sector infrastructure financing. In the post-2008 era, the areas of activity and the number of countries supported have been reduced, with only Bangladesh, Indonesia, the Philippines, and Viet Nam receiving sustained support, mainly financial market development, especially of capital markets.

94. **ADB has been a major partner with the Government of Indonesia in the development of the financial sector.** Over 2002–2017, ADB supported Indonesia's finance sector with four programs financed by six PBL operations, amounting to $1.95 billion.[91] These operations represented 95% of ADB's lending to the sector in Indonesia from 2002–2017. While these PBL operations covered several aspects of the finance sector, support for capital market development was a significant component in all of them. The other main areas covered by PBL were financial sector governance, specifically the transformation toward an integrated supervisory system, and, in the latter part of the period, financial inclusion. Capital market policy actions accounted for 82% of all the four programs. For all programs, almost 50% of actions within the capital market segment were for the market infrastructure that is critical to the functioning of capital markets.

95. **Results from ADB programs were mainly in government bond markets, the Islamic capital market, and insurance.** The capital market programs led to improvements in the market infrastructure overall, though scope for further improvement remains.

96. **ADB interventions in government bond markets in Indonesia contributed to several results.** The strengthening of the government securities market through the issuance of bonds of different maturities provided the market with a yield curve and led to an improvement in liquidity of local currency government securities. The primary dealer system is in place and yields of benchmark 10-year government bonds have been declining, reflecting progress in maintaining macroeconomic stability, controlling inflation, and establishing credibility of monetary policy. The 2017 IMF-World Bank Financial Sector Assessment Program[92] recognized that Indonesia's government bond markets are relatively well-developed.

97. **ADB supported the development of the *sukuk* (Islamic bonds) market.** This has been a major component of government capital market and financial sector master plans since 2005. Sovereign local currency *sukuk* outstanding increased from Rp5 trillion in 2008 to Rp256 trillion in 2016, representing about 14% of total local currency government bonds. Local currency corporate *sukuk* increased from Rp1.5 trillion in 2008 to Rp11.6 trillion in 2016, representing 4% of total local currency corporate bonds. While the local currency *sukuk* remains small compared to the market in Malaysia, Indonesia has become the largest *sukuk* issuer in terms of US dollars.

98. **ADB has a long history of engagement in the insurance sector in Indonesia**. This has been the fastest growing segment of the

[91] A financial sector assessment paper undertaken as part of a recent PPER was the basis for the discussion in this subsection. See https://www.adb.org/documents/indonesia-capital-market-development-program-cluster-subprograms-1-and-2; IED. 2017. *Performance Evaluation Report: ADB Support to Indonesia Capital Market Development*. Manila: ADB. The four programs supported by six policy-based loans are: (i) Financial Governance and Social Security Reform Program approved in 2002 ($250 million); (ii) Capital Market Development Program Cluster–Subprograms 1 and 2 approved in 2007 and 2009, respectively ($600 million); (iii) Financial Market Development and Integration Program approved in 2012 ($300 million); and (iv) Financial Market Development and Inclusion Program–Subprograms 1 and 2 approved in 2015 and 2017, respectively ($800 million). The PBL operations were supported or accompanied by TA.

[92] IMF and World Bank. 2017. *Financial Sector Assessment: Republic of Indonesia*. Washington, DC. In 1999, IMF and World Bank established the Financial Sector Assessment Program to conduct comprehensive and in-depth analysis of financial systems of countries, including development of capital markets.

financial system, with a compound annual growth rate of 15% during 2007–2016. While the planned consolidation in the industry has not yet been completed, the number of insurance companies decreased from 157 in 2005 to 137 in 2016. According to the IMF and World Bank (footnote 92), insurance regulation and supervision improved since the establishment of a unified regulator for banks and nonbanks, the Financial Services Authority of Indonesia (OJK)—which ADB helped to develop—and the enactment of a new Insurance Law in 2014. OJK also enhanced regulations for corporate governance and risk management.

99. **ADB programs have focused on soft infrastructure and laid the legal and regulatory foundation for capital market development**. ADB support also made significant contributions to improving price transparency, investor protection, development of capital market institutions, and operationalization of trading systems, as well as the functioning of the government securities market discussed above. In a McKinsey study on capital markets in emerging economies in 2017, out of 11 parameters in the study's capital market development scorecard, Indonesia scored well in benchmark assets and cornerstone institutions.[93]

100. **While there have been positive results in several areas, Indonesia's capital markets still face challenges.** Corporate bond markets and pension funds need to be at par with those in peer countries and important gaps in the soft market infrastructure (legal, regulatory, and institutional components) need to be filled in if Indonesia is to keep pace with market developments. On ADB's side, its engagement covered many capital market areas, and was both demand-driven and opportunistic. Recently, ADB has made efforts to articulate a longer-term reform road map based on appropriate sequencing of reforms and actions. IED will be completing a sector assistance program evaluation for ADB's finance sector support in 2019.

101. **Bangladesh has also made strides toward strengthening capital markets.** Confidence in the market is building.[94] ADB has supported capital market development since the late 1980s through TA and PBL. The Second Bangladesh Capital Market Development Program consisted of three tranches, amounting to $300 million.[95] Its objectives were to strengthen capital market stability by improving the capacity of the Bangladesh Securities and Exchange Commission, strengthening capital market regulation, and developing a capital market surveillance system. The program involved extensive consultations with stakeholders and built on lessons learned from the First Capital Market Development Program, together with analytical work. ADB staff interviews, and the PVR indicated that the Government of Bangladesh was actively involved in the design of the operation and insisted on a demonstration that the policy actions suggested by ADB would be effective. Recent capital market indicators show a 24% increase in market capitalization to about $41 billion as of July 2016 (from $33 billion in 2011).

102. **ADB has supported the development of capital markets in Viet Nam since 1996.** Recent reports suggest that the capital market is growing. The Third Financial Sector Program[96] supported: (i) a new securities law, (ii) market information standards, (iii) an institutional framework for securities issuances, (iv) improved consumer protection, and (v) greater regional cooperation to help capital markets play a greater role in domestic financing. Although this program was less successful than its predecessors, recent reports suggest that the capital market is growing. The size of the stock market has increased three-fold, from 22% of GDP in 2006, to 63% in 2017, with over 700

[93] N. Jain, et al. 2017. *Deepening Capital Markets in Emerging Economies*. April 2017. McKinsey and Company Financial Services: https://www.mckinsey.com/industries/financial-services/our-insights/deepening-capital-markets-in-emerging-economies

[94] ADB. 2016. *Capital Market Development in Bangladesh: A Sector Reform Perspective*. Manila.

[95] ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Administration of Technical Assistance Grant to Bangladesh: Second Capital Market Development Program*. Manila.

[96] IED. 2015. *Validation Report: Third Financial Sector Program in Viet Nam*. Manila: ADB.

companies now listed (compared with 192 in 2006).[97] There are now 12 stocks with volumes of over $3 million a day, whereas in 2015 there were only 2.[98] ADB has continued its support with PBL for financial sector deepening in 2013[99] and 2015.[100]

103. **ADB supported the financial system in the Philippines through measures to improve market efficiency, stability, and governance; and to extend the range of investment alternatives.** As with Viet Nam, the Financial Market Development and Intermediation Program[101] in 2006 and 2010 was not successful in delivering its objectives to enhance financial system stability; strengthen nonbank financial sector governance; improve securities market efficiency in the first subprogram; and support a deeper, more diversified, and resilient financial sector in the second subprogram. Nevertheless, in recent years, capital markets in the Philippines have performed well, based on a combination of strong economic growth, inflows of foreign investments, and low international interest rates. The longer-term objective of achieving a deeper, more resilient financial sector remains outstanding, although further support for capital market reforms was approved by ADB in 2015[102] and 2017 to develop a deeper non-bank financial sector.[103]

3. Energy, Transport, Water

104. **Few PBL operations were provided for the energy, transport, and water and sanitation sectors, where ADB makes significant project investments.** The evaluation examined five energy sector PBL operations, and four transport and information (TAI) PBL operations, all of which were multitranche operations approved before 2008 but closed and evaluated during the evaluation period. Before 2008, ADB PBL supported energy sector reforms in India's state of Assam (2003),[104] Pakistan (2000),[105] the Philippines (2006),[106] and Sri Lanka (2002).[107] Common issues included energy sector financing, and political interference in management of the sector, resulting in significant PSM and financing issues. Overall, the results were varied. Policy reform to ensure that tariffs reflect costs is complex, and reforms require an understanding of the broader political context and detailed socioeconomic analysis. The India CAPE in 2017 found that, despite success in supporting the national transmission and distribution network through project investments, cost recovery remained a concern (footnote 78). A study by the World Bank observed that, while tariffs had been increasing and were above the cost recovery level in some states, utilities continued to incur high technical and commercial losses, including theft.[108] The CAPE also pointed to financial and

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97 http://english.vietnamnet.vn/fms/business/18906/vietnam-s-capital-market-increasingly-attractive.html

98 Bloomberg Business Week. 2017. *The Ho Chi Minh Exchange is Humming, Buoyed by Strong Economy and State Asset Sales*. https://www.bloomberg.com/news/articles/2017-11-27/vietnam-s-stock-market-sheds-its-minnow-status

99 ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Socialist Republic of Viet Nam: Financial Sector Deepening Program*. Manila.

100 ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 2 to the Socialist Republic of Viet Nam: Financial Sector Deepening Program*. Manila.

101 IED. 2014. *Validation Report: Financial Market Regulation and Intermediation Program in the Philippines*. Manila: ADB.

102 ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of the Philippines: Encouraging Investment Through Capital Market Reforms Program*. Manila.

103 ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 and Technical Assistance Grant to the Republic of the Philippines: Encouraging Investments through Capital Market Reforms*. Manila.

104 ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to India: Assam Power Sector Development Program*. Manila.

105 ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Islamic Republic of Pakistan: Energy Sector Restructuring Program*. Manila.

106 ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Program Loan to the Republic of the Philippines: Power Sector Development Program*. Manila.

107 ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to Sri Lanka: Power Sector Development Program*. Manila.

108 Pargal, Sheoli, and Sudeshna Ghosh Banerjee. 2014. *More Power to India: The Challenge of Electricity*

institutional risks to the sustainability of ADB investments in water and sanitation. These sector-specific issues often reflect broader problems such as weak competition policy and poor utility management. IED's governance evaluation in 2014[109] also noted that poor governance and lack of sector reforms often underlay poor sustainability, and that breaking the build-neglect-rebuild paradigm remained a major challenge. Given the scale of ADB's investment in infrastructure, PBL could be used more strategically to help address longer-term sector constraints, many of which concern PSM issues.

105. **Pakistan's energy portfolio has been ADB's largest energy portfolio for any country, with approvals of more than $7 billion since 2005**. Support for energy sector reforms in Pakistan resulted in incremental improvements in institutional architecture, roles, and capacity, but it has not been possible to complete the unfinished reforms aimed at unbundling and privatization. Until 2017, power generation remained below load requirements, and losses in the transmission and distribution systems have remained high. ADB's CPS notes that severe power shortages remain one of the main economic development bottlenecks;[110] chronic brownouts and investment in high-cost back-up generation have continued to curtail economic activity and reduce competitiveness.[111] IED will be completing a sector assistance program evaluation for ADB's energy sector support to Pakistan in 2018.

106. **More substantial progress was made in the Philippines' energy sector.** ADB supported the privatization of power generation (with over 90% of assets privatized) and the introduction of wholesale competition. This reduced unsustainable subsidies to the sector and helped support increased private sector investment. Financial viability remained challenging, however due to weak retail competition. The second subprogram, which would have addressed this issue, was cancelled.[112]

107. **While PBL to support the restructuring of the power sector in Sri Lanka, approved in 2002, was not successful, energy sector pricing became a key component of the IMF 2016 3-year extended financing facility.** After many years of no PBL support in Sri Lanka, instead of supporting the energy sector reform issues—a key area of fiscal risk for the country—ADB chose to focus its PBL on capital market development.

108. **Few PBL operations have supported reforms in the transport sector.** Two PBL operations supported the rehabilitation and management of road assets in India's state of Madhya Pradesh (2002)[113] and in Pakistan (2001).[114] The India CAPE found that funding for maintenance in several states had gradually improved, and that ADB-supported states had improved their road asset management systems. Results in Pakistan were not as promising, however, and the 2007 CAPE reported that the objectives to foster decentralization, create adequate operation and maintenance funds, and build capacity of provincial road agencies had not been fully achieved.[115]

109. **PBL may have resulted in unintended positive results in some countries.** Consultations with country officials suggested that PBL helped support country credit ratings. While this was not intended, there is some evidence to support this observation (Appendix 4). While improvements in country credit ratings cannot be directly attributed to ADB PBL, sound monetary and fiscal policies (promoted by ADB PBL) are a key part of the ratings methodology. A favorable rating enables both public and private sectors to raise capital in the

Distribution. Directions in Development. Washington, DC: World Bank. doi: 10.1596/978-1-4648-0233-1. License: Creative Commons Attribution CC BY 3.0 IGO.

[109] IED. 2014. *Thematic Evaluation: ADB Support for Enhancing Governance in its Public Sector Operations*. Manila: ADB.

[110] ADB. 2015. *Country Partnership Strategy: Pakistan, 2015–2019*. Manila.

[111] IED is undertaking a sector assessment program evaluation of ADB's support to the Pakistan energy sector in its 2018/2019 work program.

[112] IED. 2012. *Validation Report: Power Sector Development Program in the Philippines*. Manila: ADB.

[113] ADB. 2002. *Report and Recommendation of the President to the Board of Directors on the Proposed Loan to India Madhya Pradesh State: Road Sector Development Program*. Manila.

[114] ADB. 2001. *Report and Recommendation of the President to the Board of Directors on the Proposed Loan to Pakistan: Road Sector Development Project*. Manila.

[115] IED. 2007. *Country Assistance Program Evaluation: Pakistan*. Manila: ADB.

international financial markets and sends a signal to potential investors on the country's investment climate.

C. Improving Measurement and Understanding of Policy-Based Lending Development Results

110. **While there are indications that PBL has contributed to positive results in PSM and capital market reform, the evidence that PBL has been a critical factor in these results is less conclusive.** There is also less evidence on the influence these reforms have had on human well-being or the development outcomes that are part of the theory of change (paras. 24–26), i.e., improved delivery and use of public goods and services, citizens' growing confidence in governance, increased business confidence, and increased levels of investment and competitiveness.[116] This could be because development outcomes as proposed in the theory of change or in project documents are long-term and may not be observable at program completion, implying that longer-term monitoring outside the PBL may be necessary to assess the outcomes intended by the PBL. Moreover, the development outcomes contained in the theory of change would require more than one PBL. Achieving these outcomes is likely to require other work and investment by ADB, as well as by other development partners, and depend on a range of other factors. These complexities apart, the fact is that overall, assessing the results of PBL in ADB is constrained by design issues, such as lack of baselines and absence of counterfactuals (i.e., what would have happened without policy reform?), as well as by constraints on collecting country data and developing statistical systems.

111. **The fact that many policy reforms are completed before loan approval raises issues on the value added by PBL and how best to evaluate its results.** Nevertheless, more emphasis needs to be placed on design features, which explains why recent MDB evaluations have focused on this aspect. Where budget support is delivered concurrently by several development partners, an unambiguous attribution of outcomes to a specific PBL operation can be virtually impossible to establish. Evaluation can, however, assess the contribution a PBL operation has made in helping bring such outcomes about (for example, by providing technical support in specific areas).

112. **Strong design of PBL will not only help improve its impact but also support the collection of evidence to document intended and unintended results and therefore to understand ADB's contribution.** For instance, PBL design depends on strong analytical foundations, the identification of quantifiable outcomes and indicators, and the selection of policy actions that are critical to the achievement of the development outcome. To measure the results of these policy actions, the PBL design needs to include a clear results framework that links policy actions with their intended results. The findings of this evaluation on design and monitoring issues are presented in detail in the following chapter.

D. Summary

113. **The good performance of PBL operations approved after 2008 shows that ADB's use of the modality has significantly improved.** This chapter has shown that, through PBL, ADB has been able to respond to a range of development issues, including supporting countries through turbulent periods, and

[116] This also applies to other development partners. For example, IEG (2010) underscored the difficulty of establishing the contribution of World Bank poverty reduction support credits (PRSCs)—a specific category of World Bank PBL—to country outcomes. While PRSC recipients tended to perform well on growth and macroeconomic indicators, the same was true of comparator countries, and it was hard to trace a direct link from PRSC growth-related measures to country growth outcomes. While PRSC recipients tended to have good records on income poverty reduction and MDG achievement and better than comparable low-income countries despite broadly similar initial conditions, the link between PRSC-supported reforms and pro-poor service delivery was hard to establish, although there was evidence that PRSCs helped advance public financial management reforms (IEG. 2010. *Poverty Reduction Support Credits: An Evaluation of World Bank Support.* Washington, DC.).

promoting longer-term policy reforms for growth and poverty reduction.

114. **The evaluation helped document the positive role of PBL in responding to crises, although sometimes support was provided late.**[117] The global financial crisis was responsible for swelling the ranks of the poor globally by an additional 53 million people in 2009.[118] In response, a consensus on the need for fiscal stimulus emerged. Steep lending increases by ADB and the World Bank helped assure the relevance of their countercyclical crisis response. These lending increases were largely in the form of PBL, given the need for a timely response and more rapid disbursement and processing times than alternative forms of lending. At ADB, PBL (including the CSF) increased to almost 45% of total sovereign operations in 2009,[119] roughly double the ceiling for PBL. Similar increases can be seen in World Bank lending with DPL accounting for about 40% of World Bank commitments and disbursements in 2009–2010.

115. **However, the improvements that have been made were often at the output level, especially in public financial, economic, and budgetary management.** PBL contributed to macroeconomic stability and improved public financial management. It helped reinforce macroeconomic performance and fiscal discipline, especially in crisis-affected Pacific countries. Budget support helped focus attention on public finance management and accountability processes, and more generally on broader PSM and governance issues. In most cases, significant progress was made in public financial management, evidenced in several cases in improvements in PEFA assessments. There is also evidence that PBL provides a useful instrument around which development partner support can be better coordinated. However, the evaluation found less evidence to suggest that improvements are being made in such areas as gender, the environment, and human rights, although many PBL operations did not aim for this. The outcomes of PBL operations in PSM, though they improved public financial management and sometimes decentralization of government functions, had unclear significance to goals such as government service delivery, economic growth and poverty reduction. Perhaps this is related to the weak theory of change for PBLs in PSM – ADB has not spelled out the relationship between the interventions and their impacts on the economy and society, and a registration of such impacts also does not often appear in PCRs either.

116. **While there are several indications that PBL contributed to positive results in general, evidence that it played a critical role is inconclusive.** Better design and measurement are needed. While evaluation of PBL, including attributing its contribution to broader development outcomes, is difficult, it is essential to at least assess the contribution that can be made by strong PBL design, including the quality of analytical work, the extent to which policy actions are critical to intended outcomes, the quality of the TA provided, and baselines that will facilitate comparison. These design issues are the subject of the next chapter.

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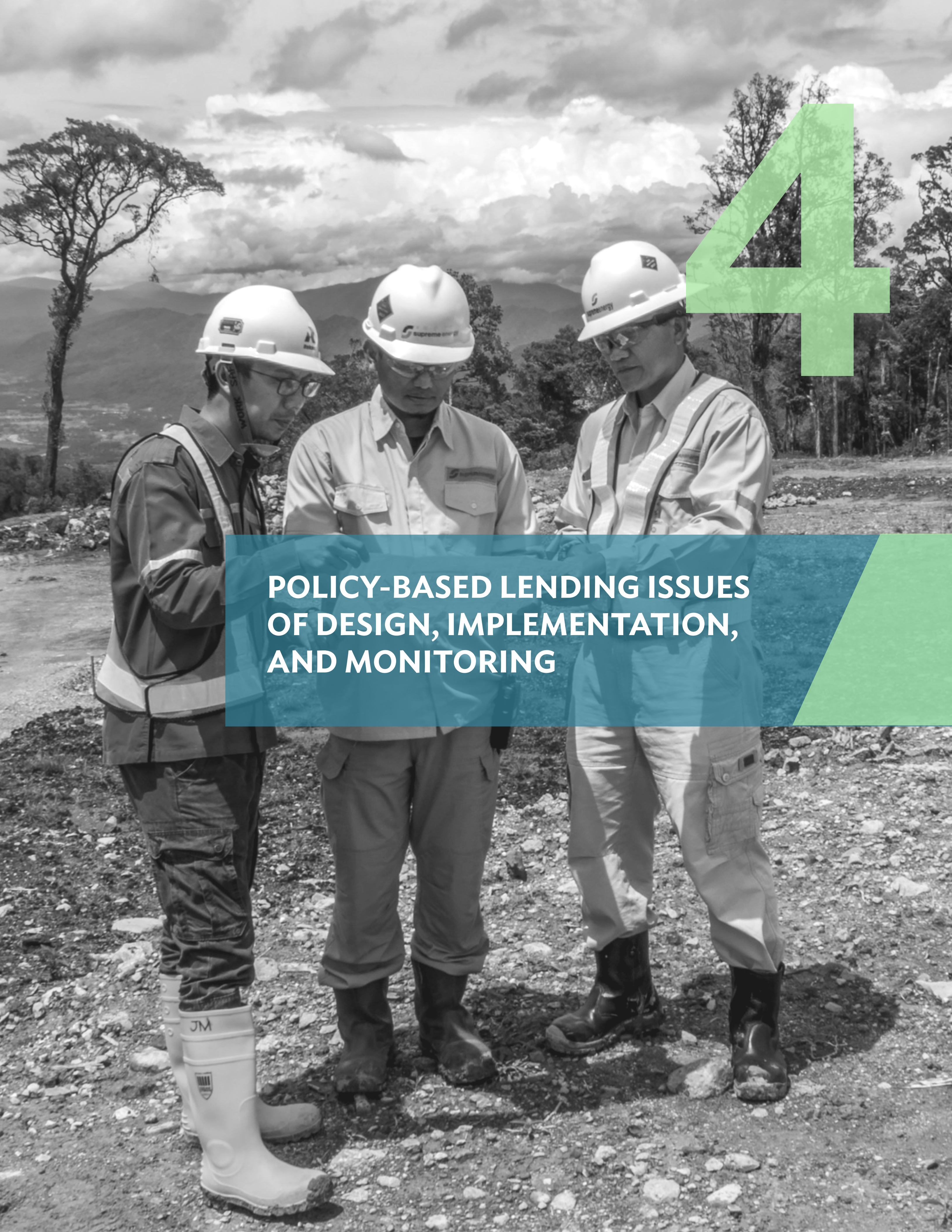
[117] Both ADB's IED (IED, 2011) and World Bank's IEG (IEG, 2010 and 2012) undertook real-time evaluations of the institutions' response to the 2008–2009 global economic crisis.

[118] IEG. 2012. *The World Bank Group's Response to the Global Economic Crisis*. Washington, DC.

[119] Excluding CSF, the level of lending would have been 30%.



4

POLICY-BASED LENDING ISSUES OF DESIGN, IMPLEMENTATION, AND MONITORING

Highlights

Asian Development Bank (ADB) guidelines for the design of policy-based lending (PBL) broadly reflect good international practice.

Coordination with the International Monetary Fund (IMF) on the macroeconomic framework was generally in line with the principles established by the G20.

ADB may make decisions that are at variance with IMF guidance, but in such cases an assessment of the macroeconomic risk should be made independently of the operations department responsible for the PBL operation.

The number of policy actions has been positively correlated with the size of the loan.

Many policy actions are process-oriented and lack a clear link to the intended reforms and outcomes. It is often unclear how policy actions link to the results in the design and monitoring framework.

Program completion reports provide only a limited account of the policy changes triggered by the policy actions and generally do not show whether the policy actions were critical to the changes.

No detailed training is provided to ADB staff on the design or management of PBL.

117. **The previous chapters highlighted the importance of PBL for country financing and indicated the probable contribution of ADB to reform outcomes in the region**. ADB was able to work closely with its development partners to scale up its support for countries suffering from the impact of the global financial crisis. ADB support helped create fiscal space and protect the vulnerable from greater hardship. In several countries, ADB has continued to work with other development partners in non-crisis years. In the Pacific, joint work among PBL partners is becoming formalized. In Southeast Asia, partners are working together to influence difficult reform areas such as removing entrenched energy subsidies and supporting the decentralization of public finance management and service delivery. In South Asia PBL is being used to support investment projects (for instance, ensuring investment in a multi-modal transport corridor stimulates local business investment through business-related reforms).

118. **The increasing use of the PBL modality make it imperative for ADB to improve its understanding of the results achieved and the contribution it has made to these results.** To understand how PBL has contributed to the attainment of the region's development objectives, ADB needs to strengthen PBL design. PBL is intended to remove critical constraints on growth and poverty reduction and its success depends on good design, implementation, and monitoring. ADB needs to identify the right reforms and the policy actions that will be critical to removing constraints. The evaluation therefore assessed several factors related to PBL use, design, implementation, and M&E to understand how well they work together to deliver results. Improvements to PBL design will help strengthen ADB's role as a partner in shaping policy in the region and in influencing reforms for inclusive growth.

119. **This chapter focuses on design issues and is based on the evaluation's assessments of all PBL approved over 2008–2016 in Bangladesh, Indonesia, Kyrgyz Republic, Nepal, Pakistan, the Philippines, Viet Nam, and on selected PBL operations in Armenia, Cambodia, Georgia, India, Samoa, and Solomon Islands.** In all, 81 PBL operations were assessed and field work was undertaken in Indonesia, Kyrgyz Republic, Nepal, Pakistan, and the Philippines

120. **The assessment of PBL design, implementation, and monitoring used the Operations Manual (2016) guidelines as a reference.** These stipulate that a PBL should fit the client country context, including the

country's financing needs and reform priorities (footnote 7). The guidelines specify that loan amounts need to be driven by country financing needs,[121] policy actions should be supported by prior analytical work and country ownership, and country circumstances should guide the type of PBL used. The guidelines also suggest that, in undertaking PBL, good practice principles require:

(i) assessing whether the macroeconomic policy framework is sound, taking account of IMF views.[122] The direction of macroeconomic policies must be satisfactory before PBL can be considered;
(ii) understanding the political economy underlying the proposed reforms;
(iii) using TA;
(iv) identifying and mitigating adverse environmental and social impacts;
(v) assessing and mitigating fiduciary risks;
(vi) incorporating relevant lessons from experience; and
(vii) closely coordinating PBL with other development partners.

121. These requirements are used below as the basis for assessing PBL design during the evaluation period. ADB practices are also compared with those of other MDBs.

A. Design of Policy-Based Lending Operations

1. Analytical Foundations

122. **Comprehensive sector or intersectoral analysis is a prerequisite for PBL.** This will provide an assurance that the policy content of a PBL will address the most relevant distortions and constraints that limit economic growth and poverty reduction. The evaluation found that, while the majority of PBL appeared to be informed by analytical work, it was difficult to find clear references to the work that had been undertaken. Generally, the key conclusions of such analysis were not described in the RRP.

123. **Despite the length of the documentation of PBL presented in RRPs and their linked documents,[123] in most cases references to the analysis that provided the rationale for the PBL were unclear**. One reason why this information was missing is that the RRP template introduced in 2010 was not tailored to the PBL modality but reflected the requirements for an investment project. In Bangladesh, for example, two of the five PBL programs (on urban public health and regional trade facilitation) did not appear to be based on detailed diagnostic work. The sector assessments underlying several of the PBL operations were very general and often did not point to specific reforms. In the Kyrgyz Republic, narrowly focused sector assessments lacked clear explanations as to why the areas selected were binding constraints on better performance,[124] although broader analyses such as private sector assessments were also prepared. In one case these provided the

[121] The guidelines also specify that: "Additional reference should be made to more specific elements of the development expenditure programs (within the entire public finance) supported by counterpart funds of ADB's policy-based loan proceeds … A clear basis for determining the loan amount based on the overall and sector-specific requirement of the DMC should be presented."

[122] ADB is to systematically consult and closely coordinate with the IMF" (ADB, 2016, para. 26). ADB. 2016. Policy-Based Lending. *Operations Manual.* OM D4/BP. Manila. Conversely, the requirement in the same paragraph to the effect that "the potential impact of the [ADB-PBL-supported program] on [the money supply and the exchange rate]" be considered appears overly directive. Unless the context is a very unusual one where the proposed PBL is very large in relation to the borrower's macroeconomy and major sterilization measures need to be envisaged, the required analysis appears to go beyond a reasonable level of sophistication. It would have been preferable for the guidelines to require a sound grasp of the recent developments in, and medium-term outlook for, key variables in the real economy and the fiscal and external accounts.

[123] IED found that the average length of a PBL RRP including its linked documents had increased by 68 pages compared with the average length of RRPs before 2010.

[124] For instance, it went unexplained why the Investment Climate Improvement Program (ICIP) contained policy actions that addressed areas where Doing Business rankings were among the most favorable.

analytical underpinnings for World Bank operations.

124. **It was often unclear how policy actions were derived from analytical work.** In several cases, there was too little prior analysis to adequately inform PBL preparation. This was particularly the case in Pakistan. It was therefore often difficult to assess how specific policy actions would help to address policy issues and constraints.

2. Counterpart Engagement and Stakeholder Consultations

125. **Counterpart engagement in PBL varied across countries.** Generally, significant depth and breadth of country counterpart engagement improved country ownership of a PBL reform agenda and the relevance of its design. In Bangladesh, the strong participatory design of the Secondary Education Sector Development Program was cited in the PVR.[124] The RRP for the Second Capital Markets Development Program reported that extensive consultations had been carried out with stakeholders during PBL preparation (footnote 95). More generally, RRPs for PBL in Bangladesh indicated that there had been an interactive process to determine reform measures. In the Philippines, engagement with relevant sector ministries in developing prior actions appeared to be ongoing and relatively systematic, with only one apparent exception.[125] In Nepal, it was difficult to judge to what extent ADB proactively engaged with the government on the challenging parts of the reform agenda, especially as no new PBL had been approved since 2013. Calls from the Nepal World Bank office for greater ADB involvement in the energy sector reform dialogue suggested that more regular engagement was needed. Pakistan's provincial PBL operations appeared to lack both counterpart engagement and consultations. The design of the Balochistan Resource Management Program in 2004 did not account for the limited capacity of the provincial implementing agencies; more intensive dialogue may have revealed this.[126]

3. Use of Cost–Benefit Analysis

126. **In several countries, including Bangladesh, Indonesia, Nepal, and the Philippines, ex-ante cost–benefit analysis was provided to bolster the justification for loans**. However, the analysis did not provide clear explanations of how the estimates of the costs and benefits associated with the reforms that the PBL supported were derived. ADB PBL guidelines do not require cost–benefit analysis to be undertaken and other MDBs have delinked the size of the loan from the cost of reforms to be undertaken, as generally there is no direct relationship between them.

4. Macroeconomic Assessments and Coordination with the IMF

127. **Consultation with the IMF, World Bank, and other major funding agencies is critical to PBL design.**[127] The IMF is the lead institution for assessing a country's macroeconomic conditions. The G20 principles that were produced in 2017[128] did not present an issue for ADB as the guidance on PBL provided in the ADB *Operations Manual* clearly defines the

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[124] IED. 2016. *Validation Report: Secondary Education Sector Development Program in Bangladesh*. Manila: ADB; and ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Sector Development Program Loans to the People's Republic of Bangladesh: Secondary Education Sector Development Program*. Manila.

[125] Consultations with the Department of Justice suggested it was not consulted in relation to the policy actions contained in Subprogram 2 of the Governance in Justice Sector Reform Program. ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 and Technical Assistance Grant to the Republic of the Philippines for the Governance in Justice Sector Reform Program*. Manila.

[126] ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grants to the Islamic Republic of Pakistan: Balochistan Resource Management Program*. Manila.

[127] Para. 26 of ADB Operation Manual for Bank Policies. Footnote 7.

[128] Global Partnership for Financial Inclusion. .2017. *G20 Principles for Effective Coordination between the IMF and MDBs in Case of Countries Requesting Financing while Facing Macroeconomic Vulnerabilities*. https://www.bundesfinanzministerium..de/ontent/DE/Standardartikel/Themen/Schlaglichter/G20-2016/g20-principles-for-effective-coordination-between-the-imf-mdbs.pdf?

procedures for effective coordination between ADB and the IMF.[129] In practice, ADB closely follows the G20 principles.

128. **For the PBL process to work effectively, ADB needs to conduct frequent and open discussions with the IMF.** The G20 principles specify that each institution is responsible for the macroeconomic analysis underpinning its own lending decisions. This implies that ADB itself should maintain a robust capacity to evaluate the views of the IMF on the macroeconomic conditions of the country as part of PBL design. While, in general, ADB relies on the IMF assessment, as do other MDBs, the IMF does not provide definitive guidance in its assessment letter as the decision to proceed with PBL lies with ADB: "each institution should remain responsible for its lending decision and be independent in reaching them" (footnote 129). Therefore, the risk implied by the IMF assessment, including the reputational and precedent setting risks of acting contrary to the IMF views, must be fully assessed and borne by ADB.

129. **The evaluation found cooperation between IMF, World Bank, and ADB to be relatively strong.** Recent PBL operations approved in Sri Lanka[130] and Mongolia[131] were particularly good examples of ADB and the IMF working well together. In both cases, ADB was engaged in the processes leading up to the development of a new IMF program, and is contributing to country financing within the program arrangement. The evaluation found that staff at the IMF and the World Bank were positive about working with ADB in providing PBL in Asia and the Pacific and that collaboration with ADB was appreciated.

130. **IED found two cases where communications with the IMF were open to different interpretations and possible misunderstandings.** In one case, ADB's decision to proceed with a PBL was not in line with the IMF macroeconomic assessment of the country. A PBL for Georgia in August 2016[132] was approved although Georgia was not able to meet its commitments under an IMF Standby Arrangement that had been negotiated with the government in 2014.[133] The IMF completed the first review of the arrangement in early 2015 and after that no further reviews were completed. In August 2016, ADB adopted the government's fiscal projections, which presented a more positive picture than the IMF's position. ADB was confident that the government would implement fiscal consolidation and hence it positively assessed the medium-term outlook. ADB received an e-mail from the IMF mission chief in early August indicating that IMF did not judge the merits of ADB's PBL. While the decision to provide a PBL was within ADB's prerogative, during the evaluation team's meeting with a senior official of the IMF, the IMF regarded this as an inappropriate precedent. In April 2017, the IMF negotiated an Extended Fund Facility with the new government and cancelled the 2014 Stand-By Arrangement, which would have expired at this time. IMF assessments of Georgia's performance since then show better than-expected fiscal performance. IMF's most recent data are aligned with ADB's previous fiscal assessment, which underpinned its 2016 PBL approval.[134]

[129] The IMF takes the lead in assessing the soundness of the countries' macroeconomic framework through an Article IV consultation or program review. However, if at least 6 months has passed since the Article IV was undertaken, or if country conditions have changed since then, IMF prepares an assessment letter, which is intended to provide a judgement of current economic conditions in the country receiving the PBL.

[130] ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan, Technical Assistance Grant, and Administration of Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka: Capital Market Development Program.* Manila.

[131] ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to Mongolia: Social Welfare Support Program Phase II.* Manila.

[132] ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loans for Subprogram 3 to Georgia: Improving Domestic Resource Mobilization for Inclusive Growth Program*. Manila.

[133] A 36-month Standby Arrangement had been negotiated with the IMF in 2014. While the first review was carried out later that year, the second and third reviews in November 2015 were not conclusive.

[134] According to the preliminary findings of the IMF's end of mission press release (See IMF Staff Completes Mission for the 2018 Article IV Consultation and Second Review of Georgia's Extended Fund Facility. IMF

131. **In the second case, collaboration between the IMF and ADB worked well throughout the PBL design phase, but communication was interrupted before loan disbursement.** In Tajikistan, ADB had worked closely with the IMF during PBL design and the ADB PBL contained conditions which the IMF regarded as critical, i.e., the development of a medium-term fiscal strategy, and an asset quality review of selected banks. The regional department considered that this PBL represented successful collaboration between ADB and IMF as it paved the way for prospective negotiations for a new IMF program in Tajikistan.[135] At the disbursement stage, however, the tranche release document was presented to ADB's Board of Directors 1 day before the IMF's Article IV discussion. At this discussion, the IMF downgraded Tajikistan's debt sustainability rating but ADB had not been informed of this development. As the condition to develop a medium-term fiscal framework had been met, ADB went ahead with the request for disbursement.

132. **The Tajikistan example illustrates the need to nurture communication and greater understanding between ADB and the IMF in all countries where PBL is used**. Since the IMF is a highly centralized organization, it is important that this coordination takes place at a senior level with the Washington-based IMF staff who are responsible for providing ADB with updated assessments.

133. **A positive macroeconomic assessment of a country is a prerequisite for undertaking a PBL.**[136] Nevertheless, the evaluation found that the macroeconomic assessment is rarely presented in the RRP. There are two reasons for this. First, the template does not require it and, second, the IMF assessment letter is attached as a linked document, which is generally considered to be adequate. In Viet Nam, for instance, the macroeconomic analysis underlying PBL differed from loan to loan. The design of some operations, such as the Health Human Resources Sector Development Program in 2010 and the Second Secondary Education Program in 2016, lacked any discussion of the macroeconomic policy framework although they did link to IMF assessments.[137] In Indonesia, none of the PBL RRPs reviewed as part of the evaluation adequately assessed the macroeconomic framework or contained tables presenting key macroeconomic indicators or forecasts.[138] In the Philippines, PBL RRPs typically discussed the size of the budget deficit and how the operation contributed to the financing gap,[139] but this was rarely linked to a macroeconomic assessment. In the RRP for ADB's countercyclical support to the Philippines in 2010, the macroeconomic assessment was incomplete.[140] In Bangladesh, PBL designs

Communications Department. https://www.imf.org/en/News/Articles/ 2018/04/16/pr18132-imf-staff-completes-mission-for-the-2018-article-iv-consultation-for-georgia)

[135] IMF's end-of-mission press releases for 2017 Article IV consultation reads "IMF staff looks forward to continuing its close cooperation with Tajikistan. IMF staff will engage closely with the Tajikistan authorities in the weeks ahead to support the efforts of the Government and the NBT to promote macroeconomic stability and inclusive growth and stand ready to resume discussions on an IMF-supported program." See IMF. 2017. IMF Staff Completes 2017 Article IV Mission to Tajikistan, May 30, 2017 *(Press Release No. 17/196),* available in the IMF website: http://www.imf.org/en/News/Articles/2017/05/30/pr17196-imf-staff-completes-2017-article-iv-mission-to-tajikistan

[136] Para. 26 of the ADB Operations Manual (footnote 7).

[137] For instance, it was not explained why the ICIP contained policy actions that addressed areas where Ease of Doing Business rankings were among the most favorable. ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Administration of Grant to the Socialist Republic of Viet Nam: Health Human Resources Sector Development Program*. Manila; ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Socialist Republic of Viet Nam: Second Secondary Education Sector Development Program.* Manila.

[138] In the former case, the link to an IMF assessment letter did not work; in the latter case, the "assessment" consisted simply of the press release on the conclusion of the 2016 Article IV Consultation.

[139] There was, however, minimal (or, in most cases, none) discussion of the impact of the operation on the country's exchange rate and money supply, as the 2016 Operations Manual requires.

[140] For example, despite flagging the risks associated with the relatively large share of foreign-currency-denominated debt in the event of an exchange rate depreciation, the RRP made no attempt to analyze the appropriate exchange rate policy. It also did not attempt to reconcile the relatively large external reserves (6 months of import cover) with the need for the CSF loan. Finally, despite a reference to an IMF assessment letter, the letter was not linked to the RRP. ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines: Countercyclical Support.* Manila.

seldom contained judgment on whether the macroeconomic policy framework provided a satisfactory backdrop for PBL. Some of this is because the 10-page RRP does not allow sufficient space for a full discussion of critical issues. Moreover, the guidance in the Operations Manual is not clear on what essential aspects of the macroeconomic framework ought to be presented (footnote 7). Macroeconomic analysis was more visible in PBL designed before the adoption of the new RRP in 2010, which was not sufficiently tailored to meet the requirements of the PBL modality. Minutes from the Management Review Meetings for PBL approved in 2016 did not raise issues on the macroeconomic framework. In contrast, DPL is the World Bank's most heavily scrutinized instrument.

134. **Even where there were adequate discussions of the macroeconomic assessment in RRPs, the subject was rarely revisited in PCRs.** For example, although a sound discussion of the macroeconomic assessment was contained in the RRP for ADB's countercyclical support for Viet Nam in 2009,[141] during implementation, the government's countercyclical fiscal stimulus package was marred by frequent changes in approach. Despite providing an extensive discussion of the stimulus package and macroeconomic conditions at loan approval, the PCR did not assess how the package evolved in light of the government's stop-go implementation. Evaluations of PBL in 2001 and 2007 also drew attention to weaknesses in ADB's PCR assessments of the macroeconomic framework for PBL.

5. Political Economy Analysis

135. **Good political economy analysis is important for sound loan design**.[142] Previous evaluations illustrated how embedding ADB PBL in an explicit political economy framework can help drive more successful reform program outcomes (footnotes 20 and 21). An evaluation of African Development Bank (AfDB) PBL found that PBL operations were not systematically underpinned by analysis of the political economy context. Evaluation of World Bank DPL looked specifically at the use of political economy analysis (footnote 26), noting that such analysis could yield valuable insights into the political feasibility of specific PBL-supported reforms and inform specific design elements—such as which PBL instrument variant to use and whether to front- or back-load reform measures.

136. **The evaluation found that, while PBL design drew on available political economy analysis, such work was rarely undertaken specifically in designing PBL operations**. Likely reasons included the comfort drawn from alignment of PBL-supported reforms with national development strategies, the reduced need for such analysis where PBL-supported measures were of lower depth, funding constraints, and an absence of confidential platforms on which to address politically sensitive issues. As a result, the political feasibility of, and risks associated with, specific PBL-supported measures tended not to receive much focus, to the detriment of in-depth knowledge about the theory of change underlying those reform areas and of informed risk-taking. This evaluation supports the findings of these earlier evaluations. Documentation in Bangladesh, the Philippines, and Viet Nam did not feature any significant political economy analysis, despite substantial political risks being present in several cases.[143] Similarly, in Indonesia, substantive political economy analysis was seldom part of the preparation for PBL, although interviews suggested that some analysis was done informally, and that risks were mitigated through the maintenance of a development coordination matrix. In the Kyrgyz Republic, no systematic political economy analysis underlaid any of the programs, although some RRPs briefly discussed some

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[141] ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam: Countercyclical Support.* Manila.

[142] ADB's Operations Manual states in para. 9 that: "Policy-based loan designs are complex exercises in economic and institutional reform … Their successful implementation depends not only on the technical design but also the manner in which the political economy of the reforms is factored into the design" (footnote 7).

[143] In Viet Nam, for example, weak ownership of reforms was partly responsible for the failure of a World Bank public investment reform series, where there was considerable opposition to revision of the public investment law (which eventually only occurred with a 6-year lag).

political economy factors, for example, support—or otherwise—for reform on the part of key government agencies. The absence of political economy analysis that could have helped identify suitable entry points probably accounts at least partly for the limited progress in privatizing state-owned enterprises in this country.

137. **Several programs in Pakistan would have benefited from political economy analysis.** The sector analysis that was prepared for a number of ADB PBL-supported programs fell noticeably short of adequately assessing the economic and political dynamics that were crucial determinants of ownership and commitment. Starting in the early 2000s, ADB built up significant PBL support to help shape local government systems and service delivery. The Devolved Social Services Programs (DSSPs) in Sindh (2003),[144] Punjab (2004),[145] and Balochistan (2005),[146] for example, sought to develop formula-based, performance-oriented grants to district-level governments, despite providing little evidence to show that the provincial governments were genuinely interested in reducing their discretion over the financing of local governments (the Sindh provincial government later went so far as to claim that the DSSP was developed over its objections).[147] Similar problems plagued the implementation of many other provincial PBL operations. In hindsight, the design of ADB support for the devolution process in Pakistan was based on an insufficient understanding of political economy risks.

6. Technical Assistance

138. **By improving PBL design and facilitating reform implementation, TA can often have a make-or-break influence on the success of a program.** PBL design and implementation was widely, although not universally, supported by TA, which contributed to the rising success rate of recent PBL. Equally, as some interviews suggested, provision of TA can provide an important incentive for line ministries to undertake reforms.[148] In the Philippines, TA was delivered as an integral part of PBL during 2008–2011, while more recent PBL implementation has tended to rely on stand-alone TA. In the Kyrgyz Republic, a system support grant attached to the Investment Climate Improvement Program in 2008 helped set up an electronic single window for pre-customs clearance of imports and exports, clearly demonstrating that TA can help improve PBL design and implementation.[149]

139. **Slow delivery and underuse of TA undermined operational effectiveness in some cases.** In Bangladesh, for instance, the PCR for the Public Expenditure Support Facility and the CSF Program suggested that the failure to provide TA undermined the achievement of some of the desired outputs.[150] The Viet Nam countercyclical support loan also did not draw on TA, which may help to explain the stop-go character of the government stimulus program (footnote 140). In several of the Viet Nam programs, including the Third Financial Sector Program in 2007 and the Small and Medium-Sized Enterprise Program in 2010,[151] TA came

[144] ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan: Sindh Devolved Social Sector Program.* Manila.

[145] ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans and Technical Assistance Grant to the Islamic Republic of Pakistan: Punjab Devolved Social Sector Program.* Manila.

[146] ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans, Technical Assistance Loan, and Asian Development Fund Grant to the Islamic Republic of Pakistan: Balochistan Devolved Social Sector Program.* Manila.

[147] IED. 2002. *Country Assistance Program Evaluation: Pakistan, 2002–2012. Linked Document K, Sector Program Assessments, paras. 8–9*. Manila: ADB.

[148] Conversely, in some countries (such as Viet Nam), authorities are reluctant to borrow for "soft" undertakings such as TA and capacity development, confronting ADB with the additional challenge of identifying grant or concessional funds.

[149] ADB. 2008. *Technical Assistance to the Kyrgyz Republic for Preparing the Investment Climate Improvement Program*. Manila.

[150] ADB. 2012. *Completion Report: Public Expenditure Support Facility Program and Countercyclical Support Facility Program in Bangladesh*. Manila.

[151] ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan to the Socialist Republic of Viet Nam: Third Financial Sector Program Loan (Subprogram 1).* Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan for Subprogram 1 to the Socialist*

late or was ineffective. Many of the available PCRs noted that a significant portion of TA funds—as much as 40%, in some cases—remained undisbursed. In Pakistan, TA was provided in some form for all the PBL approved during 2008–2016 but was often marked by low use of designated funds. Where TA was provided to assess the impact of crisis support on households, for example in Armenia (2009), Georgia (2009), and Kazakhstan (2009), it was cancelled, which was a missed opportunity for learning. A comprehensive report on the overall impact of the Economic Recovery Support Program[152] on vulnerable groups in Cook Islands was not undertaken, largely due to a lack of household survey data. Similar TA provided to support the government with state-owned enterprise reforms was cancelled in the Maldives (2009). Other PBL operations had to add more TA to help reform objectives to be achieved. In the Marshall Islands, for instance, while the TA was fully utilized, its outputs were not fully achieved. Tax revenue increased but the approval of tax legislation remained pending in Parliament, so the reforms could not be fully implemented. Similarly, debt management and implementation of state-owned enterprise (SOE) reforms were also delayed pending approval of the SOE and fiscal responsibility legislation. The envisaged TA outcome of fiscal sustainability was not achieved because of continuing fiscal deficits. These reform objectives therefore had to be completed by additional TA.[153]

7. Social and Environmental Impact Assessments

140. **Assessments of the social and environmental impact of PBL rarely identified or addressed the adverse effects of loans.** With a few exceptions, PBL operations were classified as not triggering the associated safeguards (category C), a practice that appeared justified in many cases. However, this is not because policy reform is neutral with respect to environmental and social effects, but that existing safeguard policy may not be relevant and applicable to this lending modality, an issue likely to be assessed more fully in a separate evaluation of safeguards to be completed in 2019.

8. Assessments of Fiduciary Risks

141. **The quality of fiduciary risk and mitigation assessments was inconsistent across countries and PBL operations.** In most cases, PBL documentation complied with the requirement in ADB's Second Governance and Anti-Corruption Action Plan (GACAP II) in 2006 that the principal fiduciary risks be identified and adequately mitigated.[154] Nevertheless, discussions in RRPs were often incomplete. PBL operations approved during 2008–2016 did not examine the fiduciary risks specifically associated with the operations, relying on generic ADB country governance assessments and the work of other partners, notably the World-Bank-supported Public Expenditure and Financial Accountability Report. Identification and mitigation of operation-specific fiduciary risks in risk assessment and management plans were often incomplete. For instance, the plan for Subprogram 2 of the Punjab MDG Program in 2010 specified that there were public financial management risks, but omitted any reference to procurement and corruption, both of which were relevant, given that some of the funds were earmarked for district-level health expenditures.[155] In Viet Nam, the social sector PBL operations did not consider fiduciary risks specific to the relevant line ministries.

Republic of Viet Nam: Second Small and Medium-Sized Enterprises Development Program. Manila.

152 IED. 2016. *Validation Report. Cook Islands: Economic Recovery Support Program—Subprograms 1 and 2*. Manila: ADB.

153 IED. 2015. *Validation Report. Marshall Islands: Public Sector Program—Subprograms 1 and 2*. Manila: ADB.

154 ADB's *Operations Manual* (footnote 7, para. 25) specifies that, based on GACAP II-mandated risk assessments at the country, priority sector, and program levels, the country partnership strategy needs to describe the extent of fiduciary risks to budget support. When available analysis identifies weaknesses in the DMC's budget management system, the *Operations Manual* mandate identifies the additional steps needed to secure sound fiduciary arrangements for policy-based lending and designating policy actions as conditions to improve budget performance. While reasonable, the risk with an operation-specific approach of this type is that fiduciary weaknesses are addressed in a piecemeal rather than holistic fashion. ADB 2006. *Second Governance and Anti-Corruption Action Plan (GACAP II).* Manila.

155 ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan for Subprogram 2 to the Islamic Republic of Pakistan: Punjab Millennium Development Goals Program.* Manila.

9. Integration of Lessons from Previous Policy-Based Lending Operations

142. **The evaluation found that the design of PBL would have benefited from drawing on the lessons from earlier PBL operations.** In Viet Nam, lessons from prior PBL, or from similar operations by other development partners, were not used to inform the design. Several of the operations approved during the evaluation period supported programs that followed on from reforms initiated under the World Bank Poverty Reduction Support Credit series for which ADB provided parallel financing through its Support for the Implementation of the Poverty Reduction Program in 2008. Even within this program, later subprograms hardly drew on the experience of earlier operations. Similarly, many of the Pakistan PBL operations appeared to take insufficient account of the lessons of previous programs, such as the need for a longer-term perspective to underlie PBL support, the importance of ownership and a committed executing agency, and the need for broad-based political support for cross-sectoral reforms. In the Philippines, the summary sector assessment underlying the PBL to expand private participation in infrastructure contained little analysis of lessons from prior ADB support for public–private partnership reforms, although the program itself proved to be successful. The Second West Bengal Development Finance Program in India,[156] however, listed lessons learned from experience implementing the first program and used these to support the need for TA in the second program.

B. Policy Actions and the Design and Monitoring Framework

143. **PBL is disbursed against the fulfilment of policy actions that are designed to remove binding constraints on growth and poverty reduction.** The PBL guidelines in the Operations Manual offer the following guidance on what constitutes good policy actions. They should: (i) address problems identified in the diagnostics; (ii) be limited in number to those critical for removing or mitigating binding constraints; and (iii) be measurable so that their impact on the achievement of the development objective can be assessed (footnote 7). Table 11 summarizes the results of a review of 81 PBL operations regarding how questions on key design issues were addressed in the RRPs.

144. **Guidelines of other MDBs provide more direction than those at ADB: they state that actions should be avoided that are excessively process-oriented, easily reversible, or that only indicate intentions of the government.**[157] Nevertheless, whether a policy action is critical or not can mean different things in different contexts, so it is difficult to judge the quality of a policy action without a fuller understanding of the context in which it was agreed. Hence in the analysis that follows, policy actions in ADB PBL operations over the evaluation period are assessed according to how they linked to diagnostic work, how many of them there were, how critical they were to achieving reforms, and how they can be measured. No attempt was made to assess their quality.

1. Number of Policy Actions

145. **While the average number of policy actions fell over the evaluation period, ADB PBL still includes many policy actions.** The number of policy actions is correlated with loan size (Figure 20). This may be due to a view in ADB that large loans should leverage more reform, and therefore should contain many policy actions. Some staff feel that the Board of Directors expects more policy actions for a large loan. However, the Operations Manual recommends that the number of policy actions be restricted to the minimum number critical for removing or mitigating binding constraints. In other MDBs, the World Bank limits the number of policy actions to about eight, regardless of loan size, although it recognizes that some programs may exceed this limit.[158] An evaluation of PBL by the

[156] ADB. 2017. *Proposed Policy-Based Loan and Technical Assistance Grant. India Second West Bengal Development Finance Program*. Manila.

[157] World Bank. 2015. *Development Policy Financing Retrospective 2015: Results and Sustainability, Operations Policy and Country Services*. Washington, DC.

[158] As a related issue, there may in fact be a prevailing view in certain quarters of the ADB that PBL funds represent a payoff for reform, and that greater loan amounts should leverage more reforms. This is supported by the positive association between loan amounts and the number of policy actions.

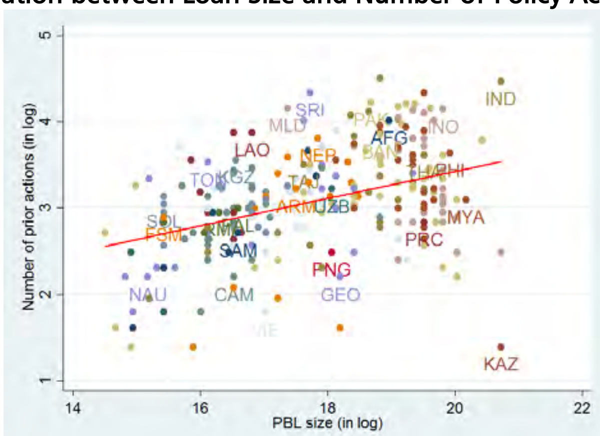
Office of Evaluation and Oversight at the IDB found no relationship between loan size and the number of policy actions (footnote 29). ADB needs to place greater emphasis on the quality of policy actions rather than their quantity. Including a smaller number of actions in a programmatic series or in multitranche operations would help to demonstrate how policy actions develop and deepen over time, allowing progress to be assessed. Instead of policy actions appearing in an appendix to the RRP template, the reason for their selection and significance should be discussed in detail in the body of the report. If there are fewer policy actions the RRP will be able to provide a fuller discussion of them.

Table 11: Review Questions on Policy-Based Lending

Question	Yes	%
Is the PBL based on a detailed diagnostic work, even if that was undertaken by another donor?	62	77
Is the assessment of a particular policy distortion and how it leads to a particular binding constraint clearly explained in the RRP?	53	65
Does the RRP explain how ADB contributed to the design and implementation of the government-owned reform package, including TA, and present a summary of the envisaged reform impacts, including who will benefit?	58	72
Do the policy actions in the policy matrix address problems identified in the diagnostics?	35	43

ADB = Asian Development Bank, PBL = policy-based lending, RRP = report and recommendation of the President, TA = technical assistance.
Source: Independent Evaluation Department.

Figure 20: Correlation between Loan Size and Number of Policy Actions, 2000–2017



ARM = Armenia, AFG = Afghanistan, BAN = Bangladesh, CAM = Cambodia, FSM = Federated States of Micronesia, GEO = Georgia, IND = India, INO = Indonesia, LAO = Lao People's Democratic Republic, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, MLD = Maldives, MYA = Myanmar, NAU = Nauru, NEP = Nepal, PBL = policy-based lending, PHI = Philippines, PAK = Pakistan, PAL = Palau, PNG = Papua New Guinea, PRC = People's Republic of China, RMI = Republic of Marshall Islands, SAM = Samoa, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, THA = Thailand, TON = Tonga, UZB = Uzbekistan, VIE =Viet Nam.
Source: Independent Evaluation Department.

146. **Country counterparts' views on the appropriate number of policy actions were ambivalent.** Some sector ministries in Indonesia found it helpful to include many policy actions, while ministries in the Philippines suggested that a large number of actions complicated loan compliance without adding to the effectiveness of reforms. Previous evaluations by IED noted that PBL operations with numerous policy actions were difficult to evaluate.

2. Criticality of Policy Actions

147. **The evaluation found that up to half of all policy actions in PBL operations approved over the evaluation period were overly process-**

oriented.[159] While some process actions may be necessary as foundations for more critical reforms, their significance is usually not fully discussed at program completion. In general, because policy actions are not presented in the DMF, program completion reports do not report on the results of policy actions, including ADB's role in them through either policy dialogue or TA, except to say whether or not they were completed. Moreover, because PBL is designed to support government-owned reform programs, process actions could be undertaken without ADB support or could be supported through TA without the need for them to be part of the requirements in a PBL operation. If PBL contains a large number of process-related policy actions, this complicates the reporting of results in the DMF because it is difficult to identify meaningful results for numerous process-related policy actions. Table 12 contains examples of process-related policy actions. Regional departments are attempting reduce the number of policy actions. For example, the Southeast Asia Department (SERD) is trying to use process actions for PBL operations in new policy fields only where they are critical, such as in the Cambodian decentralization sector development program completed in 2016. Where process-related actions are essential, particularly in countries with limited capacity, the RRP should discuss the need for them.

Table 12: Examples of Process-Related Policy Actions, 2008–2017

Country	Policy Actions
Viet Nam	State Bank of Viet Nam implements its human resource development (training) with a total of 4,789 participants completing a structured regime of soft skills, leadership skills, general professional skills and select advanced technical skills.
Viet Nam	State Securities Commission to develop a plan for human resources development over the medium-term period of 3–5 years.
Viet Nam	Ministry of Health has issued a Circular requiring each health training institution to submit an annual plan to assign their faculty and students to provincial and district hospitals for training, research, and health care delivery.
Tuvalu	The Ministry of Finance and Economic Planning to put in place mechanisms and risk management measures identified in the debt risk management and mitigation policy and strategy to ensure continued improvement of debt management.
Tuvalu	Public corporations to develop or recruit financial management expertise and ensure internal accounts are prepared internally and not through external auditors.
Tuvalu	Tuvalu Maritime Training Institute curriculum revised to improve employment opportunities and encourage female students.
Tonga	The government, through the Ministry of Health, will have adopted the action plan to implement recommendations of review of outer island districts and community health center services.
Tajikistan	Tax Committee initiates work on creating a risk-based planning system for tax audits by approving risk indicators for taxpayers based on the recommendations of the technical working group.
Tajikistan	Ministry of Labor and Social Protection posts on its website the final independent evaluation reports on both pilot programs and takes decisions on the recommendations provided in the reports, including those on gender analyses.
Solomon Islands	Process underway to identify businesses outside the tax system and associated awareness raising initiative underway for business.
Solomon Islands	Commitment to release a mid-year fiscal update, reporting the status of implementation of the 2010 Budget and an annual update of the Medium Term Fiscal Strategy.
Philippines	Published handbook on best practice in local government unit business registrations.
Philippines	The 3-year strategic communications plan for procurement reform approved by Government Procurement Policy Board.

[159] To count the number of process-oriented policy actions, the evaluation created a database of all policy actions contained in PBL operations approved from 2008 to 2017. This amounted to 4,077 policy actions over 181 PBL operations. A search was made to identify policy actions related to the following terms: approve, assess, draft, design, enhance, formulate, guideline, identify, initiate, plan, prepare, produce, publish, meet, report, study, and train. While some of the related policy actions found may have important operational implications, it is not always clear what was accomplished by them as PCRs do not generally provide a full account of such actions, nor how they relate to the achievement of outcomes.

Country	Policy Actions
Philippines	The Bureau of Customs made progress in implementing its integrity development review action plan 2008 to 2012.
Pakistan	Pakistan Railways commenced selection of consultants to carry out detailed assessment on departmental restructuring and workforce rationalization.
Nepal	Review of the National Banking Training Institute operational plan
Myanmar	The government (through the Ministry of Education) has initiated the Comprehensive Education Sector Review.
Mongolia	Parliament received the draft Future Heritage Law to Parliament.
Lao PDR	The Ministry of Health has approved the National Health Information System Strategic Plan (2009–2015).
Kyrgyz Republic	The government to establish a working group chaired by the Ministry of Economy and (ii) to draft time-bound action plan for trade expansion under Generalized Scheme of Preferences
Indonesia	Ministry of Home Affairs decree is being prepared to provide technical guidelines, including standard performance indicators for service delivery monitoring.
Indonesia	Bank of Indonesia and Ministry of Finance to commit to undertake Financial Sector Assessment Program evaluation (with International Monetary Fund and World Bank) to allow for comprehensive and up-to-date diagnostic of financial sector vulnerabilities.
Indonesia	The Ministry of Public Works established a framework for the development of national road network master plan.
Indonesia	Government of Indonesia will have approved recruitment of a service provider to develop benchmarking of urban services in the state.
Cambodia	The Public Financial Management Coordination Working Group for Rural Development Ministries established, and meetings held in 2010.

Source: Asian Development Bank reports and recommendations of the President.

148. **It was difficult to discern the links between the analysis that generally underpinned PBL and the policy actions contained in RRPs.** This is not to say that prior actions have no analytical underpinning but rather that the design of most PBL reviewed as part of this evaluation did not indicate how policy actions were related to the desired outcome. There was little clear specification of the source of policy actions, why they were selected, or why they would be important to the achievement of the development objective, growth, or poverty reduction. In other words, the theory of change was often weak.

3. Measurability

149. **The result of a policy action needs to be measurable so its effect over time on the program outcome can be assessed.** However, this is made difficult both by the sheer number of policy actions contained in a PBL operation (which increases data requirements) and by the type of actions that are supported. The results of process-oriented policy actions, such as those listed in Table 12 are inherently difficult to measure in practice and are rarely reported in PCRs. While it may be relatively straightforward to record that staff were trained, or reports were reviewed, the effect of a process-related reform is, in practice, much harder to measure.

4. Design and Monitoring Frameworks

150. **The evaluation found several issues with the application of DMF guidelines.**[160] Some of these issues relate to basic attribution problems, which is a challenge for both ADB and other MDBs. For instance, the use of very high-level outcomes in the DMF that are influenced by many factors exogenous to PBL reforms, such as GDP growth, investment levels, employment creation, and poverty reduction, limits any possibility of attributing these changes to ADB supported policy actions. Conversely, setting results that are too output-oriented, and which are identical or similar to policy actions, as some PBL operations do, is also a problem because it confuses inputs with intended changes

160 ADB. 2016. *Guidelines for Preparing a Design and Monitoring Framework*. Manila.

generated by the policy actions, and may mislead the assessment of PBL results. Nor should the output and outcome statement be the same. The application of the DMF in PBL design is complex and finding clear links between policy actions supported and the outputs and outcomes stated in the DMF is often difficult, especially when there are numerous policy actions, which are often process-oriented and difficult to measure in practice.

151. **DMFs need to allow the changes that have occurred as a result of ADB-supported policy actions to be measured.** However, this is often not clear (Appendix 5, Linked Document 1). A sound results framework is important in PBL design, and it should be able to assess the scope of change that has occurred because of the policy action. If there are many policy actions and these are presented separately from the results in the DMF, this makes the link between policy actions, outputs, outcomes and indicators opaque, and evaluation difficult.

152. **In many cases, results are expected to materialize outside the timeline of the PBL, so it may be too early to assess whether the desired changes occurred or not**. In such cases, ex-post PBL monitoring is needed but the evaluation found that most programs had no mechanism to monitor results over the longer term. If the longer-term development outcomes of PBL are included in the CPS results framework, this may help to fill this gap and ensure results are monitored long after project closing.

153. **The evaluation also found that many policy actions become outputs in the DMF or are listed as indicators for outputs.** The problem with presenting policy actions as outputs in the DMF or as indicators of the output is that the result of the policy action is the policy action itself, which greatly reduces the credibility of achieving it. For example, in some PBL designs, policy actions become indicators for the output, e.g., in the Beijing-Tianjin-Hebei Air Quality Improvement PBL,[161] all policy actions were exactly the same as the indicators for the output in the DMF (Table 13). This was also the case for the Indonesia Sustainable and Inclusive Energy Program.[162] This means that outputs are achieved simultaneously with policy actions. As it is often too early to assess whether the policy outcome was achieved, judgments are often made on whether outputs were achieved. Where outputs are the same as policy actions, this makes PBL success almost inevitable. In the example in Table 13, the output indicators were also the policy actions listed in the policy matrix. It should be noted that the output and outcome statements were very similar, which also implies the program is likely to be successful before approval. A review of 49 PVRs of PBL approved since 2008 found that 20 contained policy actions that were equivalent to outputs (Appendix 5, Linked Document 1).

Table 13: Example of a Results Chain and Performance Indicators

Results Chain	Performance Indicators with Targets and Baselines
Outcome: Framework for incremental policy and investment actions in Hebei to improve air quality in the Beijing-Tianjin-Hebei region strengthened	Fund disbursement rates for air pollution control measures increased to 80% for the People's Republic of China central government and Hebei provincial government, and 90% for municipal governments (2014 baseline: 71% for the People's Republic of China central government, 65% for Hebei provincial government).
Outputs Policies and actions to reduce air pollution from key sectors issued and approved	1a. Natural gas network expansion plan with time-bound investment approach to accelerate implementation issued by Hebei provincial government.

[161] ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to People's Republic of China: Beijing–Tianjin–Hebei Air Quality Improvement–Hebei Policy Reforms Program*. Manila.

[162] ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans for Subprogram 2 and Administration of Technical Assistance Grant to Indonesia: Sustainable and Inclusive Energy Program*. Manila.

Results Chain	Performance Indicators with Targets and Baselines
	1b. Enabling regulation to encourage capture of synthetic natural gas from coke oven flue gas and allow its injection into the natural gas distribution network issued by Hebei provincial government. 1c. Action plan for accelerated decommissioning of decentralized heat-only boilers and substitution with centralized combined heat and power plants with enhanced emission reduction measures issued by Hebei provincial government. 1d. Policy on quantitative targets for raw coal reduction and promotion of centralized and non-coal-fired heating service adopted by all 11 municipalities. 1e. Analysis of financial and market-based incentive schemes for urban and rural heating service from low-carbon and low-emission cleaner energy sources started by the engaged institute.

Source: ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to People's Republic of China: Beijing–Tianjin–Hebei Air Quality Improvement–Hebei Policy Reforms Program*. Manila.

C. Implementing Policy-Based Loans

154. **There were numerous examples of the reform content of later operations in a programmatic series being altered from the initial design, often with little explanation.** While flexibility and adaptive capability are a large part of the motivation for using programmatic PBL, it is also important to guard against dilution of reform content and PBL objectives. The reasons for any changes to initial design need to be clearly explained. In Viet Nam, five programs had some level of design modification as successive operations were processed. In only one case, however (the Financial Sector Deepening Program approved in 2013), did this increase the depth of reform content;[163] in the remainder, the depth was reduced, as in the SME Program, approved in 2010 (footnote 151), or did not change significantly.[164] Similarly, in the Kyrgyz Republic, both the Investment Climate Implementation Program, 2008[165] and the Secondary Investment Climate Improvement Program (SICIP), 2015[166] experienced implementation delays and design changes. In some cases, changes in prior actions appeared to be genuine adaptations to changed circumstances, such as the recognition of emerging skilled labor shortages, but in others, actions were dropped with little explanation. In the SICIP, the reasons for dropping or replacing several of the indicative triggers for the SICIP were not explained. The primary motivation appears to have been to advance the approval date by more than a year, but the more compressed timeframe also meant that some actions were not implemented adequately, and interviews with government counterparts suggested a likely negative impact on the program's ultimate effectiveness. This provides a clear example of the provision of financing taking precedence over the support of reform.

155. **In Pakistan, the dilution and truncation of several programs contributed to the poor performance of virtually all PBL approved before 2008.** Programs in Pakistan were frequently restructured, terminated, or partly continued as new programs. This led to many adjustments in policy actions later in a program which almost always softened reform conditions or pushed them into the future. In many cases, reforms were backloaded, even though there are risks associated with deferring meaningful reforms,

[163] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Subprogram 1 to the Socialist Republic of Viet Nam: Financial Sector Deepening Program.* Manila.

[164] ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Subprogram 2 to the Socialist Republic of Viet Nam: Financial Sector Deepening Program.* Manila.

[165] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Cluster Grant for Subprogram 1, and Grant Assistance to the Kyrgyz Republic: Investment Climate Implementation Program.* Manila.

[166] ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Grant for Subprogram 1 to the Kyrgyz Republic: Second Investment Climate Improvement Program.* Manila.

as the experience in Pakistan demonstrates. When programs are truncated (e.g., when the country's performance under an IMF arrangement went off-track in 2010), further reform impact is lost. The Accelerating Economic Transformation Program, approved in 2008, was designed to address the need for immediate macroeconomic stabilization and to mitigate the adverse impact of sharp increases in food and fuel prices on the poor (footnote 37). It was prematurely ended with the cancelation of subprograms 3 and 4 in 2009, following the abatement of the crisis. The more in-depth reforms that had been deferred to the later subprograms were never implemented. In other cases, changes in circumstances eroded commitment to reforms. For example, with the Punjab Devolved Social Services Program (DSSP), difficult reforms were placed mainly in the third tranche (footnote 145). By 2009, when the tranche was finally disbursed, the government had changed, and the provincial governments had become more assertive in rejecting the nationally imposed template for local governance. The Punjab government's commitment to the DSSP dropped further and key policy actions were never completed.

156. **Implementation arrangements and monitoring during implementation could have been stronger.** In several cases, implementation arrangements, often supported by TA, relied excessively on finance ministries. There was insufficient appraisal of the capacity of the entities ultimately responsible for executing the PBL-supported reforms. The provincial PBL operations in Pakistan, for instance, relied heavily on the Ministry of Finance, despite its limited management capacity, interest and stake in the reforms.

157. **Field interviews in Indonesia and the Philippines suggested that ADB bears the main responsibility for selecting outcome indicators and monitoring their progress.** In the Philippines, the National Economic Development Authority, which participates in developing PBL-supported reforms to ensure alignment with the country's development plan, pointed to the difficulty of linking policy actions with DMF indicators. It also indicated that no development partner (ADB included) participates in its own monitoring of progress in the country's reform program—a missed opportunity for ADB to help improve the quality of monitoring in general.

158. **In many cases, results are expected to materialize outside the timeline of the PBL**. The evaluation found that most programs had no mechanism to monitor results over the longer-term. If the longer-term development outcome of PBL is included in the country partnership strategy results framework, this would help to fill this gap and ensure results are monitored long after project closing.

159. Box 4 lists what worked and what didn't in PBL design.

Box 4: What Worked and What Didn't

Development partner collaboration around a single policy matrix worked well in the Pacific. There was clarity on the roles of different partners. Collaboration between development partners is an asset in complex policy settings. ADB cannot deliver the scale of reforms needed in Asia and the Pacific on its own. For example, several development partners supported critical policy reforms, e.g., the reduction of long-standing energy subsidies in Indonesia.

The shift to single-tranche PBL (either alone or as a programmatic series) has improved overall performance. The use of programmatic PBL has eliminated the disbursement delays which had previously hampered the instrument's capacity to respond to country financing needs.

Concentrating PBL on public financial management reform and capital market development has improved results. However, these results are intermediary outcomes and their long-term impact on service delivery and poverty reduction should be monitored.

PBL is less complex when it is focused on a specific reform area. Reforms spread across multiple sectors and ministries did not work, especially in countries with limited institutional capacity. There were several examples of PBL operations where the scope of reforms was ambitious and relied too much on the Ministry of Finance for implementation.

The use of conventional PBL as contingent financing to disburse resources in response to a natural disaster helped expedite ADB's disaster response.

Using conventional multitranched PBL to respond to crisis situations has not been effective. Many second tranches were delayed, which undermined the crisis response effort. A single-tranche stand-alone operation is a far more effective way to respond efficiently to crisis situations.

Multitranche PBL is not suited to the programmatic concept or cluster approach. Identifying upfront what specific policy actions governments will remain committed to in future tranches runs the risk of locking countries and ADB into conditions that it may not be possible to implement in future.

An abundance of policy actions does not improve reform quality. This is especially the case when policy actions are process-oriented, and their results are difficult to measure.

ADB = Asian Development Bank, PBL = policy-based lending.
Source. Independent Evaluation Department.

D. Program Completion Reports

160. **PCRs should focus on results.** However, the evaluation found that the time frames over which programs were validated were as short as 9 months for a PBL in Kyrgyz Republic to as long as 10 years for programs in Mongolia and Nepal (Box 5). The average for all PCRs was 4.1 years after closing. While this provides time in which to assess the results of policy actions, shortcomings in these self-evaluations of PBL performance delayed the production of a valuable feedback loop**.** Timely and rigorous evaluation of completed programs plays a crucial role both in informing future PBL and in shaping staff incentives at the program design stage. However, PCRs (and their consequent validation) for PBL operations suffered from significant delays and quality issues.

161. **Long lags between program completion and PCR preparation were common (Figure 21).** In Indonesia, for instance, only five of the 20 operations approved during 2008–2017 had associated PCRs, in some cases because associated TA was ongoing. Programmatic PBL is evaluated in one completion report, which follows the practice at other MDBs where the time between subprograms (generally 12 months) does not allow sufficient time for completion reports and their validation. However, ADB practice does not require that individual subprograms be assessed and rated. Moreover, there are some differences of opinion on what constitutes a programmatic series (Box 5). Where programs extend beyond 5 years, some stock-taking may be valuable.

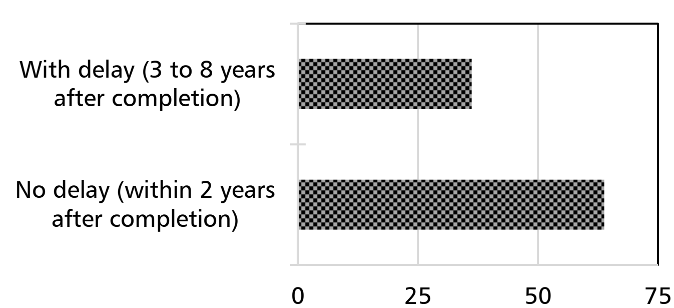
Box 5: Program Completion Reports

On average, PBL program completion reports (PCRs) are validated by the IED 4.1 years after loan closing. One reason for this is that TA or other lending products are often attached to PBL. While most PBL disburses almost immediately, TA takes much longer to complete, often ending years after the PBL has disbursed, so the completion report for the PBL comes many years after the loan closes. In 2008, for instance, ADB began using PBL to support public financial management reform in Cambodia. The Public Financial Management for Rural Development Program contained two subprograms. The first ($6.7 million) was approved in 2008 (along with an attached investment project of $4.1 million) and the second ($20 million) was approved in 2010. In 2012, ADB continued its support to public finance management by approving the Decentralized Public Services and Financial Management Sector Development Program Subprogram 1 ($24 million). Approval of Subprogram 2 ($15 million) followed in 2015. In 2016, ADB approved the Strengthening Public Financial Management Subprogram 1 ($26.5 million). After nearly a decade of support, no PCRs are available, despite a succession of PBL approvals worth nearly $100 million.

In Nepal, ADB supported a series of multitranche PBL operations to support education sector reform. A cluster approach was adopted. While the cluster was described as containing three subprograms, these were further divided into tranches, clearly making this a multitranche operation or a hybrid of a programmatic and multitranche operation. In 2006, $32.3 million was approved for disbursement in two tranches. In 2007, a further $8 million was approved to be disbursed in one tranche. In 2009, ADB approved a further $95 million, for disbursement in two tranches. Each loan had its own DMF with a unique sector outcome. However, a programmatic series should have only one outcome and one PCR. The first loan's outcome was increased access to and improved quality and efficiency of basic and primary education in accordance with education for all. The second loan's outcome was a broadly accepted and adequately financed school sector reform policy, program and financing framework. The third loan's outcome was increased access and improved quality of school education, particularly basic education (grades 1-8) especially for girls and children from marginalized groups. However, only one PCR was finalized in 2017, more than a decade after the first loan was approved.

ADB = Asian Development Bank, DMF = design and monitoring framework, IED = Independent Evaluation Department, PCR = program completion report, PBL = policy-based lending, TA = technical assistance.
Sources: Independent Evaluation Department; ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1 and Grant Assistance to the Kingdom of Cambodia: Public Financial Management for Rural Development Program.* Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Grant to Subprogram 2, and Grant Assistance to the Kingdom of Cambodia: Public Financial Management for Rural Development Program.* Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based and Program Loan for Subprogram 1 and Technical Assistance Grant to the Kingdom of Cambodia: Decentralized Public Services and Financial Management Sector Development Program.* Manila; ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, and Policy-Based Loan for Subprogram 1 to the Kingdom of Cambodia: Strengthening Public Financial Management Program.* Manila.

Figure 21: Percentage of Delayed Program Completion Reports, 2008–2017 (n=116)



Source: Asian Development Bank database.

162. **The quality of the analysis in PCRs was variable.** Few PCRs assessed in detail the relevance of the design, the quality of the analysis underpinning the PBL, why a particular PBL variant was selected (multitranche or programmatic), the choice and significance of policy actions to the overall outcome, or the extent to which PBL processes conformed to the guidance in the ADB Operations Manual. The overall effectiveness of policy actions in achieving development outcomes was usually not assessed and the analysis of the DMF quality (i.e., whether indicators have adequately captured the outcomes of policy actions) was not reviewed, although there were exceptions to this.[167] In addition, interviews in Bangladesh and the Philippines indicated that evaluations were not shared or discussed with country counterparts in the line ministries, meaning that the opportunity to attract potentially valuable inputs to inform assessments was lost. Shortcomings in the quality of PCR analysis are reflected in the PVRs. At program completion, an assessment of the extent to which the achievement of outcomes can be attributed to policy actions was not made. A more comprehensive account of the policy changes triggered by policy actions would improve the quality of reporting on results, and PBL evaluability.

E. Summary

163. **ADB's guidelines on PBL design mirror international good practices but there some shortcomings in design, implementation, and monitoring.** While the guidelines call for the number of policy actions to be restricted to those that are critical to the removal of a policy constraint, ADB PBL still contains an excessive number of overly process-oriented policy actions. There is insufficient analysis or explanation for why these actions are significant to the removal of the policy constraint. Moreover, the PCR usually does not examine whether policy actions were critical to overall results and the evaluation found little connection between the policy actions supported and the results in the DMF. The new template for RRPs introduced in 2010 did not reflect important PBL characteristics, which meant that the PBL RRP had to be fitted into an investment project template. A new template introduced in February 2018 may help to alleviate these issues but further tailoring may be necessary.

164. **ADB worked closely with the IMF and other development partners.** The evaluation found that ADB relied on the IMF for its overall macroeconomic assessment of a country, and there was only one case where ADB provided PBL despite the IMF assessment. There was also one case of ineffective communication between the IMF and ADB. Nevertheless, the macroeconomic justification for PBL was often not explicit in PBL design documentation, which relies on the IMF assessment letter to ensure that the macroeconomic framework is credible.

165. **PBL design remains overly complex.** While the number of policy actions has fallen, PBL operations still contained too many. In most cases the analytical foundation for these actions and the reasons why they were chosen were not clearly explained. The positive correlation between the number of policy actions and loan size suggests that in some ADB quarters there is an expectation that larger loan sizes should be accompanied by a great number of policy actions. However, a greater focus on the quality of policy actions would be more appropriate. In addition, IED found that many policy actions were process-related and their results were not always clear or measurable. A greater focus on relevance, criticality, and the measurability of results would improve the quality of the policy actions in PBL.

166. **The relationship between policy actions and development outcomes was not sufficiently clear.** The practice of separating policy actions from the design and monitoring framework has

[167] For instance, the PCR for Bangladesh *Improvement of Capital Market and Insurance Governance Project* specifically discussed the limitations of DMF performance indicators, suggesting instead that supplementary impact indicators—such as the price–earnings ratio, increase in turnover and growth of new capital issues—could be included in future PBL to assess impacts in capital market development. It also suggested the insurance sector indicators should include insurance penetration and insurance density. ADB. 2014. *Completion Report: Bangladesh: Improvement of Capital Market and Insurance Governance Project.* Manila.

reduced the clarity of the results. When outcomes are achieved, a PBL may be evaluated as successful even where the relationship of this success to the actions supported is not clear. An assessment of the quality of policy actions and their relationship to the overall development outcome at program completion would help to improve the selection of these actions.

5

CONCLUSIONS AND RECOMMENDATIONS

167. The evaluation found that PBL has responded to country financing needs while at the same time providing an opening for ADB to influence policy reforms for growth and poverty reduction. PBL helped countries through crisis years and was expanded to almost 45% of ADB support in 2009, effectively double ADB's PBL ceiling. There is evidence that PBL has helped support reforms in PSM and capital market reforms although the longer-term impact of these reforms on growth and poverty reduction cannot be determined with certainty. The range of reforms supported by PBL narrowed over the evaluation period, with almost two-thirds of operations being focused on PSM. There were examples of good PBL design, but the evaluation found a need for ADB to strengthen the design of its PBL programs if it is to increase its influence on policy directions in the Asia and Pacific region.

A. Policy-Based Lending Operations are an Important Development Modality for ADB

168. **Over the 40 years since PBL was introduced, it has become one of ADB's most important operational modalities.** PBL has the potential to promote fundamental reforms, and, because they disburse rapidly, PBL operations can help alleviate the impact of internal and external economic shocks on ADB developing member countries and the effect of natural disasters.

169. **PBL gives ADB an opportunity to influence reform agendas.** If PBL operations are founded on sound analytical work, they can provide a basis for continuous policy dialogue, or a seat for ADB at the negotiating table, enabling it to support reform-minded governments. A combination of dialogue and PBL gives ADB credibility, particularly in areas where it has core expertise. If this is combined with financing support from other development partners, PBL can be a transformative instrument in promoting growth and poverty alleviation.

170. **The amount of ADB PBL grew substantially in absolute terms over the evaluation period, and country demand for PBL is expanding.** It accounted for 21% of all sovereign approvals between 2008 and 2017 and 35% of disbursements to the end of 2016, which reflected higher PBL support during the global financial crisis. However, because of rapid growth in the Asia Pacific region, the size of PBL relative to the size of member country economies has declined over time. In terms of both the number of loans and the loan amounts, PBL was primarily focused on larger and more developed countries over the evaluation period. These countries could probably absorb even more of this type of lending in future. Therefore, a major question to be answered by ADB regarding future PBL use is how it can allocate PBL effectively between countries.

B. Evidence Suggests that Policy-Based Lending Contributed to Positive Results

171. **The success rate of completed and validated operations doubled over the evaluation period.** Although several factors contributed to this, the increase likely reflects the introduction of programmatic PBL, which disburses funds against policy actions already completed by the government.

172. **PBL helped member countries through difficult times.** ADB is seen as a supportive partner by the region and PBL provided valuable and much needed support that helped build confidence in member country economies facing large economic shocks from disruptions in the international financial system, especially during the global financial crisis in 2008–2009. ADB's ability during these periods to respond rapidly with PBL helped restore stability in countries, particularly in the Pacific, confronted by forces outside their direct control. This type of PBL continues to evolve and precautionary PBL, designed to build disaster resilience before a shock, will improve responses to similar events by strengthening disaster management capacity.

173. **PBL has been particularly effective in PSM, which constituted the bulk of all PBL over the evaluation period, and in capital market development.** There was far less PBL in the energy, water, and transport sectors, and more

limited evidence of success, despite ADB's large investment operations in these areas.

174. **Despite the positive results in PSM and capital market reform, evidence that PBL-supported policy actions has been critical to these results is inconclusive.** In particular, there is a lack of evidence to establish what influence these reforms have had on improved delivery and use of public goods and services, citizens' growing confidence in governance, greater business confidence, and increased levels of investment and competitiveness. Assessing results of ADB PBL is constrained by design issues, such as the lack of baselines, and the absence of counterfactuals (e.g., would the reforms have happened anyway, without the PBL?). Analysis is also hindered by constraints on collecting country data and weak statistical systems.

C. Improving Design, Implementation, and Monitoring and Evaluation will Strengthen Development Results

175. **ADB's guidelines for PBL design mirror international good practices but there are shortcomings in design, implementation and monitoring**. With the increasing use of PBL, it is imperative that ADB improves its understanding of the results achieved and the contribution it has made to these results. This starts with a robust design. ADB PBL is intended to remove critical constraints on growth and poverty reduction. Meaningful outcomes depend on good design, implementation and monitoring if ADB is to identify the right reforms, and policy actions that are likely to prove critical to removing constraints. Improvements in PBL design will help to strengthen ADB's role in shaping policy in the region and in influencing reforms for inclusive growth.

176. **The evaluation found that ADB generally relies on the IMF for an overall macroeconomic assessment of a country that has expressed interest in receiving PBL.** There was one case where ADB provided PBL contrary to the IMF assessment and one case of ineffective communication between IMF and ADB. Nevertheless, the macroeconomic justification for PBL was often not explicitly presented in PBL design documentation, which usually relies on the IMF assessment letter to ensure that the macroeconomic framework is credible.

177. **PBL design remains overly complex.** While the number of policy actions has fallen, PBL operations still contained too many actions. In most cases the analytical foundation of these actions and the reasons they were chosen was not clear. The positive correlation between the number of policy actions and loan size suggests that in some ADB quarters there is an expectation that larger loan sizes should be accompanied by a great number of policy actions.

178. **The practice of separating policy actions from the design and monitoring framework has made it harder to assess results.** When outcomes are achieved, PBL may be evaluated as successful even if the relationship with the policy actions supported may not be easy to discern.

D. Key Issues in Policy-Based Lending Use

1. Strategic Issues

179. **PBL is primarily directed at countries with higher incomes per capita, stronger policies, and greater institutional capacity.** This fits with the view that development aid works better in countries with stronger policies and institutions and that desire policy reform. However, PBL also ought to support reforms in countries with weaker institutions to lift overall development in the region. Of the four largest recipients of PBL in the 2008–2017 period, only Pakistan has a strong poverty-based need for development financing, yet PBL support for Pakistan has recently declined. By contrast, Indonesia, Philippines, and Viet Nam can all source financing from domestic and international capital markets. Country demand for PBL is expanding and, while it is appropriate that ADB should respond to this, its ability to meet such demands is limited, so implicit rationing within the ceiling is inevitable.

180. **Using conventional PBL to address longer-term structural reforms is not necessarily**

compatible with meeting urgent country financing needs during crisis years. The balance between PBL's two objectives changes during crisis periods. In difficult times, countries need short-term financing to help stabilize their economies and protect the vulnerable. However, the PBL design that ADB offered during crisis times contained complex reforms which often resulted in disbursement delays when urgent financial support was needed. Greater clarity between which of the two objectives takes precedence during crisis years is needed. Using the countercyclical support facility (CSF) to address short-term financing needs in OCR countries facing crises is more appropriate than using ordinary PBL, given its higher cost and shorter tenure.

181. **Policy reforms supported by ADB have increasingly concentrated on PSM, which is wide-ranging in scope and lacks a clear longer-term corporate strategic goal.** The shift to public sector management reform is in line with the reforms supported through equivalent modalities by other MDBs. In many countries, greater clarity on the overall direction in this area would strengthen ADB's PSM operations.

182. **There has been limited use of PBL in ADB's traditional areas of investment and expertise.** Although there is a specific instrument for combining PBL with project investments, the sector development program, there has been limited use of PBL (either packaged or used in parallel) with investment projects to support development outcomes in ADB's traditional sectors of energy, water and transport. PBL could be used more strategically in these sectors to remove constraints on development outcomes that go beyond investment in physical infrastructure.

2. Design and Operational Issues

183. **Attributing results to PBL is difficult because many factors concurrent to PBL influence policy reform outcomes.** Disentangling the impact of ADB support from that of other development partners and from the effects of other factors is difficult. While evaluation of PBL, including its contribution to development outcomes, is difficult, it is essential to assess its contribution. This starts from strong PBL design, including the quality of the policy analytical work, determining which policy actions are critical to the intended outcomes, the quality of the technical assistance provided, and the baselines for comparison. Strong PBL design will not only help to improve its impact, it will support the collection of evidence to document intended and unintended results and enable an overall evaluation of PBL's contribution to be made.

184. **The size of a PBL operation is related to a country's financing needs, not to the depth of policy reform required, hence larger operations do not necessarily leverage more reform and therefore not necessarily require more policy actions.** Larger operations do not necessarily leverage more reforms and should not necessarily contain more policy actions. ADB's policy calls for the number of policy actions to be limited to those that are critical to the removal of the policy constraint, so there should not be a relationship between loan size and the number of policy actions. While ADB has tried to reduce the number of policy actions and to improve their quality, there is still a strong positive correlation between the loan size and the number of policy actions. Fewer actions in a programmatic series or in multitranche operations would help to demonstrate how policy actions develop and deepen over time, allow progress to be better monitored and assessed, and make it easier to evaluate PBL.

185. **Decision-making regarding the provision of a PBL that diverges from the IMF's macroeconomic assessment may entail risks that require an independent assessment to be made independent of the regional department.** In general, ADB follows the G20 principles, which state that the IMF should take the lead in providing such an assessment. While approving a PBL is entirely within ADB's prerogative, if it does so against IMF advice it faces reputational and other risks. Prudence suggest that corporate risk assessment should always be separate from risk taking so in this case an assessment of macroeconomic and other risks should be made independently of the regional department. This will provide a broader corporate perspective and protect ADB.

186. **PBL operations evaluated contained many process-oriented policy actions, the**

outcomes of which are not always clear. The link between the analysis conducted and the policy actions selected was often difficult to discern. This is not to say that policy actions had no analytical underpinning but rather that the PBL design did not indicate how policy actions were critical or related to the desired outcome. There was little information that clearly specified the source of policy actions, why they were selected, or why they were important to the achievement of the development outcome, to growth, and poverty reduction. In other words, the theory of change was often weak.

187. **The practice of separating the policy matrix from the DMF makes the results less clear.** When the outcomes specified in the DMF are achieved, a PBL may be evaluated as successful even where the policy actions supported may not have been critical to the outcome.

188. **The critical role of policy actions to the achievement of development outcomes was not sufficiently assessed at program completion.** Timely and rigorous evaluation of completed programs plays a crucial role in informing future PBL but there were shortcomings in the self-evaluation of PBL performance at completion. The assessment should follow the PBL design characteristics contained in the *Operations Manual* more closely to ensure that it evaluates the relevance of the PBL design more thoroughly. It should rigorously assess whether the policy actions supported were critical to the overall development outcome.

189. **PBL requires independent additional scrutiny beyond the regional department.** Unlike investment projects, PBL does not have several points at which design and implementation can be reviewed to ensure resources are well invested and results achieved. PBL disburses in one-hit and hence the quality of design is important. Moreover, because in most cases the modality disburses against actions already undertaken by government, there is a potential conflict of interest in providing rapidly disbursing budget support for policy reforms and assuring quality monitoring of results by the same department. Further there is limited incentive for the department to monitor longer-term results after the loan is fully disbursed. Therefore, independent reporting on the quality of design, the trends in the instrument's use and the outcomes achieved is not systematically reviewed. For the multitranche financing facility, there is an annual report. ADB offers no specific training for staff leading and designing PBL.

E. Recommendations

190. IED has the following strategic and operational recommendations for ADB to improve the performance and results of its PBL modality.

191. IED recommends that ADB:

A. Strategic Recommendations

1. **Make greater use of PBL in sectors where investment loans are also undertaken and ADB has experience, to ensure that policy constraints on the achievement of the overall development outcome, such as increased access to services, are supported by relevant policy reforms.** ADB makes significant investments in transport, energy, and water to improve service delivery and inclusive growth and it could make greater use of PBL to help unlock difficult policy settings in these sectors. PBL can also be valuable when the development objective requires more than investments in physical infrastructure. Such an approach would make ADB's investment lending more efficient and sustainable. The appropriate point at which to identify the sectors to support is the country partnership strategy, and the sector analytical work should identify the reforms to be supported.

2. **Develop an operational plan on the appropriate scope, objectives, and articulation of PSM interventions—which are currently very wide.** PSM in PBL has grown significantly and is now the largest area of ADB's policy focus. However, there is no coherent plan that clarifies ADB's approach on the subject, provides additional focus given ADB's constraints on capacity, and provides clear and consistent staff guidance. As with other areas, the plan should incorporate a theory of change for PSM interventions and provide guidance on appropriate outputs and development outcomes. An operational plan would help to better define the role of PSM in relation to ADB's

investment projects and how different modalities can be better used to develop integrated solutions to development issues in the region. It would also lead to better guidance on organizational and staffing requirements in this area.

3. **Ensure that (i) concessional assistance-only countries (Group A) also have access to a countercyclical facility during crisis periods; and (ii) the use of contingent disaster financing is formalized.** The ceiling on PBL financing from concessional resources is an explicit constraint that limits the financial support ADB can provide to vulnerable countries during crisis periods. A crisis response window, exempt from the ceiling, offering loans at a suitable cost and tenure, would ensure that ADB can respond efficiently during crisis periods. The use of contingent disaster financing can also be exempted from the ceiling. The use of this instrument has so far been limited to Pacific countries, but it is relevant to other vulnerable countries as well.

4. **Ensure that, in cases where the regional department's view on the macroeconomic situation of a country diverges from that of the IMF, the risks are assessed independently of this regional department.** In general, ADB and other MDBs and development partners rely on the IMF for its macroeconomic assessment of a country, but the G20 principles specify that each institution should remain responsible for its own lending decisions, which it should reach independently. The risks implied by ADB acting against the IMF assessment, including the reputational and precedent risks, must be fully assessed and borne by ADB. To ensure the objectivity of macroeconomic assessments, Management must ensure that risk assessment is made independently of the risk takers or departments promoting the operations.

B. Operational Level

5. **Strengthen PBL design by: (i) limiting the use of process-oriented actions and articulating policy actions as substantive outputs; (ii) tailoring the DMF so that policy actions, outputs, and outcomes are more clearly linked, and (iii) clearly referencing the analytical work that underpins PBL design.** In line with its guidelines, ADB should include only those policy actions that are critical for removing particular policy constraints. It should also avoid excessive use of process-oriented actions unless the outcome to which they contribute is specified. This would improve transparency and allow for much clearer monitoring and evaluation. Clearly linking policy actions in the policy matrix with outcomes in the DMF in a revised results framework template would encourage causal links to emerge more clearly, making it easier to evaluate PBL and allowing an assessment to be made of ADB's value added to country level outcomes. ADB should reference the analytical work that underpins PBL design even where this is produced by other development partners.

6. **Strengthen the assessment of PBL design at program completion, including the justification for the PBL, the relevance of the policy reforms supported, the quality of the TA, and the extent to which policy actions were critical to the results.** The assessment should go beyond determining the government's compliance with the policy actions. It is important that PCRs critique the quality of the policy actions and pass judgment on how the loan design contributed to the achievement of results. This would require a more detailed analysis of TA work and policy dialogue than is often seen in PCRs. PBL outcomes should be included in the CPS results framework and achievements in the medium-term assessed in the CPS final reviews.

7. **Strengthen the overall quality assurance mechanism for PBL in ADB.** This should be done through: (i) ensuring quality assurance for PBL separate to that done by the regional departments; (ii) introducing specific PBL training which addresses the design issues raised in this report; and (iii) undertaking a systematic review of PBL every 3 years. A separate unit in ADB could lead the development and future direction of PBL and provide a stronger program of PBL training. This unit would be responsible for overall quality control of PBL over the longer term. It would not oversee the detail of each PBL operation, but would provide guidance, direction, and overall reporting on performance through a rigorous systematic review every 3 years.

APPENDIXES

APPENDIX 1: POLICY-BASED LENDING IN ASIAN DEVELOPMENT BANK DEVELOPING MEMBER COUNTRIES,1978–2017

Country	Number of Policy-Based Lending Approvals					Policy-Based Lending as % of Country Sovereign Operations			
	1978–1989	1990–1999	2000–2007	2008–2017	Total	1978–1989	1990–1999	2000–2007	2008–2017
Fiji	1				1	11.1			
Republic of Korea		1			1		50.0		
Maldives				1	1				11.1
PRC				1	1				0.7
Uzbekistan			1		1			4.2	
Vanuatu		1			1		20.0		
FSM		1	1		2		33.3	20.0	
Kiribati				2	2				20.0
Palau				2	2				28.6
Azerbaijan				3	3				20.0
Afghanistan			4		4			13.3	
Cook Islands		1		3	4		12.5		25.0
Nauru		1		3	4		100.0		42.9
Thailand		3		1	4		10.3		16.7
Kazakhstan		2	1	2	5		20.0	25.0	12.5
Myanmar	4			1	5	18.2			6.3
Papua New Guinea	2	2	1		5	7.7	11.1	6.7	
Marshall Islands		1	2	2	5		12.5	50.0	18.2
Solomon Islands		1		4	5		25.0		17.4
Tuvalu		1		4	5		100.0		50.0
Armenia				6	6				35.3
Samoa	1	1		6	8	8.3	25.0		31.6
Georgia				9	9				29.0
Tajikistan		1	2	6	9		33.3	6.7	20.0
Tonga			1	8	9			100.0	36.4
Bhutan		1	3	6	10		14.3	21.4	22.2
Sri Lanka	2	2	7	1	12	5.1	6.1	12.3	1.3
Kyrgyz Republic		4	3	9	16		26.7	13.6	20.9
Mongolia		6	5	6	17		28.6	17.2	9.7
Lao People's Democratic Republic	1	3	5	10	19	7.1	10.7	12.8	16.4
India		5	7	8	20		12.8	13.0	6.1
Nepal	3	3	6	13	25	7.0	11.1	18.8	15.5
Bangladesh	7	4	6	11	28	11.3	8.2	10.5	10.0
Cambodia		1	8	23	32		8.3	17.4	24.2
Viet Nam		4	11	18	33		14.8	18.0	15.5
Philippines	5	5	10	15	35	7.7	7.9	30.3	33.3
Indonesia	4	8	11	22	45	4.0	8.2	19.6	41.5
Pakistan	5	3	30	19	57	6.0	6.0	31.9	21.6
Total	**35**	**66**	**125**	**225**	**451**	**5.8**	**10.1**	**15.4**	**14.5**

PRC = People's Republic of China, FSM = Federated States of Micronesia
Source: Independent Evaluation Department.

APPENDIX 2: RESPONDING TO COUNTRY FINANCING NEEDS

A. Is Use of Policy-Based Lending Related to a Country's Financing Needs?

1. Model 1: $PBL\_GDP_{it} = c_i + \beta_1 Res\_Imp_{it-1} + \varepsilon_{it}$
Model 2: $PBL\_GDP_{it} = c_i + \beta_1 FiscalDeficit_{it-1} + \varepsilon_{it}$

where i indicates country and t indicates year. The dependent variable, PBL_GDP, is policy-based lending (PBL) as a percentage of GDP. Res_Imp indicates total reserves in months of imports. c_i is the country-specific effect. The sample period is 1990–2016.

2. **The regression analysis shows that PBL is negatively correlated with total reserves in months of imports and positively correlated with fiscal deficits.** Two panel fixed-effects models were estimated: including total reserves in months of imports and fiscal deficits as explanatory variables, and PBL as percentage of GDP as the dependent variable. The explanatory variables enter the models with a 1-year lag to capture countries' liquidity needs in the previous year. The results suggest that the use and the amount of PBL is determined by countries' financing needs at the macroeconomic level, as pointed out in ADB's PBL guidelines, which is to be expected as PBL is a financing instrument.

Table A2.1: Policy-Based Lending Related to a Country's Financing Needs

Explanatory Variables	Model 1	Model 2
Total Reserves in Months of Imports in t-1	-0.1233511[a] (0.0270272)	
Fiscal Deficit (% of GDP) in t-1		0.0415761[b] (0.017402)
Constant	1.217618[a] (0.130093)	0.4011333[a] (0.0690948)
Observations	197	195
R-squared	0.0571	0.0148
Number of Countries	28	25
Country Fixed Effects	YES	YES

GDP = gross domestic product.
Note: Robust standard errors in parentheses; [a] $p<0.01$, [b] $p<0.05$, [c] $p<0.1$.
Source: Independent Evaluation Department.

B. Is there a Correlation between the Number of Prior Actions and Policy-Based Lending Size?

3. $PriorAction_i = c + \beta_1 PBL_i + \beta_2 Time\_Trend + \varepsilon_i$, where i indicates a specific loan and $Time\_Trend$ is the year when the loan was approved.

4. **IED found that there is a positive correlation between the number of prior actions and PBL size.** A multiple regression model was estimated, with time trend and PBL as explanatory variables, and the number of prior actions as the dependent variable. The time trend variable is negatively correlated with the number of prior actions, in line with fact that the number of prior actions has dropped over time. Moreover, PBL is positively correlated with the number of prior actions. This finding may indicate that, when a borrowing country receives a large amount of PBL, it needs to roll out more policy reforms.

Table A2.2: Correlation between the Number of Prior Actions and Policy-Based Lending Size

Explanatory Variables	
PBL Size (in log)	**0.149763**[a] (0.0228198)
Time Trend	-0.0352296[a] (0.0068421)
Constant	71.19257[a] (13.73423)
Observations	240
R-squared	0.2222

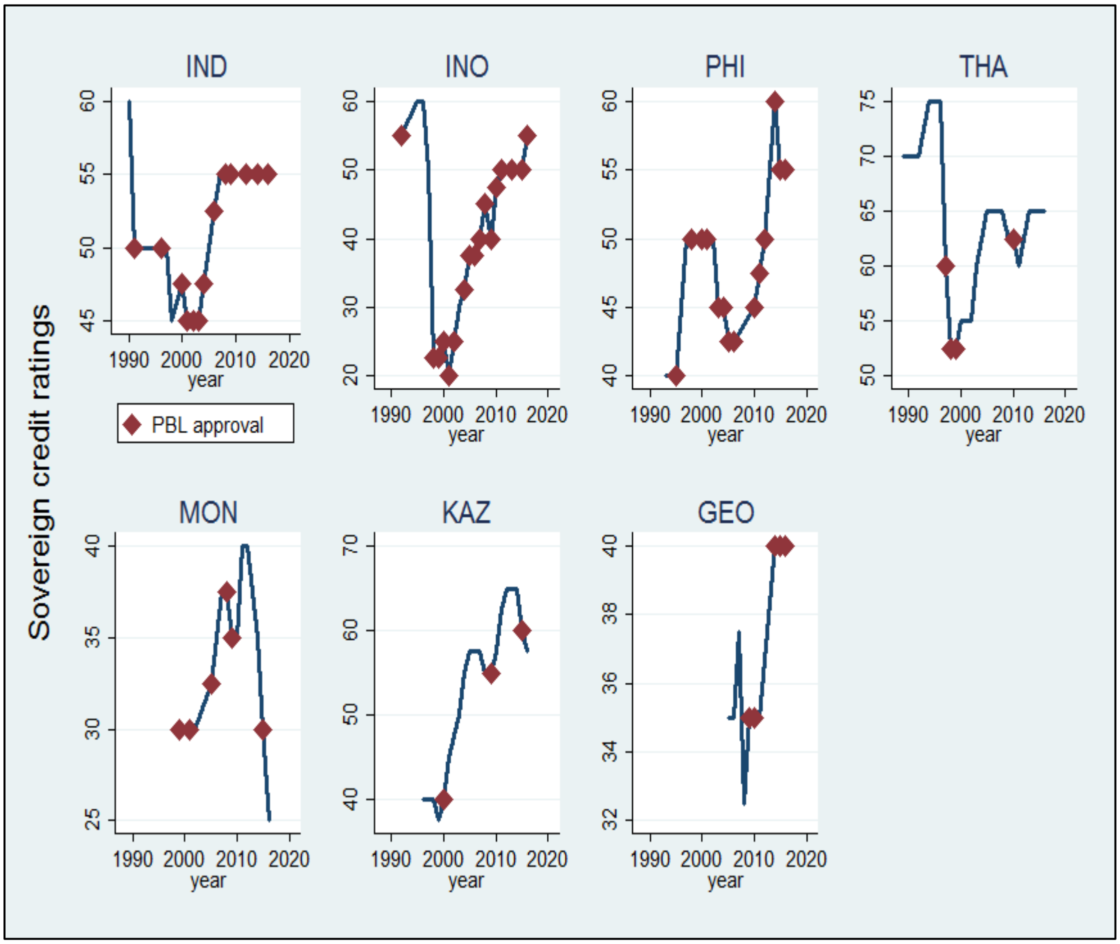
Note: The dependent variable is the number of prior actions (in log). Standard errors in parentheses; [a] $p<0.01$, [b] $p<0.05$, [c] $p<0.1$.
Source: Independent Evaluation Department.

APPENDIX 3: VALIDATIONS OF CRISIS-RELATED POLICY-BASED LENDING OPERATIONS

Country	Approval Year	Source of Funding	Program Title
Armenia	2009	ADF	Crisis Recovery Support Program
Cook Islands	2009	OCR	Economic Recover Support Program
Georgia	2009	ADF	Growth Recovery Support Program
Georgia	2010	OCR	Social Services Delivery Program
Kazakhstan	2009	OCR	Countercyclical Support Program
Maldives	2009	ADF	Economic Recovery Program
Marshall Islands	2010	ADF/OCR	Public Sector Program
Mongolia	2009	ADF	Social Sector Support Program
Nauru	2012	ADF	Public Financial Management Program
Samoa	2010	ADF	Economic Recovery Support Program
Solomon Islands	2013	ADF	Economic and Financial Reform Program
Tonga	2009	ADF	Economic Support Program
Tuvalu	2008	ADF	Improved Financial Management Program
Tuvalu	2012	ADF	Strengthened Public Financial Management Program

ADF = Asian Development Fund, OCR = Ordinary Capital Resources.
Source: Asian Development Bank database.

APPENDIX 4: POLICY-BASED LENDING AND DEVELOPING MEMBER COUNTRY SOVEREIGN CREDIT RATINGS



◆ Policy-Based Lending approvals.
IND = India, INO = Indonesia, GEO = Georgia, KAZ = Kazakhstan, MON = Mongolia, PHI = Philippines, THA = Thailand
Notes: The numerical ratings are an average of Fitch and Standard and Poor's credit ratings from 1989 to 2016. A red diamond indicates an approved PBL.
Source: Asian Development Bank.

APPENDIX 5: LIST OF LINKED DOCUMENTS

1. Assessment of ADB's Policy-Based Lending Validation Reports (2008–2016)
https://www.adb.org/sites/default/files/linked-documents/1-Assessment-of-ADBs-Policy-Based-Lending-Validation.pdf

2. Public Expenditure and Financial Accountability (PEFA)
https://www.adb.org/sites/default/files/linked-documents/2-Public-Expenditure-and-Financial-Accountability.pdf