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.

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.