**ASIAN DEVELOPMENT BANK** **SST:STU2001-16**

# SPECIAL EVALUATION STUDY

# ON

# PROGRAM LENDING

November 2001

## ABBREVIATIONS

| | | |
|---|---|---|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| BOP | – | balance of payments |
| DMC | – | developing member country |
| EDRC | – | Economics and Development Resource Center |
| ESW | – | economic and sector work |
| ICB | – | Investment Corporation of Bangladesh |
| IMF | – | International Monetary Fund |
| OCR | – | ordinary capital resources |
| OED | – | Operations Evaluation Department |
| OEM | – | Operations Evaluation Mission |
| PCR | – | project/program completion report |
| PPAR | – | project/program performance audit report |
| RRP | – | report and recommendation of the President |
| SDPL | – | sector development program loan |
| SOE | – | state-owned enterprise |
| SPD | – | Strategy and Policy Department |
| SPO | – | Strategy and Policy Office |
| TA | – | technical assistance |

## NOTE

In this report, “$” refers to US dollars.

**Operations Evaluation Department, SS–48**

**CONTENTS**

## EXECUTIVE SUMMARY

Program lending has been the main instrument through which the Asian Development Bank (ADB) has supported policy reforms of developing member countries (DMCs). It was also used extensively in responding to the Asian financial crisis. Between November 1987 when ADB approved a new approach to program lending and the end of 2000, 70 programs and 16 sector development programs (SDPs) were approved. The combined loan amount was $14.5 billion, 22 percent of ADB's total during that period. This special evaluation study assesses the effectiveness of program lending in promoting policy reforms in the DMCs, and identifies generic measures that could further enhance the effectiveness of program lending.

Program approvals increased in 1996 from around four per year to around 10 per year. In part, this is explained by ADB's response to the Asian financial crisis. In terms of loan amount, crisis loans during 1997-1999 accounted for half the program lending in the whole 13-year period. Program lending has been adapted to changing circumstances. SDPs were introduced to combine sector reforms with project lending; the special program loan modality was brought in to separate crisis from noncrisis lending; the program cluster approach was initiated to provide a longer-term framework for policy reform; technical assistance (TA) loans are now included in some programs. There is a continuing need for policy reforms in DMCs and hence a continuing demand for program lending.

On average, program loans have been larger than project loans (excluding the crisis loans, $94 million versus $72 million). Program lending has become more diverse. Although only a few countries account for the bulk of program lending amounts, altogether 27 countries have taken up program or SDP loans, including smaller Pacific DMCs and new DMCs in Central Asia. The bulk of program lending has been concentrated in the agriculture, industry, and financial sectors. However, lending for the industry sector declined in the 1990s while lending for public sector management reform and other sectors increased.

Ratings for programs in project/program performance audit reports (PPARs) are much less diverse than those for projects. Of the 21 programs approved since 1987 that have been evaluated and rated, only one (5 percent) was rated as unsuccessful, three (14 percent) as successful, and 17 (81 percent) as partly successful. For the much larger number of projects evaluated during the same period, 15 percent were rated as unsuccessful, 58 percent as successful, and 27 percent as partly successful. The number of program ratings in the partly successful category suggests there may be generic problems with program preparation and implementation. At the same time, there is also uncertainty in rating programs, where attention must be paid to impacts that are difficult to assess. This makes the evaluation of programs more qualitative.

Total disbursements for 58 programs approved and completed from 1987 to 2000 were only 9 percent below the approved loan amount. However, they took much longer than planned. Whereas disbursements were expected to be completed within an average of 15, and a maximum of 24, months from loan effectiveness, actual disbursement took place over an average of 24, and a maximum of 52 months. The perception of program lending as a quick-disbursing modality does not quite reflect the time it takes to effect policy changes.

Since 1987, nearly all program loans have been designed with two tranches. A delay in second tranche release is the norm rather than the exception. Of second tranches for closed programs, 72 percent were delayed and 11 percent were cancelled altogether. The two-tranche design has focused attention on meeting specific conditions in a program. Greater flexibility in meeting program objectives would be afforded by the use of program loans with different designs, including multiple tranches, floating tranches associated with key events, and single-tranche loans.

Although programs have been ambitious in the policy changes they have sought to effect, containing a large number of conditions within a tight time frame, most program conditions have been met. On average, each program had 38 conditions. The average number of conditions not met or waived has been only about one per program. The ambitious and complex nature of policy changes has been reflected in delays in tranche releases and program completion rather than the proportion of program conditions not finally met.

Project loans have a mechanism for changes in scope during implementation. Depending on the scale of the changes, they can be approved at project director or Management level. Only major changes in scope that fundamentally affect the objectives of the project require the approval of ADB's Board of Directors. The existing mechanism for changes in scope for program loans is highly restrictive and rarely used. In general, any changes require Board approval. The treatment of disbursement in program lending imposes a much higher rigidity on implementation than is the case for project lending.

It is difficult to assess program impact. There have been positive impacts, easiest to assess when programs have supported trade and policy change in the agriculture and industry sectors that produce tradable goods, and for the crisis loans that provided immediate macroeconomic support. For support to nontradable sectors, including the financial and infrastructure sectors and public sector management reform, longer-term impacts are harder to discern. Similarly, the link to poverty and social impacts are not easy to analyze. Concessional lending has softened the terms of external debt for some smaller countries, but the loan size has enhanced indebtedness. Some programs have had a substantial impact on private sector development, but overall the results in this regard have been mixed.

The three programs rated as generally successful were prepared and designed in different ways. However, they share three common characteristics. First, the government took the major role in designing the program measures and in implementing them. Second, the programs were developed at a specific "macroeconomic moment," when macroeconomic vulnerability created not just a need for borrowing but an understanding of the need for reform. Third, delays in meeting specific conditions reflected a more realistic time frame for program implementation, but did not detract from the direction of reform. The only program rated as unsuccessful also contained a major lesson, namely that programs designed around formal rules and conditionalities also need to take account of informal policy reform mechanisms, and of the necessary incentives for those expected to implement the reforms.

Adjustment costs have played a dominant role in determining loan size, though there is no precise means of estimating adjustment costs, that may include the cost of establishing new agencies, retraining and relocating people, revenue losses, funding existing debts, etc. Possible revenues from program reforms such as privatization proceeds, and a government share of the costs of reform, need to be considered when determining the program loan size. On the other hand, adjustment costs also fall on nongovernment and private commercial agencies that may need temporary assistance in meeting them.

There are a few cases of program loans repeated in the same sector of a country. In some cases, lessons from the earlier intervention were incorporated in the design of the subsequent program, but in others they were not. In addition, there are generic aspects of program lending that should be learned across sectors and ADB departments. The most common is the reference to weaknesses in government commitment and institutional limitations. Across completion reports for programs and PPARs, some lessons to be learned are repeated, suggesting that generic lessons are more difficult to incorporate in subsequent operations across, rather than within, sectors.

DMCs have made significant progress in adopting more market-oriented policies. However, in some cases, formal compliance with conditions has not resulted in sustainable reforms. There have been cases where compliance has been achieved in unexpected ways that have circumvented the original intent (e.g., by rearranging responsibilities between agencies, rather than separating functions from the government and laying off staff). The recurrence of conditionalities between loans and sectors is another indicator that reforms cannot always be sustained. Nevertheless, in several cases, program conditions have been enacted after loan closing and formal program completion, indicating a problem of process and timing rather than unwillingness to enact reform.

A weakness of program lending has been insufficient resources for institutional capacity building during implementation of policy reforms. Programs are more difficult to implement than projects. The effectiveness of TAs associated with program lending has varied. Given the short period for policy changes provided in program design, TA outputs have sometimes come at a late stage of implementation. Stronger capacity building is required, especially in policy analysis during program formulation and in the coordination of implementation. Assistance in these areas needs to be sustained over more than the relatively short period of one program. An overriding issue relates to the ability to make reform popular, for example, through consultations with stakeholders, including those in the private sector, and the participation of civil society. Commitment to reform may depend not just on an appropriate "macroeconomic moment," but on timing in relation to government tenure (i.e., in terms of the electoral cycle) and on the need to maintain social cohesion.

ADB has internal constraints. The program framework and policy matrix used in program preparation provide a logical connection between policy changes, outcomes, and inputs. However, it is difficult to build flexibility into the program framework. Often there are many conditions with no prioritization, and the policy framework is not conducive to the consideration of alternatives, either for program elements or for timing. The incentive system within program lending may favor central agencies over line agencies and other stakeholders. The PPARs show that programs are subject to greater risks than projects. These risks fall on some groups within DMCs but not on others. A greater country focus would facilitate better understanding of borrower constraints, particularly if backed up by high level policy dialogue. Program loans are labor intensive and demanding of specialized skills, which need to be further developed in ADB. A change in focus of economic and sector work from outputs to results would assist in program formulation and implementation.

The key findings of this evaluation have led to the following conclusions. First, program lending had and will continue to have a high level of relevance to the needs of DMCs. There has been a demand for program lending from most DMCs. The program loan modality has proved a highly useful instrument in the context of the Asian financial crisis. Helpful modifications in the modality toward SDPs, special program loans, and the program cluster approach have already been made, but further changes are needed to allow greater flexibility in implementing policy reforms.

Second, program lending has been moderately efficacious. It has supported substantive legislative and policy changes, and a very high proportion of program conditionalities has been met. Nevertheless, the proportion of 86 percent for partly successful and unsuccessful programs is much greater than the proportion of 42 percent for partly successful and unsuccessful projects. The design and implementation of programs can be characterized as attempting to achieve a lot in a limited time frame. There have been significant delays relative to planned disbursements. Programs have not always been firmly based on an assessment of achievable rates of change, and have therefore been too inflexible. Government ownership of the formulation and implementation process is essential for success of reform programs. However, government ownership needs to be complemented by greater participation in program formulation of those that will be affected, directly and indirectly, by the program. Policy reform packages tend to focus on changes in the formal rules of sector operation. There has been insufficient understanding of the informal rules that characterize all economic structures, and insufficient analysis of the incentive structure for those whose behavior has to change.

Third, it is difficult to assess the efficiency of program lending. Despite being more complex and requiring different skills than project lending, approval of programs has been achieved at the same level of resource use. This could be interpreted as formulating and implementing programs with fewer resources than would have been desirable.

Fourth, programs have not always led to sustainable outcomes. Some reforms have not been fully implemented, and a few have been reversed. Support for policy changes needs to be built up through analysis of the costs of not changing, and dissemination of information on the problems that the policy changes are addressing. Greater attention to the distribution of risks in program design and implementation would point to measures that may be necessary to ensure security of incomes during the period of change.

Finally, many of the programs have had a substantial impact on the economy, trade, and prices. In other cases, development impacts have not been clearly identified or monitored. TA has been variable in its impact too. Institutional development and capacity building have generally lagged behind requirements. The overall impact of program lending has been smaller, and less clear, than anticipated.

A number of specific recommendations are made to increase the efficacy, sustainability, and development impact of program lending. First, there are several options for program loan design. Programs should involve multiple tranches where appropriate, and there should be greater flexibility in deciding about the continued relevance and appropriate timing of conditions. Floating tranches could be introduced into some programs, to be released upon implementation of significant legislative or other actions. In other cases, the single-tranche design may be appropriate. In all cases, a justification should be provided for the number of tranches and the program period.

Second, government authorship of the reform package needs to be complemented by participation of affected groups and sectors in program formulation. The costs of not reforming should be analyzed and publicized along with the benefits of the program, through extensive publicity drives to disseminate information relating to proposed policy changes.

Third, program lending supports policy changes that are expected to have a sector- or economy-wide impact. If properly designed and implemented, the beneficial effects will be far greater than any direct costs of program measures and adjustment costs. Successful design and implementation of programs require specialist skills of analysis and coordination. DMC governments should use a significant amount from the counterpart funds from program loans for building their capacity for designing and implementing programs.

Fourth, program design and implementation should be assessed internally by a small peer review group. Staff consultants, particularly consultants from the Asian and Pacific region with direct experience of implementing sector reform programs, could be involved in the peer review process.

Fifth, provision for limited forms of change in scope and implementation arrangements of programs through Management approval would provide greater flexibility in implementation. A proposal should be formulated for Board consideration to delegate the authority for approving such changes to Management.

Sixth, improvements are required in the way in which programs are evaluated. The Operations Evaluation Department should (i) undertake reevaluation studies of three selected programs to better assess the sustainability of program reforms; (ii) update guidelines specifically for the evaluation of programs, including the evaluation of impacts in light of current strategic concerns; and (iii) undertake evaluation of selected programs during implementation.

# I. INTRODUCTION

## A. Objective and Scope of the Evaluation

1. Program lending has been a major component of the operations of the Asian Development Bank (ADB) for more than two decades. It has constituted the major loan modality for reinforcing the shift toward policy reform and the broadening of ADB's development objectives. It proved essential in ADB's response to the Asian financial crisis. This special evaluation study[1] provides an independent review of the program lending of ADB, as expressed through programs and sector development programs (SDPs).[2] The purpose of the study is to contribute to ADB's ongoing search for improved development instruments and processes. Its main objectives are to (i) assess the effectiveness of program lending in promoting and facilitating policy reforms in developing member countries (DMCs), (ii) assess the sustainability of these reforms, and (iii) identify generic measures that could enhance the effectiveness of program lending in achieving ADB's goals.

2. A program is supported by a program loan and may also include a technical assistance (TA) loan. An SDP includes a program loan and a project loan, and may also include a TA loan. Programs and SDPs are generally accompanied by TA grants. From 1987, when program lending was substantially redesigned as a policy-based instrument, to end 2000, ADB approved 86 programs involving 70 program loans and 16 SDP program loan components. The program loans and the program loan components of SDPs amounted to $14.5 billion, accounting for 22 percent of ADB's loan approvals over the period. This evaluation of program lending is based on these programs and SDPs, and samples of them.

3. The remainder of this introduction outlines the general methodology used to undertake the evaluation. Section II provides a brief account of how program lending has evolved, as well as a summary of the number and amounts of program loans and of performance ratings from evaluations of programs. Section III looks at the outputs of program lending in terms of disbursements and conditionalities, and its impacts. Section IV discusses the findings from the points of view of program design and formulation, and implementation and monitoring. Section V identifies the main factors within DMCs and ADB that affect the achievement of objectives, including issues relating to the policy decision-making process. Section VI takes a brief look at future policy-based lending and the preparedness of ADB. Section VII brings the evaluation to a close with a summary of key findings, conclusions, and recommendations.

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[1] The study is the result of work by Graham Walter, Manager, Evaluation Division (West); Stephen Curry, Lead Evaluation Specialist; Jocelyn Tubadeza, Senior Evaluation Analyst; Flordeliza Asistin, Evaluation Analyst; and David Husband and Ray Mallon, Consultants.

[2] A number of projects and technical assistance operations also address the issue of policy reform; however, these are excluded from the study in order to focus on the key policy-based modalities.

## B. Evaluation Method

4. It is difficult to assess the effectiveness of programs and SDPs for a variety of reasons. First, it is hard to disentangle the impacts of other developments from any individual program. Domestic political considerations are the prime factors driving the process of policy reforms in any country, and it is difficult to attribute reforms to development assistance alone. Moreover, ADB's program loans frequently complement other activities, such as structural adjustment loans by the International Monetary Fund (IMF) and the World Bank, or are designed to reinforce a broad-based reform movement already under way.[3] Second, the overall reform process is long term whereas, with a few exceptions, program loans have been used as discrete initiatives spread over the short to medium term (two to four years). Third, linkages between policy reforms, economic growth, and efficiency improvements are, at best, indirect. It is difficult to attribute overall impacts to individual policy actions or programs. Finally, most program loans and SDP loans do not adequately map the linkages between the proposed policy actions, the expected outcomes, and the ultimate impacts. Most monitoring is confined to policy actions and time schedules, and even when impact monitoring is included in a program design, it is not always implemented.

5. This special evaluation study was designed to assess the following:

(i) the overall context of program lending with respect to ADB's policy framework and its strategic objectives;

(ii) the program relevance and appropriateness of the reforms, the types of preparatory work, the effectiveness of the modality instrument used, and the institutional assessment carried out;

(iii) the processes followed, including the role of formal conditionality;

(iv) the impact of programs on their primary long-term purpose, and macroeconomic and social conditions; and

(v) the key issues and lessons for the future.

6. The evaluation involved two main activities. First, desk reviews were undertaken of the reports and recommendations of the President (RRPs), program completion reports (PCRs), program performance audit reports (PPARs), back-to-office reports, consultants' reports, and ADB files for program loans and SDPs. PCRs are available for 40 completed loans, while PPARs have been prepared for 22 of these.[4] Second, field visits were made by an Operations Evaluation Mission (OEM) to seven DMCs (Bangladesh, Kyrgyz Republic, Lao People's Democratic Republic (Lao PDR), Mongolia, Nepal, Philippines, and Sri Lanka) to assess impacts for those countries where more than one program has been approved. The main purpose of the field visits was to obtain feedback from various groups of stakeholders

[3] This was the central conclusion of a report prepared by the Operations Evaluation Department concerning the agriculture and financial sector program loans to Viet Nam. See CAP:VIE 99023: *Country Assistance Program Evaluation in the Socialist Republic of Viet Nam*, December 1999.

[4] PPARs are prepared two or three years after the PCRs, the latest covering loans approved in 1993.

(e.g., government officials, program beneficiaries, nongovernment organizations) on the relevance of the program loans to the domestic reform process. The projects and countries were selected to provide a balanced sample, and include both program loans approved soon after 1987 and more recent ones approved in the 1990s, loans to transition economies and developing economies, and examples of follow-on loans in the same sectors.[5] In addition, the study drew on an earlier evaluation of six loans covering reforms in the Pacific DMCs.[6]

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5 Details of the country consultations and findings on 23 of the programs are given as supplementary appendixes, which are available on request.

6 ADB, *Reforms in the Pacific: An Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*, Pacific Studies Series No. 17, 1999, Office of Pacific Operations.

## II. ASIAN DEVELOPMENT BANK PROGRAM LENDING

### A. Evolution of the Program Lending Framework

7. IMF, the World Bank, and ADB have been at the forefront of policy-based lending in the Asian and Pacific region. All three agencies, and external funding agencies generally, are reexamining their approaches. A review of the evolution of ADB's program lending framework, including syntheses of earlier reports by the Strategy and Policy Department (SPD), is provided in Appendix 1.

8. Program loans were first introduced by ADB in 1978. Initially, they were directed at enabling fuller capacity utilization through support to import financing especially for the agriculture sector. Essentially, program loans provided balance of payments (BOP) support, at the same time helping close the gap between savings and investment. They were a complement to project or sector loans that provided funding for investment.

9. In 1987, the rationale for program loans was changed from capacity underutilization on account of foreign exchange shortages to soundness of proposed sector policy reform and development plans. A program, including an investment program, policy reforms, and planned institutional development, was to be formulated. The main components were to be expressed in a development policy letter from the borrowing government. Procurement rules were simplified. The change in ADB's focus reflected a fundamental shift in development thinking: poor policy frameworks were a significant hindrance to development, perhaps more so than financial constraints. The key elements of the fundamental realignment in 1987 were:

(i) support for policy reform, rather than for BOP, investments, or fiscal needs;

(ii) program formulation to be market based, to ensure efficient resource allocation;

(iii) scope of lending broadened to include the financial, industry, energy, transport and communications, and social sectors;

(iv) medium-term loan period (three to five years), with reforms over an extended period to be addressed by a succession of loans;

(v) loan size to be based on the importance of the sector, the scope of the reform program, the associated adjustment costs, and other factors;

(vi) tranches normally to be limited to two, and the conditions for release realistic and few in number;

(vii) conditionalities to be assessed in the broad context of policy reform, and not to be expected to work in the same way as project loans;

(viii) provision made for assistance for those affected by the policy reforms, especially the poor; and

(ix) lending ceiling raised from 10 percent to 15 percent of total lending, with no country level ceilings.

10. By 1996, it was recognized that meeting loan conditions did not guarantee the realization of the expected impact of a program.[7] Even the reformulated program loans tended to be implemented over a relatively short period, providing inadequate time for policies to fully work through. Given the significant role of IMF and the World Bank in policy-based lending at the macroeconomic level, it was also felt that ADB program lending should be strengthened at the sector level. In 1996, SDPs were introduced as a combination of three existing modalities, namely, program loan, project loan, and TA. The investment component relates directly to the targeted sector, thereby providing a greater incentive for sector institutions and helping increase commitment to the policy component.

11. After 1996, program lending experienced a substantial increase. This was largely caused by ADB's response to the Asian financial crisis. Several crisis loans were approved in quick succession, to help contain the negative impact of large financial flows from the region, and the 15 percent ceiling was exceeded. However, even without the crisis lending, there was a strong demand from DMCs for program lending. In 1999, to separate substantial program lending in a crisis situation from policy-based lending in noncrisis conditions, the special program loan modality was introduced.[8] Equally important, in recognition of the extended time it sometimes took to achieve sector reform, the program cluster approach, allowing a sequence of program loans over a longer time period, was introduced. At the same time, the ceiling on program lending was raised to 20 percent of total lending.

12. Having been introduced recently, ADB so far has little experience in the use of the special program loan or the program cluster approach. This evaluation of program lending focuses primarily on programs, and secondarily on SDPs.

## B. Programs and Program Lending

13. During 1987-2000, 70 programs and 16 SDPs were approved (Appendix 2 and Table 1). Program loans and the program loan components of SDPs amounted to a combined amount of $14,524 million, and project loan components of SDPs to $1,172 million. In addition, there were 11 associated TA loans for a total amount of $91 million. Twelve programs and six SDPs were cofinanced by a total of $2,337 million. Cofinancing was primarily in Indonesia and the Philippines, and mostly by the Japan Bank for International Cooperation.[9]

14. There have been four significant changes in the program lending pattern during the period 1987-2000. First, more program approvals have been made in recent years. The average number of program approvals per year, which stood at about four up to the middle of the 1990s, increased to around 10 per year during 1996-2000. Second, there was a substantial increase in

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[7] ADB, *Review of the Bank's Program Lending Policies*, 1996.

[8] ADB, *Review of ADB's Program Lending Policies*, November 1999.

[9] Two programs were cofinanced by the World Bank, and one received cofinancing from private sources. Cofinancing amounting to $1,000 million was associated with three of the crisis loans.

the amount of program lending from 1997 to 1999 in response to the Asian financial crisis (Appendix 2, Table A2.2). In those years, program lending rose to 52 percent, 45 percent, and 35 percent, respectively, of total ADB loan approvals. The crisis program loans to three specific countries amounted to $7,280 million altogether (Appendix 3).[10] Third, the first SDP was in 1996, and the amount of program lending approved as a part of SDPs has risen since then. The crisis loan assistance significantly boosted the use of the SDP modality. Fourth, no TA loans formed a part of programs before 1996; during 1996-2000, 11 programs or SDPs included TA loans.

**Table 1: Approved Programs and Program Lending, 1987-2000**

| | **Programs** | | **Sector Development Programs** | | | | **Total Program Lending** | |
|---|---|---|---|---|---|---|---|---|
| | **Number** | **Amount ($ million)** | **Number** | **Amount ($ million)** | **Number of Project Loans** | **Amount ($ million)** | **Number** | **Amount ($ million)** |
| 1987-1995 | 35 | 3,757.3 | | | | | 35 | 3,757.3 |
| 1996-2000 | 35 | 8,231.5 [a] | 16 | 2,535.5 [c] | 17 | 1,171.6 | 51 | 10,767.0 |
| **Total** | **70** | **11,988.8** [a] | **16** | **2,535.5** [c] | **17** | **1,171.6** | **86** | **14,524.3** |
| Crisis Loans | 5 | 5,480.0 [b] | 4 | 1,800.0 [c] | 4 | 567.0 | 9 | 7,280.0 |
| **Total Without Crisis Loans** | **65** | **6,508.8** | **12** | **735.5** | **13** | **604.6** | **77** | **7,244.3** |

[a] Plus 10 TA loans for a total amount of $41.1 million.
[b] Including one TA loan for $15 million.
[c] Plus one TA loan for $50 million.
Source: Loan Financial Information System.

15. Program lending tends to be for larger amounts than project lending. The average size of program loans has been $169 million compared with $72 million for project loans (Table 2).[11] Even without the crisis loans, the average size of program loans at $94 million is still higher than that for project loans of $72 million. Program lending is now on harder terms than project lending. The proportion of ordinary capital resources (OCR) lending for project loans was approximately 71 percent during 1987-2000. During 1987-1995, the OCR proportion of program lending was lower at 52 percent. However, this rose to 92 percent during 1996-2000. All the crisis loans were on OCR terms.

[10] Appendix 3 contains a list of the nine program loans approved between 1997 and 1999 that dealt explicitly with the financial crisis in Indonesia, Republic of Korea, and Thailand.

[11] The figure quoted relates to program lending per program; because some program lending involves a blend of loans from ordinary capital resources and the Asian Development Fund, the average size of loan is somewhat smaller.

**Table 2: Characteristics of Approved Program Loans, 1987-2000**

| Item | | 1987-1995 | 1996-2000 | Total |
|---|---|---|---|---|
| Program Lending | $ million | 3,757 | 10,767 | 14,524 |
| Total Lending | $ million | 36,510 | 30,823 | 67,333 |
| Share of Total Lending | % | 10.3 | 34.9 | 21.6 |
| Without Crisis Loans | $ million | 3,757 | 3,487 | 7,244 |
| Share of Total Lending | % | 10.3 | 11.3 | 10.8 |
| OCR Proportion, Program Lending | % | 52.1 | 92.0 | 81.7 |
| OCR Proportion, Program Lending Without Crisis Loans | % | 52.1 | 75.4 | 63.3 |
| OCR Proportion, Project Lending[a] | % | 71.0 | 70.0 | 70.6 |
| Average Loan Size | | | | |
| Program Lending | $ million | 107.4 | 211.1 | 168.9 |
| Without Crisis Loans | $ million | 107.4 | 83.0 | 94.1 |
| Project Loans | $ million | 70.4 | 75.3 | 72.2 |

OCR = ordinary capital resources.
[a] Including project loan components of sector development programs.
Source: Loan Financial Information System.

16. Program lending is becoming more diverse. Previously, it was concentrated in particular countries and particular sectors. With growing ADB membership and a greater focus on policy reform, several additional countries have taken up program loans. Over the period 1987-2000, six countries accounted for 85 percent of program lending. The other 15 percent of program lending was spread across 21 other countries (Appendix 4, Table A4.1).[12] However, program lending to the Republic of Korea and Thailand was associated entirely with the crisis, and that to Indonesia was also affected substantially by the crisis. Without the crisis loans, the six largest borrowers accounted for 81 percent of program lending, while the remaining 19 percent of program lending was spread across 19 other countries.[13] Among more recent borrowers, including several Pacific DMCs as well as the transition economies of Kazakhstan, Kyrgyz Republic, Mongolia, and Tajikistan, program lending has accounted for considerably more than 30 percent of total lending. These smaller borrowers have been more exposed to the program lending modality, despite their relatively modest program loan amounts.

17. Taking the period 1987-2000 as a whole, the number of program lending interventions has been concentrated in four sectors: agriculture, the financial sector, public sector management, and industry. Together, 63 interventions account for 78 percent of the amount of

[12] The six largest program loan borrowers have been the Republic of Korea (27.5 percent), Indonesia (22.5 percent), India (10.0 percent), Pakistan (9.4 percent), Philippines (7.9 percent), and Thailand (7.6 percent). Without the crisis loans, the six largest program loan borrowers have been India (20.0 percent), Pakistan (18.9 percent), Philippines (15.9 percent), Indonesia (14.5 percent), Bangladesh (7.3 percent), and Sri Lanka (4.4 percent).

[13] Countries that have not been a recipient of program lending include the People's Republic of China, Kiribati, Malaysia, Tonga, and Uzbekistan.

program loans approved (Appendix 4, Table A4.2).[14] Program lending for agriculture has continued from earlier periods; however, increasingly it has taken on policy reform dimensions. Program lending for the financial sector has increased in recent years, with a strengthened policy reform focus. Industry programs relate more to the earlier part of the period. The diversification of program lending, including SDPs, has seen program interventions in recent years at the national or provincial level for reform of public sector management.

## C. Ratings for Program Loans

18. Of the 86 programs and SDPs approved during 1987-2000, 58 were closed by the end of 2000. PCRs had been prepared for 40 of these, and PPARs for 22 of them. All the PCRs and PPARs were related to program loans. Although five SDPs had been closed by the end of 2000, no PCR has been prepared yet for an SDP. As yet, no PPARs or PCRs have been prepared for the crisis loans either, nor for the more recent program interventions for public sector management reform.

19. The latest of the programs for which PPARs have been prepared received approval in 1993. Ratings, which are included in 21 of these PPARs, indicate that, in general, program loans are neither particularly successful nor unsuccessful (Table 3). Although comparison is made somewhat difficult by a recent change in rating categories,[15] it can be observed that only 1 of the 21 program loans (5 percent) was rated as unsuccessful. By contrast, for project loans approved over the same period, the proportion of unsuccessful loans is 15 percent. On the other hand, only three program loans (14 percent) were rated as generally successful, highly successful, or successful. This compares with 58 percent of project loans in these categories. Accordingly, the proportion of program loans rated as partly successful is much higher than project loans (81 percent compared to 27 percent).

20. In short, ratings for program loans are less diverse, indicating that some aspects have been seen as successful and other aspects as not successful (Figure 1). In part, this may stem from the approach adopted to evaluating programs. There is more experience of evaluating projects. Projects have more easily defined outputs, and outcomes and impacts play a smaller role in the project rationale. For programs, however, outputs are more difficult to define, while outcomes and impacts are more important but not easy to assess as qualitative judgements have frequently to be made. Hence there is a tendency to evaluate programs on the basis of what can be more easily observed, the number of program conditions met, and delays (if any), rather than on the general direction and ultimate impact of reform. The uniformity of ratings for programs should, therefore, be seen as reflecting both the uncertainties of evaluation and their actual performance.[16]

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[14] The energy sector accounts for another 10 percent of the program loan amount, but from only four interventions.

[15] Prior to 2000, projects and programs were rated according to a three-category classification of generally successful, partly successful, and unsuccessful. Since 2000, projects and programs have been rated according to a four-category classification of highly successful, successful, partly successful, and unsuccessful.

[16] In view of this finding, OED will prepare updated guidelines for the evaluation of program lending, including items relevant to ADB's current strategic stance, such as their poverty impact.

## Table 3: Performance of Programs and Projects, 1987-2000[a]

**Programs**

| Three-Category Rating System | Number: GS | PS | US | NR | Total | Proportion (%): GS | PS | US | NR | Total[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| PPARs | 3 | 13 | 0 | 1 | 17 | 18 | 76 | 0 | 6 | 100 |
| PCRs (without PPAR) | 7 | 6 | 0 | 2 | 15 | 47 | 40 | 0 | 13 | 100 |

| Four-Category Rating System | Number: HS | S | PS | US | NR | Total | Proportion (%): HS | S | PS | US | NR | Total[b] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPARs | 0 | 0 | 4 | 1 | 0 | 5 | 0 | 0 | 80 | 20 | 0 | 100 |
| PCRs (without PPAR) | 1 | 2 | 0 | 0 | 0 | 3 | 33 | 67 | 0 | 0 | 0 | 100 |

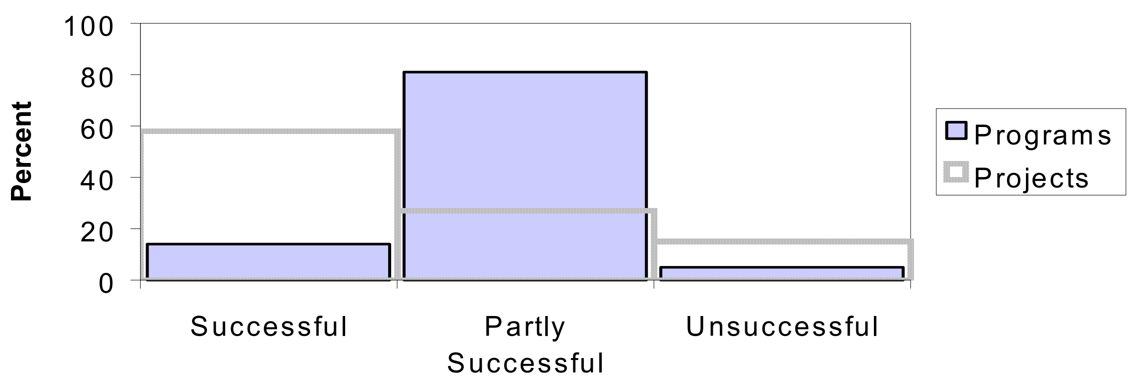
**Projects**

| Three-Category Rating System | Number: GS | PS | US | NR | Total | Proportion (%): GS | PS | US | NR | Total[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| PPARs | 23 | 12 | 7 | 0 | 42 | 55 | 29 | 17 | 0 | 100 |
| PCRs (without PPAR) | 100 | 47 | 9 | 20 | 176 | 57 | 27 | 5 | 11 | 100 |

| Four-Category Rating System | Number: HS | S | PS | US | NR | Total | Proportion (%): HS | S | PS | US | NR | Total[b] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPARs | 2 | 10 | 4 | 2 | 0 | 18 | 11 | 56 | 22 | 11 | 0 | 100 |
| PCRs (without PPAR) | 1 | 18 | 1 | 0 | 0 | 20 | 5 | 90 | 5 | 0 | 0 | 100 |

PPAR = project/program performance audit report; PCR = project/program completion report; GS = generally successful; PS = partly successful; US = unsuccessful; NR = no rating.
HS = highly successful; S = successful; PS = partly successful; US = unsuccessful; NR = no rating.
[a] The period relates to the date of approval of programs and projects.
[b] Figures may not add to 100 due to rounding.
Source: Postevaluation Information System.

### Figure 1: Performance of Programs and Projects



21. The largest number of programs approved between 1987 and 2000 was in the agriculture sector (Appendix 4, Table A4.3). The program and project ratings for agriculture show the same pattern as for programs in general. In terms of PPAR ratings, there are quite a few cases of unsuccessful projects (27 percent of the number of agriculture projects), and many cases of generally successful projects (64 percent). By contrast, there are no cases of unsuccessful agriculture programs or of generally successful agriculture programs. There are far fewer PPARs for the financial sector. Combining PPAR and PCR results, financial sector projects again have much more diverse ratings than programs. The number of industry PCRs is also low, and they do not show any clear differences between program and project ratings. In general, the overall pattern of ratings for programs and the differences from project ratings are not unduly affected by the sector concentration of program lending. Irrespective of the sector, program ratings overall have been less diverse than project ratings.

22. Program lending has been much more concentrated by sector than by country. For individual countries there are insufficient numbers of PPARs for programs, and in most cases also for projects, to make meaningful statements about comparative performance by income-related country groups. In terms of PCR ratings, project ratings are more diverse than program ratings for all country groups and most individual countries.

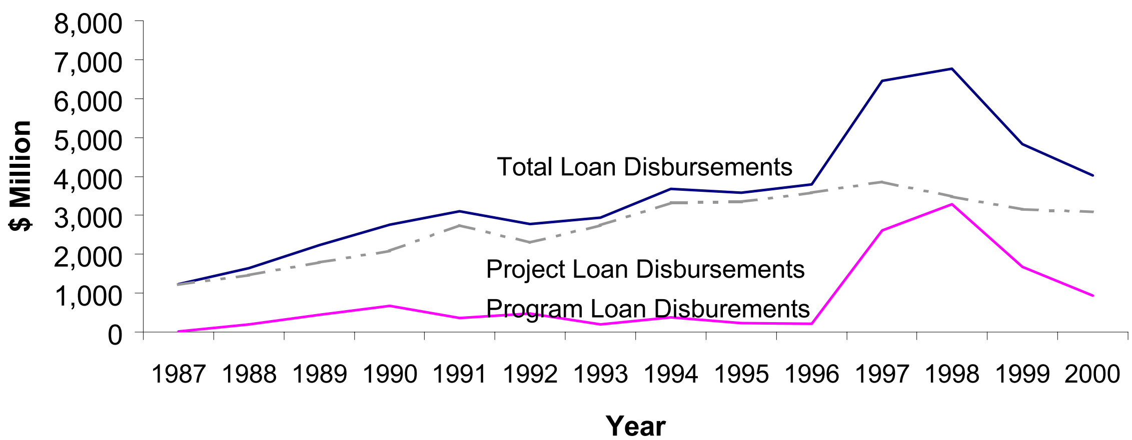
23. An alternative grouping of countries is by those DMCs regarded as economies in transition and those that are not. Programs have represented a significant proportion of lending to those transition countries that are relatively new members of ADB, and are dealing with the twin problems of development and transition. The question arises as to whether programs have been an effective tool in these particular circumstances. Using PPAR and PCR ratings, it seems as if program loans in transition economies may have performed less well than projects, but not particularly poorly when compared with program loans in developing economies (Appendix 4, Table A4.5). This suggests that the particular challenges of transition do not significantly influence the effectiveness of programs. This may reflect not only the urgency of policy changes forced on transition economies by the breakdown of previous trade and monetary systems, but also the opportunities of having to construct new institutional structures from scratch.

# III. OUTPUTS AND IMPACTS

## A. Disbursements and Conditions

24. A basic indicator of program implementation is the disbursement of loan amounts. If all programs kept to the scheduled implementation of program activities, and barring any major external events, actual disbursements would be equivalent, in amount and timing, to scheduled disbursements. Actual program loan disbursements over the period 1987-2000 were $11.7 billion, with such disbursements showing a peak in 1997-1999, as reflected in total ADB disbursements (Figure 2). Project loan disbursements, which had been rising until 1997, stabilized at a somewhat lower level. In part, the sudden increase in program lending to meet the crisis conditions crowded out further increases in project disbursements.

**Figure 2. Loan Disbursements, 1987-2000**




25. Program disbursements summarized in Figure 2 include some disbursements for programs approved before 1987, and some disbursements for programs that are still ongoing. To assess how well actual disbursements matched those planned, attention can be focused on the 58 programs during 1987-2000 that were approved and were completed. The pattern of actual versus planned disbursements is illustrated in Figure 3. Disbursements for closed programs were 9 percent less, and took much longer to occur, than planned. Whereas it was expected that $9.9 billion would be disbursed within an average of 15 months from

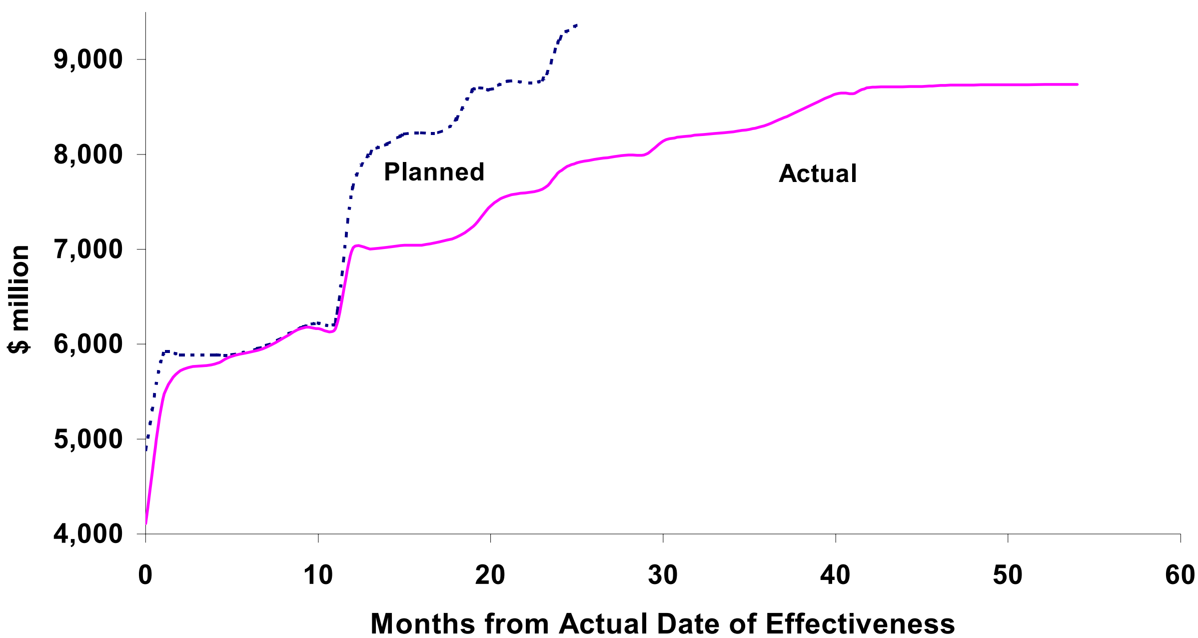
effectiveness, and a maximum of 24 months, in fact $9.0 billion of actual disbursements took place within an average of 24 months from effectiveness, and a maximum of 52 months.[17]

26. Program loans are generally tranched. Of the 58 completed programs, 2 had a single tranche, and 2 had 3 or more tranches; 51 had two tranches, which has been the normal design since 1987.[18] There is rarely a delay in the first, or single, tranche of a program loan as loan effectiveness rapidly follows approval. For the release of second tranches, the situation is rather different. For two (4 percent) of the 53 loans with two or more tranches, the second tranche was advanced by an average of 10 months. For seven loans (13 percent), the second tranche was on schedule. However, for 38 loans (72 percent) the second tranche was delayed by an average of 11 months, and for six loans (11 percent) the second tranche was cancelled altogether. In short, the second tranche was delayed or cancelled in 83 percent of these program loans. Delay is the norm rather than the exception (see Appendix 5).

[17] For 285 projects approved and closed from 1988 to 2000, the equivalent figures are that the planned disbursement would occur within an average of 52 months and a maximum of 98 months, while actual disbursements, 84 percent of planned, took an average of 68 months and a maximum of 129 months.

[18] There may be more than one disbursement per tranche, but close in time. Three programs prepared around the time of the change in program policy, where policy reforms were being taken, and where loan proceeds essentially financed sector inputs, did not involve tranching of the program loan. Funds were disbursed against a series of input purchases over short program periods.

**Figure 3. Planned and Actual Accumulated Disbursements**
**Completed Programs**




27. Programs have been ambitious in the policy changes that they have sought to effect and the speed at which they anticipated this. Both because of the substance and number of conditions, delays have occurred in meeting them, and thus in tranche releases. Of the 58 completed programs approved since 1987, PCRs had been prepared for 40 by the end of 2000. The average number of conditions for these programs was 38 (Appendix 6, Table A6.1).[19] Most programs had conditions laid down for consideration by ADB's Board of Directors or for loan effectiveness, and therefore for the release of the first tranche. The average number of such conditions was 10. The most significant conditions were those specified for second tranche release. On average there were 12 conditions per second tranche release. The other conditions included in programs were related implicitly to the end of the program period.[20]

28. Overall, 81 percent of conditions were met fully and a further 12 percent partly by program completion. Together with the total level of disbursements, this indicates a substantial achievement of program outputs. In many cases, conditions were met after delays. For second

[19] The number of conditions given in a policy matrix is not the same as the number of covenants in a loan agreement. Such covenants sometimes refer to several conditions at a time. There can be fewer covenants than conditions in the policy matrix. However, tranche release conditions in loan documents, even if linked to such covenants that amalgamate conditions together, are met only if all the underlying conditions are met.

[20] Each program has a program period within which the program elements should have been completed. At approval, the program period generally ends some time after expected loan closing, but because of delays in loan closing, actual program completion in many cases coincided with it.

tranche conditions, 80 percent were met fully, 10 percent partly, and 8 percent not at all. Formal waiver of conditions has occurred for only 2 percent of conditions. The average number of conditions not met or waived was only around one per program. Altogether, both in relation to conditions for tranche release and in relation to the overall number of program conditions, there was substantial achievement of program conditions, although over a longer period than expected. In addition, unfulfilled conditions may be met after program completion, as reported in some PPARs.

29. The type of conditions that were waived provides some insight into the degree to which programs did not meet the expected implementation of policy changes. Some waived conditions were secondary conditions that, in fact, were not considered important enough to delay tranche release. Other waived conditions were more substantial, such as the passing of legislation, and were waived in implicit or explicit acknowledgment that the original program design was unrealistic for the timing of major actions required by DMC governments.

30. The number of conditions met and the extent of delay in meeting conditions play a significant role in the evaluation of programs. However, their importance should not be overstated. Often, a limited number of significant reforms to be undertaken through a program is broken down into a larger number of conditions, to facilitate achievement of reform on a step-by-step basis, and to facilitate progress monitoring. The larger number of conditions to be met can then obscure the underlying nature of the reform to be achieved, and distract from assessment of achievement. Although the proportion of conditions met was very high, it would be preferable for programs to clearly specify a smaller number of conditions, each having a clear significance to the reform objectives, especially in relation to tranche releases. The quality of conditions, and the degree to which they are met, is more important than their number. Sometimes, delays in implementation of programs can be beneficial. Given the rigid nature of the two-tranche loan design, many programs underestimated the time it would take to achieve policy or institutional changes. In many cases, delay in meeting tranche conditions reflected a more realistic timetable for reform, and allowed a stronger consensus for reform to emerge among those affected.

31. Project loans have a mechanism for approval of changes in scope during implementation. Depending on the scale of the changes, they can be approved at project director or Management level. Only major changes in scope that fundamentally affect the objectives of the project require Board approval. The equivalent mechanism for program loans, which allows limited amendments due to changed circumstances, has been used rarely.[21] In general, notice to the Board is required for second tranche releases according to the originally specified conditions, regardless of their number and priority. Only with Board approval (including approval on a “no objection” basis) can a change in scope for program loans be made, in effect, through waiving or deferring a condition. The treatment of disbursement in program lending imposes a rigidity on program implementation not matched for project lending. A further consequence is an imbalance in the basis on which performance is evaluated, as indicated earlier (para. 20). Greater flexibility in program implementation may require a less rigid approach to changes in program scope than hitherto.

[21] R127-92: *Procedure for Release of Second or Subsequent Tranches Under Program Loans*, September 1992.

## B. Program Impacts

32. Conditionalities are a means through which policy reforms are pursued. However, meeting conditionalities does not guarantee achievement of reform, either because the conditionalities have been misspecified or because they do not produce sustainable effects. Policy reforms are a means of achieving desired impacts. However, successful implementation of policy reforms does not guarantee this, because the link between policy reforms and desired impacts may not be properly understood or because there is insufficient support to sustain the reforms. The rest of this section, on the basis of the program reviews and country consultations, provides an overview of the impacts of program lending.

### 1. Contribution to the Reform Process

33. Political economy factors internal to DMCs have a strong influence on the success or failure of program lending. Loans in support of reforms are effective if the governments concerned are convinced that the reforms are urgently needed and that there is a process for their adoption. Some DMCs are much more receptive to policy reform than others. Where reform is compelling and the government is convinced of the need for reform, the results of program loans can be very positive. Where political economy factors are unfavorable, even sound policy matrices backed by strong TA are unlikely to advance the reform process. The examples outlined in Appendix 7, Part A illustrate these points.

34. Program lending has often failed to recognize the political process of reform. A standard reform agenda is sometimes applied, without taking into account particular sector or country circumstances.[22] The development policy letter, especially if lacking real government authorship, may simply be a statement of the reforms that the government feels ADB wants to see, as a prerequisite for its access to funds. Time-bound and rigid conditionalities may set the schedule. As noted elsewhere, where serious BOP or fiscal problems arise, "governments often promise more than they intend to deliver and implement more than they can sustain."[23] On the other hand, when time and effort are given to explaining the arguments for reform and there is broad awareness of program objectives, this can have favorable consequences, as, for example, in the case of governance and education programs in the Kyrgyz Republic.

35. During the OEM consultations, several governments commented that they were expected to do more than was possible within the limited time frame allotted for program implementation. A universal comment was that greater assistance and flexibility were needed to implement policy reforms. Nonetheless, the governments expressed strong appreciation for program loans and acknowledged that they helped "push" DMCs to become more market oriented and increase efficiency in various sectors.

36. Reforms are under way in virtually all DMCs and in several sectors. The preparation and implementation of programs have played a significant role in this process. ADB resources facilitated sector analysis, public consultation, exposure to experiences elsewhere, and meeting

[22] See, for example, ADB, *Review of the Bank's Program-Lending Policies*, 1996, Appendix 5.

[23] Paul Collier, *For a New Relationship Between Donors and Recipients: The End of Conditionality?* World Bank, February 2000.

the costs of adjustment. Without the program loan instrument and the reorientation to reform undertaken in 1987, acceptance and the process of sector reform would not be so advanced in the region as they are. Despite its limitations, ADB could not have pursued its changing strategic objectives without such a loan instrument oriented to reform, and would not be able to do so in the future.

### 2. Contribution to the Real Economy

37. The contribution of program lending to the real economy can be seen in two dimensions: sector developments deriving from policy reforms, and general economic developments deriving from BOP and fiscal support. The "with" scenarios outlined in the RRPs for program loans are often unclear on the link to changes in the real economy, as concluded by ADB's Economics and Development Resource Center (EDRC) study on program loans,[24] and as found by the OEM in its sample review. Reforms embodied in program loans have a common theme: helping introduce or reinforce market-based systems and a role for government consistent with these systems. The reforms complement sector and project loans by improving the policy framework and thereby the rate of return on these investments.[25] Appendix 7, Part B provides examples of both strong and weak results from program loans. In several cases, the results were the opposite of what was predicted in the RRPs.

38. The extent of impact on the real economy of program loans as a result of realignment of resource utilization is illustrated by consultations of the OEM with Mongolian officials. Efforts to realign resource use in the industry sector were undermined by serious deficiencies in the financial sector. Credit for private enterprise was virtually nonexistent in Mongolia in the early 1990s, or available only at very high rates of interest. Hence, there was little response to the new opportunities for trade and investment opened up by the Industrial Sector Program. This example suggests that the impact of program loans on the real economy may be influenced significantly by underlying conditions outside a particular policy matrix.

39. Research findings indicate that bad policy-based loans give rise to large opportunity costs.[26] First, most policy-based loans disburse fully, even if conditionalities are only partly met. Thus, large amounts of borrowing may be used ineffectively, when it could have been used in more receptive policy environments and where poverty is pressing.[27] Second, more administrative resources tend to be devoted to unsuccessful programs than to successful ones. Finally, continued extension of policy-based loans to countries with a poor record of reform undermines efforts to convince serious reformers to adopt similar programs. In this context, mishandled policy-based lending can impose additional costs on the real economy, rather than reducing them.

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[24] EDRC is conducting further work on evaluation methodologies. This follows on from a 1999 study, *Program Lending: Measuring Development Impact,* draft report prepared for EDRC.

[25] J. Isham and Daniel Kaufman, *The Forgotten Rationale for Policy Reform: The Productivity of Investment Projects*, World Bank, 1998. However, as illustrated by the experience of the Russian Federation, market-based reforms must be paced by institutional and regulatory development.

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

[27] A similar observation — drawing from ADB's whole portfolio of loans — has been one of the factors leading to the adoption of performance-based lending. See ADB, *Performance-Based Allocation of ADF Resources*, Asian Development Fund Donors' Meeting, Chiang Mai, Thailand, May 2000.

40. Program loans also impact on the real economy through their contribution to BOP stability. Program loan disbursement to some countries, such as Pakistan, with weak or limited debt repayment capacity, has maintained a positive net transfer position. Program loans have also helped improve the net transfer position of other countries, including the Philippines, which, even with program loans, experienced a negative net transfer of $277 million in 1999.[28]

41. Program loans for sector reform may also impact on the real economy through their productive effects. The initial focus on the industry and agriculture sectors were due to a particular concern with the output of tradables. Successful sector reforms, combined with trade policy changes, can be observed and demonstrated with trade and income statistics. Program loans in nontradable sectors, such as education, infrastructure, and even public expenditure management, will have only an indirect effect on the real economy. The impact of financial sector reform, also, may be felt more in the reduction of risk and vulnerability than in direct productive effects. These indirect and longer-term impacts are less easy to demonstrate and virtually impossible to quantify.

42. Transition economies present a special case, as government revenues plummet when external transfers are brought to an end, and state-owned enterprises (SOEs) face commercial realities. Time is needed to build a new revenue base, and borrowing during the interim period is justified to close the fiscal resource gap. Program loans have become one of the modalities for this purpose. The effectiveness of the transfer depends heavily on the recipient government's ability to manage the economy, particularly as regards expenditures. Program loans have provided important fiscal support to both the Lao PDR and Mongolia, helping prevent an even sharper drop in living standards than the one they experienced.

### 3. Implications for External Indebtedness

43. Program loans, like other loans, should strengthen the productive capacity and efficiency of a DMC economy, thereby improving employment opportunities and living standards. Such loans should also enable the borrowing countries to carry higher levels of external debt. Excluding the crisis loans, program loans accounted for little more than 3 percent of the increase in external debt of the DMCs during 1987-2000. Even with the crisis loans, program lending accounted for only about 6 percent of the increase in external debt. Nevertheless, program lending may be a significant part of external debt for smaller economies.

44. Even before the Asian financial crisis, some of the long-term debt trends were of concern. For several DMCs, for example, Bhutan, Kyrgyz Republic, Lao PDR, and Nepal, the external debt to gross domestic product ratio increased sharply between 1987 and 1997. Concessional finance generally made debt service ratios manageable,[29] but not in all cases, as illustrated by the Lao PDR where, during 1997-1999, macroeconomic stability broke down and the exchange rate depreciated sharply (Appendix 7, Part C).

45. Thirty-four percent of ADB's lending to Mongolia has been through program and SDP loans. Mongolia's external debt more than doubled since it began borrowing from multilateral

[28] ADB, *Annual Report 1999*, Table 30: Net Transfer of Resources.
[29] As measured by the ratio of debt service payments and gross export revenues.

financial institutions, from some $350 million in 1990-1992 to almost $850 million by the end of 2000. ADB program loans accounted for 32 percent of the increase in external debt during this period. The Kyrgyz Republic has also been heavily dependent on program loans for public sector financing, in addition to external borrowing on more commercial terms. Debt has built up significantly, leaving the economy vulnerable to external shocks, especially if borrowed money is not used efficiently. IMF is now strongly encouraging the Kyrgyz Republic to reduce all borrowings, including borrowing from multilateral organizations.[30]

46. According to the 1987 and 1996 policy reviews, program loans should generally be set at the lowest possible level to achieve the desired reforms. However, program loans have generally been large. Among other considerations, the buildup of sovereign-guaranteed debt may mean that financing from commercial banks and export development agencies, where the risks are borne by the lender as well as the borrower, is reduced.

### 4. Contribution to Asian Development Bank Goals

47. ADB's goals changed between 1987 and 2000. During 1987-1995, a principal objective of ADB was to promote economic growth on an equitable and sustainable basis. This included meeting the needs of an increasing population and reducing poverty through development of physical and human resources, and appropriate policy and institutional frameworks. In 1995, ADB adopted a more systematic focus on five development objectives: economic growth, poverty reduction, environmental improvement, women in development, and human development. In November 1999, ADB's new poverty reduction strategy was adopted. The strategy requires that all ADB operations—lending, TA, capacity building, economic and sector work, agency coordination, and policy dialogue—contribute to reducing poverty in each DMC. The new strategy rests on three pillars: pro-poor economic growth, social development, and good governance.

48. Program lending also evolved over the 1987-2000 period. Very generally, the changing mix of program lending matched the evolution of ADB's goals. As indicated earlier (para. 17), during 1987-1995, program loans were predominantly for the agriculture, industry, and financial sectors. Since then, program loans or program loan components of SDPs for health, education, corporate governance, and public sector reform have been introduced. Appendix 7, Part D provides examples of strong and weak contributions to ADB's goals, and of mixed results.

49. Previously, proposed programs were assessed from the viewpoint of their likely social impact, rather than its poverty impact specifically. A study carried out for ADB on the social impact of program lending found that while the policy conditions of program lending had no major negative impact on the poor, the positive effect was also small.[31] However, the structural adjustment programs that often accompany ADB program loans tend to reduce the employment and income of the poor. Hence, some programs have adopted measures for mitigating poverty impacts. The Agriculture Sector Program in Mongolia included a well-prepared social impact analysis indicating how to offset the effects of rising food prices. In crisis conditions, the Health and Nutrition Program in Indonesia provided some people among vulnerable social groups—women and children—with access to health, nutrition, and family planning services. The number

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[30] Supplementary Appendix B: Country Consultations: Kyrgyz Republic.
[31] G.F. Papanek, *The Social Impact of Program Lending*, ADB, November 1994.

of beneficiaries of the program was doubled through cofinancing by the Japan Bank for International Cooperation.

50. Reform measures proposed in past program loans were not clearly linked with poverty reduction. User fees for water, higher tariffs for electricity, interest rates based on commercial principles, trade liberalization and reduced protection, privatization of SOEs and associated labor redundancies, and changes in land-use rights may all bear on the poor in the first instance. Other reform measures may bypass them, such as concentration on improving commercial farming while failing to address the situation of subsistence farmers. The RRPs of recently formulated program loans include substantive sections on poverty reduction. However, the analysis tends to be qualitative. In the case of the Governance Reform Program for Mongolia, for example, the RRP describes at length the incidence and causes of poverty, but the sections dealing with the social and poverty impact of the program do not contain any quantitative references. Performance indicators need to be more specific and quantifiable, as outlined in the Financial Intermediation and Resource Mobilization Program for the Kyrgyz Republic, to facilitate analysis of likely poverty effects, and future measurement of impact. Performance indicators for poverty impacts of program loans need to be developed further as part of the updated guidelines for PPARs (footnote 16).

#### 5. Contribution to an Enabling Environment for the Private Sector

51. Program loans are often designed to create an enabling environment for the private sector. Such an environment entails transparency in general matters of governance, and a redirected role of government to one that supports private enterprise and corrects market failures rather than that of owner and operator. ADB's programs have included price and trade liberalization, reform and privatization of SOEs, contracting out of public services, and improvement of corporate governance.[32]

52. Some programs have been very effective in strengthening the role of the private sector, while others have achieved much less. The Railway Recovery Program in Bangladesh, the Capital Market Development Program in India, and the Financial Sector Intermediation Facility in Bhutan are examples of the former. The Second Agriculture Program in Sri Lanka had mixed results, while the Second Industrial Program in Bangladesh failed to achieve its objectives for direct transfer of assets to the private sector.

53. Privatization of SOEs has been pursued with mixed results. A voucher system was utilized in the case of Mongolia and proved to be ineffective, especially for the larger enterprises. A feature common among programs that have addressed privatization is the tendency to demand too much within the tight schedule. For example, the second Agriculture Program for Lao PDR called for the Ministry of Agriculture and Forestry to disengage from all its SOEs within the loan period. Serious difficulties were experienced in complying with the privatization of SOEs mandated under the Gujarat Public Sector Resource Management Program. The second tranche of the Hydrocarbon Sector Loan to India had to be cancelled due to the Government's failure to comply with the privatization requirement, despite several

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[32] Recipient DMCs of the latter include India, Indonesia, Kyrgyz Republic, and Thailand. See ADB, *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*, September 2000.

extensions. Most seriously, program loans have inadequately addressed the conditions for successful privatization.[33]

54. Accompanying TAs can be an important dimension of support to private sector development, especially the attention given to strengthening regulatory frameworks. For example, a TA for registering secured transactions was part of the Financial Sector Program for Viet Nam. Capital market program loans and accompanying TAs to Bangladesh, India, Pakistan, and Philippines led to improvements in the securities and stock exchange regulatory bodies. However, the OEM consultations with government officials also indicated some dissatisfaction with TA as a means of promoting private sector development. Consultants spent too much time on general sector analysis while spending too little time thinking through how policy actions in support of the private sector would work in practice, and how they should be implemented.

55. ADB programs are frequently preoccupied with public sector reform. Support for private sector development might be better advanced by rebalancing the focus to include activities with nongovernment involvement. For example, improvements in the agriculture sector in Bangladesh were more the result of rapid expansion of rural services by local nongovernment organizations than by the Government. Mechanisms to facilitate third-party arbitration is a possible substitute, or complement, for bankruptcy or other business-related laws reliant on the court system for settlement.[34]

56. Overall, the impact of programs through policy changes has been substantial in some cases, but the further effects on the real economy, the level of debt, and social and poverty indicators have not been marked. Programs have had mixed results in providing a permanent boost to the development of the private sector. In part, this assessment is affected by the difficulty to attribute policy changes and program impacts to the program itself. There are always other program and policy activities and external factors at play. However, the assessment of limited program impact may also be a reflection of deficiencies in the design and implementation of programs. Before assessing the processes involved in program design and implementation in the next section for all programs, it may be worthwhile to look specifically at those programs rated as generally successful, and those rated as unsuccessful, the two ends of the rating scale.

## C. Generally Successful and Unsuccessful Programs

57. Of the 21 programs for which a PPAR including ratings had been prepared up to the end of 2000, only 3 were rated as generally successful and only 1 rated as unsuccessful. The first three programs reviewed below were rated as generally successful; the final program was rated as unsuccessful.

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[33] *Special Evaluation Study on the Privatization of Public Sector Enterprises: Lessons for Developing Member Countries*, Operations Evaluation Department, draft, October 2001.

[34] This option would be particularly helpful where the court system is seriously overloaded, as in Bangladesh where the reported backlog is 5,000 cases per judge.

58. The Non-Oil Export Promotion Program in Indonesia was the first to be approved after the new program lending policy of November 1987.[35] It was linked to oil price vulnerabilities, and provided budget support for maintaining social expenditures. However, it was also based on a reform agenda. Its reform objectives, formulated by the Government itself, sought changes in trade policy to encourage export diversification away from oil dependence. Its design was simple. It involved no institutional development measures and no TA. The program loan was not tranched. The approval of funds was based on the expectation of further reforms for trade diversification. These expectations were fulfilled. Consequently, by various criteria—increase in non-oil exports, investment approvals in non-oil export sectors, and employment—there was an impact on the non-oil sectors. A deficit in non-oil trade was eliminated.

59. The key features of this early program were (i) the simplicity of the support provided, (ii) ADB confidence in the Government to implement a set of well-focused trade reforms with clear and measurable impacts, and (iii) government formulation of the reform program. It was argued that the complex consensual decision-making process in Indonesia was not amenable to setting conditionalities with strict timetables. A restricted package that was achievable, and to which the Government was fully committed, underlay the general success of the program.

60. The Industrial Sector Program in Pakistan was approved in late 1988 after two years of policy dialogue.[36] It complemented other economic reform measures being undertaken at the time. The policy changes focused on the industry sector (in the form of faster investment approvals and revised regulations on equity holdings), on trade (in the form of tariff rationalization and export promotion), and on industrial financing (in the form of a more relaxed regime for interest rates and credit controls, and a legal framework for debt recovery). The program was prepared and complemented by extensive TA. Loan disbursements involved two tranches, the second of which was delayed by some privatization, tariff, and debt recovery conditions. The initial time frame for preparing for privatization and for some other legal requirements was too short. The impact of the program was substantial, and policy changes were sustained after completion of the program. Gross fixed capital formation, by foreign as well as domestic investors, increased far more than was expected without the program. Consequently, manufacturing output grew quickly, and a loss of jobs through the privatization process was more than compensated for by increased manufacturing employment. In addition, higher tax revenues from the main beneficiary group, private businesses, were more than sufficient to repay the costs of the program.

61. In this particular case, a key feature was the extensive policy dialogue prior to program approval. The Government was strongly committed to the direction and details of policy changes; the delay in meeting conditions signified commitment to the policy changes, rather than reluctance to reform. The extra capacity to import was used to increase supplies for the private sector—representatives of which were involved in program formulation—with the expansion of private investment making up for the social costs of privatization.

[35] Loans 876-INO and 877-INO(SF): *Non-Oil Export Promotion Program*, for $75 million, approved on 17 December 1987.
[36] Loans 931-PAK and 932-PAK(SF): *Industrial Sector Program*, for $100 million, approved on 13 December 1988.

62. The Financial Sector Program in India was approved in December 1992 following extensive government deliberation on the issues.[37] The program was formulated at a time of economic vulnerability and stalled economic growth, in conjunction with adjustment assistance from other agencies. The Government placed a high priority on macroeconomic stability, and the initial tranche contributed to meeting a budgetary shortfall. Thereafter, stability was the key criterion for the sequencing and timing of the reform program. Three key objectives were the development of autonomous and financially sound commercial banks, enhanced competition and diversity in banking, and reduced intermediation costs. During and after the program, capital ratios improved and the regulatory regime strengthened, while the number of foreign and private banks rose. The counterpart funds generated by the program loan were used in large part for the recapitalization of public sector banks, so that they could then access the capital market directly. Two other objectives were the development of securities and money markets, and capital market development more generally through regulatory changes. During and after the program government securities trading increased in volume, and private capital flows to the banking sector displaced public sector borrowing. There was a delay in meeting some of the conditions for the second tranche, stemming from the Government's concern with maintaining a steady rate of change in a stable environment, but all program measures had been implemented soon after loan closing.

63. The key features of the program were the Government's development of the required measures, and its continued authorship of the reform sequencing and timing. The program loan played a role in maintaining macroeconomic stability, within which the financial reforms could be undertaken. The moderate delay in meeting conditions was beneficial to the program measures. The program was implemented in conjunction with technical and financial assistance from other agencies.

64. The three programs rated as generally successful differed in the scope and nature of the program measures, and in the manner in which they were designed. However, they shared three common characteristics. First, the Government took the major role in designing the program measures and in implementing them. This characteristic can be generalized as a condition for successful implementation of all programs. Second, the programs were developed at a specific "macroeconomic moment," when macroeconomic vulnerability created not just the need for borrowing but an understanding of the need for reform. It may be that circumstances are far more persuasive for the adoption of changes than a host of good arguments. However, this second characteristic may apply particularly to programs in the trade and manufacturing sector, which have a key role in macroeconomic development, and in the financial sector which, although producing an intermediate good, has a substantial role in economic stability. It is not obviously of such importance in other sectors that produce social and infrastructure services, for example, and that do not have such a direct impact on macroeconomic performance. Third, delays in implementing specific conditions did not detract from the direction and achievement of reform. They reflected a more realistic timescale of program implementation.

65. The Second Industrial Program in Bangladesh was approved in December 1991 after an intensive consultation process within the Government.[38] It was linked to trade and exchange rate reforms undertaken simultaneously. The goal of the program was to create a competitive

[37] Loan 1208-IND: *Financial Sector Program*, for $300 million, approved on 15 December 1992.
[38] Loan 1147-BAN(SF): *Second Industrial Program*, for $125 million, approved on 17 December 1991.

manufacturing sector through greater private sector involvement. The key elements in the program were a series of measures to enhance the managerial and financial autonomy of SOEs, and measures to identify and undertake a program of divestment and privatization. Three TAs accompanied the program. There were delays in meeting the conditions attached to the loan, especially relating to autonomy of SOEs in wage determination and the rate of privatization, and the second tranche was cancelled. Through the 1990s, the rate of growth of gross domestic product, manufacturing output, and manufacturing exports all accelerated; the government share in manufacturing ownership declined. However, this came about through the associated trade and exchange rate reforms rather than the industrial program. The net losses of SOEs continued to rise.

66. The Government continued to be committed to reform in the manufacturing sector; a new industrial policy was announced in the late 1990s. However, the changes required to achieve autonomy for SOEs were underestimated. The program dealt with changes in formal rules required to open up the manufacturing sector to competition and private ownership. However, the program design did not adequately reflect the informal rules governing the process of policy change, nor the incentives under which those who were supposed to implement the changes operated. The program loan modality, tying tranche releases to conditions to be met, was treated as too inflexible to adjust to the achievable rate of change.

67. Although there was a high degree of government involvement in its design, the program proved to be unsuccessful. In Bangladesh accountability is weak and responsibility diffuse, and therefore change is difficult to bring about. The program paid insufficient attention to stakeholder interests in its design, failed to publicize the costs of not undertaking reforms, and did not identify a coalition within civil society at large—not just the bureaucracy—who would benefit from the changes. These problems of process, combined with ambitious timing and inflexibility in implementation, meant that many of the program's objectives were not achieved.

# IV. PROCESSES

## A. Program Lending and the Change Process

68. For various reasons, the impacts of ADB programs are difficult to assess (para. 56). To improve the effectiveness and impact of programs, it may be useful to draw on a closer analysis of the change processes they are designed to bring about. A recent study of ADB's policy-based lending from this point of view, seeking to identify the key factors shaping the nature and timing of reform, posed the question "Why do good ideas often go wrong?"[39] The same framework can also be used to answer the question "When do good ideas go right?"

69. The starting point for the analysis is that, for activities seeking to engender policy change, implementation of policy reform is bound up with, and cannot be separated from, the design of a program. Policy reform is an evolving process, involving much uncertainty about the final outcome. This should be acknowledged in the design of a program. There have been two main approaches to the design of policy reform. The first emphasizes a rules-driven methodology, and can be summarized as "doing the right things." The right things may be derived from international practice. Frequently they take on the character of a blueprint, because the emphasis is on what should be done, according to international practice, rather than what should be avoided. The second approach emphasizes desirable but feasible changes in a particular country context, or "doing things right." This involves a more limited and incremental approach to change, informed as much by domestic experience as by international practice.

70. An effective program needs to combine the two approaches of good international practice with domestic policy processes. This is made difficult by several factors: the complexity of the policy changes and multiplicity of stakeholders, the complexity of the policy change process, the difficulty of determining what is acceptable and what is not, and inadequate institutional capabilities for bringing about the proposed changes. In this framework, conditionalities attached to program lending become working hypotheses subject not just to monitoring for compliance but also to review for continued relevance.

71. It is postulated that greater attention to such factors in program design would enhance outputs and impacts. However, this requires building stakeholder support and a willingness to consider compensation requirements, between those who will eventually benefit—who in principle will be far greater in number—and those who will eventually lose. It also requires reassessing, through a monitoring process, assumptions about the final impacts of reforms and about those affected. This greater focus on the change process in program design for the sake of better achievement of policy reform provides a basis on which program design and implementation can be assessed.

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[39] ADB, *Toward a Political Economy Approach to Policy-Based Lending*, EDRC, draft, February 2001.

## B. Program Design and Formulation

### 1. Policy Framework for Program Loans

72. The framework as outlined in 1987, and as expanded in 1996 and 1999, established program loans as an instrument of policy reform. Program design was to be based on detailed and comprehensive sector analysis, and on extensive policy dialogue with country authorities to ensure that the proposed reforms enjoyed full government support. Policy conditions were to be realistic and achievable, as well as few in number. Adjustment costs were to be the main determinant of loan size.

73. In some important ways, the framework has not been applied as envisaged. Most notably, program loans have mixed objectives. As indicated during the OEM consultations with government officials, BOP and/or fiscal support was frequently the primary interest to the DMC, particularly the Ministry of Finance. Many written commitments to policy and institutional reforms were secured from governments faced with serious BOP or fiscal pressures, but outside the Ministry of Finance there was no widespread domestic commitment to these reforms.[40]

74. It can also be asked whether the framework is adequate. Full government support is essential but sometimes not alone sufficient as there are many stakeholders in a policy change process. Programs oriented to expanding private sector involvement should incorporate the private sector in their design process. Programs oriented to expanding nongovernment involvement in operation and maintenance should incorporate user groups in the design process. Although authorship of the development policy letter rests with the government, it should reflect a process of wider stakeholder participation.

### 2. Policy Matrix

75. Analysis of the RRPs for program loans shows that the policy matrices are complex, and the conditionalities or actions numerous. During country consultations, government officials stated that, with hindsight, program loans expected "too much, too fast." Inclusion of legislative actions in time-bound and rigid conditionalities has proven particularly difficult and inappropriate in multiparty governing systems. However, the process of preparing and approving program loans in ADB favors ambitious policy matrices, and it may be exacerbated by the move toward performance-based lending. Future policy matrices should involve the key reform measures, fewer in number as intended in the 1987 changes in program lending, as the focus of design and monitoring.

### 3. Sector Analyses and Policy Dialogue

76. The 1987 framework for program loans, and operational guidelines introduced since that time, stress the need for comprehensive sector analysis as the foundation for policy reform. The OEM found this to be an area of general weakness; previous internal reviews had also found deficiencies on this score to be a systemic problem. A comprehensive approach is needed, as reforms in a given sector may be interdependent with reforms in other sectors. However,

[40] Supplementary Appendix B: Country Consultations: Sri Lanka and Bangladesh.

program loans are generally “slices of reform.” To illustrate, financial sector reforms may be a precondition for successful privatization of state-owned farms. However, the policy matrix for several agriculture sector program loans made privatization a loan condition, even though the financial sector was very weak and privatized farms unlikely to be able to access credit in this context.

77. Observed deficiencies in program design may reflect limitations in ADB’s capacity to analyze how results will be achieved. Policy reform conditionalities are not connected to expected results in a convincing manner. Program design seems to begin with the proposed reforms, derived from international practice, with sector analysis and expected benefits as justification (referred to earlier as the “rule-driven approach”). What is needed is an analysis of how policy actions will impact in a particular economic and social setting.

78. Policy analysis is the basis of policy dialogue. Associated with inadequate analysis in some cases has been insufficient policy dialogue. Explicit recognition by government and ADB of the design process as a determinant of success would reinforce the need for appropriate resources to be devoted to policy analysis and dialogue.

79. ADB staff members have commented that the present interdepartmental review process for program loans is not particularly useful. Internally, review of the design of programs could be focused and improved through a peer review process, built in as a mandatory processing step. This internal process could also be expanded through use of regional experts with experience in similar reform programs in DMCs on a confidential basis. The peer review could be continued through implementation, to encompass matters of priority and timing of policy changes.

### 4. Ownership and Consultation Process

80. Ownership is difficult to gauge and the degree of ownership is influenced by both ADB’s consultative practices and various DMC-related factors. Clearly, some governments are strongly committed to reform, while other governments are either more cautious or are not convinced. Where ownership has been strong, program implementation has been relatively successful. Indeed, government ownership is one of the key factors determining success.[41]

81. One indicator of government ownership is the amount and extent of consultation during program preparation. A key pointer to government commitment is the degree to which different parts of the government system have arrived at joint positions in policy reform. However, ownership of change should be at the country level and not just within government. Conditions to support change sometimes require a more extensive process. This more extensive process is based not just on consultation but the dissemination of information, about the benefits and costs of change, and about the costs of not changing. A second indicator is the extent to which information has already been disseminated.

82. A further indicator of ownership of reform is the authorship of the reform agenda. For some programs, the authorship has been firmly in government hands, involving a process of internal consultation. In other cases, ADB policy dialogue with country authorities has been less

[41] This view accords with the findings of the World Bank, *Structural and Sectoral Adjustment Operations: the Second OED Overview*, June 1992. It found that ownership accounted for three quarters of all successes.

of a process and more of an agenda of experts. Country authorities interviewed noted that ADB tended to impose a predetermined checklist of reform measures consisting of actions for each sector. Where reforms were designed specifically for the country, understanding of the country was frequently insufficient and at least some aspects of the reforms were impractical, both in their feasibility and timing.[42]

### 5. Loan Size

83. The framework for program loans established in 1987 stated that the size of the program loan was expected to be related to a variety of factors, including ADB's overall lending program in the relevant DMC, the importance of the sector, and the scope of the reform program. Adjustment costs were meant to serve as the underlying rationale for the loan amount.[43] Board discussion of the new program loan policy in 1987 resulted in agreement that ADB would not become involved in purely macroeconomic issues. Nonetheless, the discussion stressed the importance of program loans in helping establish or maintain a sound macroeconomic environment.

84. The 1996 review stated that loan size should reflect the estimated costs and importance of the reform program, the size generally being set at the smallest possible level to achieve the desired reforms.[44] Board members have often commented that loan size seems unrelated to any measurable criteria.[45] The crisis loans increased the scale of program loans during 1997-1999. Appendix 8, Part A provides a range of explanations for loan size. So far, there is insufficient consistency in the size of program loans or in its rationale.

85. The OEM consultations with government officials and discussions with ADB staff suggest that loan size often reflects general BOP and fiscal needs of a country. For example, government officials from both Bangladesh and Sri Lanka emphasized that they saw a continuing need for ADB support through quick-disbursing loans to meet BOP and public expenditure needs. This was the primary domestic motivation for using program loans; public officials favored retention of this lending modality.[46] In general, factors beyond the reform program per se seem to have influenced the loan amount. For countries in severe BOP or fiscal difficulties, the quick-disbursing nature of the loan has been important; the Capital Market Development Program to Pakistan and the Corporate Governance/Enterprise Reform Program to the Kyrgyz Republic are cases in point.

86. Program loans are typically large, on average larger than project loans (para. 15). Several factors appear to account for this:

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[42] Supplementary Appendix B: Country Consultations.
[43] Paraphrased from ADB, *A Review of Program Lending Policies*, November 1987.
[44] Paraphrased from ADB, *Review of ADB's Program Lending Policies*, November 1999.
[45] During Board discussion in late 1990 of the preliminary assessment of program loans by the Strategy and Policy Office, members raised concerns about loan size. Board discussions in December 1999 of the review of ADB program lending policies again included reference to loan size.
[46] Supplementary Appendix B: Country Consultations: Sri Lanka and Bangladesh.

(i) periodic BOP and fiscal crises. Many DMCs have been affected by such problems at one time or another. The Asian financial crisis required large-scale support through program lending;

(ii) ADB staffing constraints—since small loans require virtually the same staff resources as large loans, it is more efficient for ADB to process larger loans; and

(iii) the flexibility of the modality, enabling a quick response to government borrowing requirements.

87. Nevertheless, serious attempts have been made to estimate the adjustment costs associated with programs in many cases. These adjustment costs can be seen as an investment, in terms of the costs of making changes now that will result in productive and efficiency gains in the future. Although the costs of adjustment can, in principle, be estimated in economic prices, as in the economic analysis of a project, from the point of view of loan size it is the financial costs of adjustment that are relevant. A recent survey of several program loans recorded the adjustment costs taken into account, and how they were estimated.[47] The type of adjustment costs taken into account is program specific, although some types of cost are common to several programs. Adjustment costs have been related to establishment of regulatory bodies and other institutions, enterprise restructuring, relocation, retraining and retirement, revenue losses from tax reforms, funding existing debts, initializing capital funds and credit lines, and other costs.

88. Identifying and estimating these adjustment costs is not easy. Moreover, several issues on adjustment costs remain unresolved. Some programs may have limited direct costs of adjustment; the other criteria for loan size have to play a larger role. Whether adjustment costs are substantial or not, in many cases there should be a degree of cost sharing by the government, that may be expected to bear at least some of the initial burden of reform. Adjustment costs should be calculated as a net figure; for some programs there may be immediate offsetting factors such as divestment proceeds, subsidy savings, revenue gains from enhanced tax operations, and improved cost recovery from tariff changes. Finally, adjustment costs are commonly calculated from the fiscal or public sector point of view. Programs may also entail initial adjustment costs for private enterprises or households, which might also be included as a factor in the program design, through credit facilities, for example, and the loan size. Adjustment costs cannot be the sole determinant of loan size, but should continue to inform decisions on loan size for each program.

### 6. Agency Coordination and Complementarity

89. ADB coordinates closely with IMF, the World Bank, and other funding agencies. Such cooperation has progressively deepened. General collaboration between ADB and the World Bank was formalized in early 2000 by a joint framework and structure statement.[48] Also early in

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[47] ADB, *Integrating Poverty Impact Assessment in Policy Based Lending*, draft, September 2001, Section V and Appendix 3.

[48] R221-00: *Seventh Replenishment of the Asian Development Fund: ADF VIII Donors' Report: Fighting Poverty in Asia,* November 2000, Appendix 2.

2000, the multilateral development banks and IMF agreed to the Protocol on Collaboration for the Preparation of Poverty Reduction Strategies in Low-Income Countries.

90. Coordination among funding agencies is particularly important in policy-based lending to ensure consistency between structural reforms envisaged under ADB programs and reform programs financed by others.[49] Country consultations and discussions with ADB staff and other agencies confirmed a high degree of interagency cooperation (Appendix 8, Part B). For example, in some cases, IMF and the World Bank have played leading roles in macroeconomic and banking sector reform, while ADB has focused on capital market or small and medium enterprise development. The recent second Financial Sector Reform Program Loan to Mongolia provides a possible model for partnership with the World Bank.

91. While interagency coordination on policy-based lending is extensive, more needs to be done to incorporate information from other institutions in program design and implementation, and to work out a system for sequencing and integrating the actions of different agencies. DMCs expressed concern that, frequently, different agencies provide assistance for individual parts of a reform program but often fail to ensure that the several parts are consistent and interlocking. Sharing of regional and sectoral experiences and evaluations among multilateral development banks and other agencies would also improve the impact of program lending.

### 7. Learning Lessons

92. The OEM examined whether lessons from program lending were incorporated in new lending. Three dimensions of this topic have been explored, namely, the degree to which (i) second or third program loans for the same sector build on lessons from earlier loans, (ii) lessons are conveyed between sectors or ADB departments, and (iii) lessons from program loans in the late 1980s and early 1990s have helped improve the design of more recent program loans. Appendix 9 provides a summary assessment of lessons learned, indicating how these have been reflected in the design of more recent program loans. It also examines lessons for program implementation and monitoring.

93. The number of lessons from earlier loans influencing subsequent loans in the same sector is relatively small. During 1987-2000, only six countries were granted sequential program loans for a sector.[50] In some cases, lessons were not learned. The first Industrial Program in Bangladesh suffered from weak design; a logical framework analysis was needed, as was better recognition of capacity limitations. Implementing agencies also requested assistance for better monitoring. The second Industrial Program in the same sector did not draw sufficiently on these lessons, contributing to the unsuccessful rating (para. 65). Lessons from the second Financial Sector Program in Indonesia were similar to those from the first loan: the need for ownership, transparency, and a sound legal, regulatory, and supervisory framework.

94. In the case of the Lao PDR's successive agricultural loans, the PPAR for the first loan noted the need for monitorable performance criteria, deeper preparatory analysis of the program

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[49] R221-00: *Seventh Replenishment of the Asian Development Fund: ADF VIII Donors' Report: Fighting Poverty in Asia,* November 2000, (para. 3), stressed the need for closer and sustained agency coordination.

[50] Additional program and sector development program loans in the pipeline or already approved for Mongolia, Pakistan, and Viet Nam, among others, will add to the list.

elements, and prioritization of policy actions. However, the second program, which was prepared before this PPAR was conducted, was overly ambitious and capacity limitations were underestimated. In the financial sector, the second program repeated the earlier problems of “too much, too fast.” However, provision of strong TA during implementation proved valuable, a lesson drawn from the weakness of the first loan.

95. In some cases, relevant lessons have been incorporated into subsequent activities. Lessons learned from the first Financial Sector Program in India emphasized the benefit of a conservative reform approach, and that performance indicators should be specified so as to improve monitoring. The subsequent Capital Market Development Program reflected these lessons. In this case, a financial market operational strategy for India was formulated before the processing of the first program loan; the strategy called for a succession of program loans, each one building on the results of the previous ones. The strategy, designed in consultation with the Government and stakeholders, provided a clear route map for the reform measures in the sector.

96. Nepal’s successive agriculture programs were a decade apart. Lessons from the first one included the need for stronger program design, more attention to local institutional capacities, and better specification of monitorable policy targets. The second program reinforced several measures introduced under the first one , including eliminating subsidies and privatizing government services. A special covenant addressed the risk of policy reversal. Experience with Sri Lanka’s first Agriculture Program underscored the importance of ownership, and of clearly defined objectives of manageable proportions. The second program continued to aggressively promote market-based reforms, even though the Government was in favor of a more phased approach, and in 1994, rolled back some of the measures.

97. The degree to which lessons learned are transmitted between sectors or the departments of ADB is more difficult to judge. Some insight into this is gained by the repeat nature of lessons learned. The most common lesson referred to, especially in recent years, is the need for strong country ownership. Weaknesses in government commitment, together with institutional limitations, are repeatedly noted in PPARs and PCRs for program loans. This suggests that the more generic lessons relating to process and design may be more difficult to incorporate in later activities than sector-related issues.

98. Several other lessons appear regularly in PPARs and PCRs. The link between proposed policy reforms, goals, and expected results is frequently cited as inadequate. Priorities are not evident, and major legislative conditionalities appear alongside relatively minor institutional steps. The policy matrix tends to be overly ambitious and insufficiently sensitive to capacity limitations on the part of the government.

99. Trends over time with regard to lessons learned are particularly difficult to gauge. The success record of programs has not improved over time. The changing mix of programs, away from industrial programs to public sector management, for example, may mean that similar lessons are being relearned in new activities.

## C. Program Implementation and Monitoring

### 1. Quality of Compliance with Covenants/Conditionalities

100. The high degree to which conditionalities have been met in completed programs was described earlier (Section III A). However, the degree of formal compliance may overstate the extent to which conditions are implemented and sustained. There is considerable evidence that the quality of compliance has been relatively weak.

101. Loan agreements tend to cite very specific actions to be met, but are much less specific about how these actions are to be effected and confirmed. To illustrate, one of the conditionalities of the Foodcrops Development Program in Bangladesh was to reduce the role and staff of the Bangladesh Agriculture Development Corporation. While the staff complement was reduced from 21,000 to 11,000, the PPAR concluded that some of the functions formerly carried out by this agency were simply transferred to other public sector agencies. It is not clear that, overall, there was a reduction in employees or increase in efficiency. The second Agriculture Program in the Lao PDR and the Comprehensive Reform Program in Vanuatu both contained conditionalities concerning the passage of foreign investment laws, which were met. However, implementing regulations are yet to be issued in the Lao PDR, and the Vanuatu law excludes many sectors from foreign investment. The Capital Market Development Program Loan for Bangladesh called for the breakup of the Investment Corporation of Bangladesh as a second tranche condition. While four new companies were set up to carry out each of its major operations, the corporation remained operational. What resulted was a duplication of functions and increased intermediation costs, a situation that the program had hoped to correct.

102. There are examples where both the formal compliance and the intent of implementation have been met. For example, the Agriculture Sector Program in Viet Nam (Appendix 10, Part A) prompted government actions that exceeded expectations. Effective, and not just formal, compliance is also likely where there is some flexibility in the timing of program implementation. However, loan agreements need to be clearer about the expected results of reform so that monitoring and impact assessment are based on the substance of what is intended (Appendix 10, Part A).

### 2. Long-Term Sustainability

103. The 1999 review of program loans observed that "while PPARs and PCRs report a high rate of compliance with conditionalities, little more than half the policy actions were sustained."[51] During the OEM consultations and discussions with ADB staff, skepticism was expressed about the long-term sustainability of policy reforms under programs. Some governments have demonstrated reduced interest after first tranche release, or policy reversals after loan closing. However, there may be a problem of process and timing rather than commitment. For example, the Philippines failed to meet a key conditionality of its 1995 Capital Markets Development Program, resulting in the cancellation of the second tranche. However, in 2000 the required legislation—a revised Securities Regulation Code—was passed, and has had a positive impact on the securities industry.

[51] ADB, *Review of ADB's Program Lending Policies*, November 1999.

104. The OEM review of program loans indicates that long-term sustainability is heavily influenced by factors that may be outside the policy matrix. As illustrated by the industry and agriculture sector program loans to Mongolia, financial sector reform is often a precondition for sustainable reform in the real sectors. Further, a problem common to most DMCs is that policy reform has run ahead of human capacity.[52] The quality of compliance with conditionalities is therefore weak, leading to waning sustainability unless reinforced by subsequent loans or other forms of support (Appendix 10, Part B).

105. Insight into nonsustainability or weak compliance is given by the recurrence of conditionalities. Sequential loans frequently have repeated conditionalities, as illustrated by the agricultural loans to Nepal and Sri Lanka, and financial sector policy actions for Indonesia and the Lao PDR. Repeated conditionalities between sectors are also frequent. The industry and agriculture sector loans to Mongolia both included conditionalities concerning price and trade liberalization, and privatization of SOEs. The recurrence of conditionalities also appears among funding agencies. However, this may be evidence of reenforcement rather than weak compliance. This is especially the case for structural adjustment measures; macroeconomic conditionalities under ADB program loans deliberately parallel those of IMF and the World Bank.

106. While the above examples raise doubts about the sustainability of reforms associated with program lending, significant progress has been made by ADB's DMCs as a whole in adopting more market-based economies. Although the Asian financial crisis revealed how much more remains to be done, and the care required in sequencing reforms, the rebound has confirmed how much has been accomplished. In the end, sustainability is dependent on the degree of ownership of the reform programs. The stronger and more sustained the ownership, the more effective is program implementation, and the greater the likelihood that reform-related changes are durable.

### 3. Institutional Capacity Building and Technical Assistance

107. One hundred and fifty TAs, amounting to $81 million, were approved in support of the 86 programs reviewed under this study.[53] In recent years, the average cost has been $700,000. Programs normally include at least two TAs. While most programs are supported by such TA grants, especially in the case of small countries, until recent years most did not have a TA loan component. The recent case of TA loans in programs has been highly concentrated. The TA loan component of the Financial Sector Program in Republic of Korea accounted for almost half the amount; TA loan components of programs for the Kyrgyz Republic and Pakistan accounted for additional substantial amounts. In contrast, sector and project loans regularly have large TA loan components, which amounted to almost $240 million in 2000 alone.[54]

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[52] PCRs and PPARs consistently highlight lack of staff expertise and institutional capability as key risks to a program. For example, acute shortages of qualified, certified public accountants in the Lao PDR and Mongolia have greatly hampered financial sector reform in those countries.

[53] There may be additional TAs; the list reflects attached and standalone TAs cited in the RRPs, PCRs, and PPARs.

[54] This compares to $172 million for total TA grants in 2000.

108. A weakness of program loans has been insufficient resources for institutional capacity building during implementation of policy reforms.[55] Typically, all the loan funds accrue to the Ministry of Finance for general budgetary purposes, with little, if any, direct benefit to the target sector. Conditionalities often stipulate that a portion of counterpart funds be used in support of institutional capacity building but (as discussed in the next subsection) this does not appear to be very effective. Findings from the OEM country consultations, PPARs, and PCRs indicate that more needs to be done to support implementation of program loans. Five clustered TAs to the state of Gujarat, India, illustrate a focused effort to enable a local government to design and implement complex reform measures. However, in general, most TAs are for the design phase; TAs for the implementation phase usually support specific issues rather than the program reform process as a whole. Overall, only about 25 percent of total TA grant support to programs has been for capacity building.[56]

109. The recently completed PPAR for the unsuccessful Second Industrial Program in Bangladesh examined the three supporting TAs. There was limited ownership of the TAs by the Government and SOEs, and by the time the reports were prepared by the consultants the program had already missed important covenant milestones. There is no evidence of institutional knowledge or skills buildup in the areas of these TAs, which were assessed as largely ineffective. Some TAs have also been poorly executed, as illustrated by the monitoring, impact assessment, and management TA for the Industrial Sector Program in Nepal.

110. On the other hand, the TA in support of the Fisheries Sector Program in the Philippines was found to be effective in providing expert advice on management to the Department of Agriculture and the implementing agencies, as well as on highly specialized technical areas in the initial year of program implementation.[57] The TA with the International Food Policy Research Institute in support of the Agriculture Sector Program to Viet Nam made an important contribution to eventual implementation of rice marketing reforms.

111. Technical assistance performance audit reports have been prepared for only a few program-related TAs, and indicate varied effectiveness. The report on six TAs to the financial sector in the Lao PDR found that the TAs were not based on adequate in-depth analysis of the political and institutional environment. Sequencing was poor, ownership was insufficient, and counterpart support was lacking for reasons of political will and simple scarcity of qualified English-speaking staff. TA performance was marked by limited use of voluminous reports, which were not geared to local conditions, and several were not translated.[58] A report on eight TAs to the banking sector in Mongolia,[59] where there has been a relatively low turnover of the relevant

[55] The World Bank has also experienced this weakness. See World Bank, *Lending Retrospective: Volumes and Instruments*, International Bank for Reconstruction and Development, 1999.

[56] The TA for the Agriculture Program in Pakistan reviewed policies and recommendations for deregulation and privatization of fertilizer importation and marketing. While a focused TA of this sort may side-step support for overall program implementation, sometimes it yields results fundamental to the success of the program.

[57] PPA: 971, 972-PHI: *Fisheries Sector Program*, December 1999. It should be noted that the recommendations are only now being implemented, i.e., more than a decade later. Other reports in the interim have no doubt been influential too.

[58] ADB, *Technical Assistance Performance Audit Report on Selected Financial Sector TAs to Lao PDR*, December 1999.

[59] ADB, *Technical Assistance Performance Audit Report on Technical Assistance to the Banking Sector in Mongolia,* December 1997.

staff, was much more positive: "Organization and management for the implementation of the TAs improved over time. The TAs contributed to the development of the banking sector at a pace that is reasonable under the circumstances. Each TA achieved some success."

112. A recent report on ADB's Asian Development Fund (ADF) operations[60] noted that measures for capacity building are now included in most projects, but capacity building still tends to be related to the needs of loan projects rather than of institutions. Doubts arise as to the sustainability of such capacity-building efforts. The report recommended a holistic and long-term approach to capacity building.[61] To reinforce support during implementation of program loans, ADB could consider more frequent inclusion of a TA loan component. However, this would only receive DMC endorsement if TAs were much more effective in serving the interests of the government. In the OEM consultations, many officials expressed strong criticism of TAs and capacity-building efforts, and noted that foreign experts spent half their time learning about the country, and that they departed when their report was finished. Longer-term consultants in combination with a domestic team, and more flexibility in the implementation of TA components, would yield better results.

113. A recent special evaluation study assessed the impact of advisory TA in the power and water sectors from the viewpoint of sustaining policy reforms.[62] It evaluated 30 TAs across five countries over a 10-year period. The assessment indicated that there was adequate achievement of outputs from the TAs, but this did not always translate into a sustainable reform process. Four key areas to enhance effectiveness were identified: government ownership of the TAs as well as the reform process; allocation of sufficient resources to the TAs; acknowledgment in TA design of policy reform as an ongoing process; and the need to build coalitions for reform as a TA result. These evaluation conclusions support the assessment of TA directed in support of programs.

114. These TA-related issues are very important. Unless policy actions that are supported by ADB are backed by effective TA, the DMCs are pushed into uncharted waters. Referring to the "great debate" between advocates of shock therapy and advocates of incrementalism, Joseph Stiglitz has characterized the positions as: "Knowing what you are doing versus knowing that you don't know what you are doing."[63]

#### 4. Effectiveness of Earmarking Counterpart Funds

115. It is difficult to ascertain whether the earmarking of counterpart funds is really effective, since budgetary resources are fungible. Public finance specialists share a range of attitudes toward the earmarking of budgetary resources. Most specialists favor focusing on the overall expenditure framework, so as to ensure an efficient and effective allocation of resources to the priority needs of a country. While IMF and the World Bank have long advocated this approach, reality has forced a reconsideration. Weak fiscal frameworks have been in operation over

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[60] ADB, *Recommendations of the ADF VII Donors Report: Interim Review of Implementation*, December 1999.

[61] A review of the effectiveness of TAs for public expenditure management in four countries provides suggestions on how this more holistic, long-term approach could be achieved. ADB, *Effectiveness and Impact of ADB Assistance to the Reform of Public Expenditure Management in Bhutan, India, Kiribati, and Lao PDR*, 1999.

[62] SST: STU 2001-02: *Sustainability of Policy Reforms Through Selected Advisory Technical Assistance,* January 2001.

[63] Joseph Stiglitz, *Whither Reform?* World Bank, Annual Bank Conference on Development Economics, 1999.

protracted periods in some DMCs, frustrating macroeconomic reform efforts. Moreover, continued external assistance in this situation can lead to serious distortions. Typically, capital expenditures squeeze out current expenditures.

116. Appendix 10, Part C gives examples of ineffective and relatively effective earmarking. Earmarking of counterpart funds has the potential to increase DMC ownership of policy reforms. As emphasized during the OEM country consultations, the sector or line ministries responsible for the reforms frequently derive little, if any, direct benefit from the loan funds. As such, they may have little interest in promoting the reforms. Earmarking is a means for channeling funds to the targeted ministries. This could prove especially helpful in institutional strengthening and in meeting adjustment costs incurred by ministries. Program loans often include general fiscal support beyond adjustment costs related to sector reform. If earmarking of counterpart funds is to be practiced more rigorously, counterpart funds would have to be put into a special local account and their use monitored.

117. Given ADB's emphasis on poverty reduction, the question arises as to whether earmarking of counterpart program funds should target assistance to low-income and disadvantaged groups. In some cases, the use of counterpart funds has included meeting some of the social costs of sector policy reform through compensation payments or, better still, retraining programs. Counterpart funds could also be used to meet compensation payments to sector agencies providing services for social reasons. The budgetary allocation of cash incomes or services to the poor is one of the most effective means of addressing poverty as a market failure. Greater experimentation may be required in the use of counterpart funds to meet adjustment costs outside the sector being reformed.

### 5. Multiple Tranches

118. The format adopted for program loans in 1987 limited the number of tranches to two in normal circumstances. A few programs have had three tranches.[64] Sometimes the so-called incentive tranche is added to the standard two tranches. That has been the case for the Gujarat Public Sector Resource Management Program Loan, the Madhya Pradesh Public Resource Management Program Loan, and the Comprehensive Reform Program Loan for Vanuatu.

119. There are too few cases to conclude whether multiple tranches add to the effectiveness of program loans.[65] The 1999 review of program loans found that the compliance rate dropped with successive tranches.[66] This outcome possibly reflects the dual purpose that is served by program loans — macroeconomic stability and sector policy reform. The OEM's consultations with government officials in selected DMCs found mixed views concerning multiple tranches. Central agencies such as the Ministry of Finance and the Central Bank expressed a preference

[64] The Financial Sector Development Program loan to the Republic of Korea had four tranches, but the circumstances and scale of the loan were clearly exceptional; in any case, the fourth tranche was waived by the Government as it was no longer needed. The Power Sector Restructuring Program loan for the Philippines involves three tranches, with each tranche addressing a logical and sequential phase of restructuring. The Financial Governance Reforms Sector Development Program loan for Indonesia also has three tranches.

[65] See David Dollar and Jakob Svensson, *What Explains the Success or Failure of Structural Adjustment Programs?* World Bank, 1998. On the basis of the World Bank's larger pool of structural adjustment loans, the authors concluded that multiple tranches played no role in effectiveness.

[66] Footnote 8.

for the current fast disbursing arrangement, while line ministries expressed interest in more numerous tranches spread over the policy reform period.[67]

120. Multiple tranches would require ADB staff to pay close attention to a country's reform program until its conclusion. If funds could be more closely tied to the targeted sector and associated ministries, multiple tranches would better complement the policy reform process. This consideration appears to have influenced design of the program cluster approach. At the same time, multiple tranches can be viewed as a way of ensuring that conditionalities are met. Because, typically, there is so much at stake for both the government and ADB if the second tranche is not disbursed, considerable pressure arises to waive or amend some conditions. Multiple tranches would reduce, and make more specific, the requirements for each tranche and provide greater flexibility in the timing of conditions.

121. The World Bank has developed a floating tranche approach in which loan proceeds are disbursed on government implementation of key policy reforms. This approach is similar to the incentive tranche adopted in some ADB programs as indicated above. Not being rigidly time-bound, the floating tranche introduces a flexibility into the program, allowing a government to establish the appropriate pace and sequencing of policy reform for optimal impact and sustainability. Program lending approaches which support more flexible implementation strategies may be increasingly relevant as governments in the region face growing difficulties in implementing complex policies fundamental to a reform process. The Capital Market Development Program Loan in the Philippines, for example, required three years beyond the program completion date to pass the securities legislation. Despite the delay, this law has had a significant impact on the securities industry and has prompted reform in related industries.

122. There is still a case also for single-tranche program loans that have been used in the past. They cannot be used for extensive reform programs. However, where clearly defined and specific reforms have been identified through a process of dialogue, that are intended to complete or start a reform process or to effect specific macroeconomic changes, or that involve a limited group of government agencies and stakeholders, a single tranche may be sufficient to meet adjustment costs and ensure program implementation.

123. In summary, since 1987 program loans have generally been limited to two tranches. Momentum for reform is seen to diminish after the first tranche. The uniform adherence to two-tranche program loans should be abandoned. Multiple and floating tranches could be effective in providing flexibility in meeting policy change, in preserving an incentive for policy change, and in maintaining continuous engagement with a longer-term outlook. At the same time, other options for structuring program loans—single tranches, and the program cluster approach—should also be pursued. Such additional options for structuring program loans would ensure that due attention is given to, and explicit choices made for, the number and timing of tranches in program design, as appropriate to particular program objectives and country circumstances.

[67] In addition, officials showed considerable interest in the program cluster approach.

### 6. Effectiveness of Adding an Investment Dimension

124. Sixteen SDPs have been approved since their introduction in 1996. SDPs offer a more integrated and longer-term approach to policy reform than conventional programs. The inclusion of an investment component in the SDP, along with the greater dedication of funds to meet sector needs, is expected to give greater substance to a sector's reform program. Policy reforms are paired with essential capital investments, which should be drawn from an investment program. Even within SDPs, a longer time frame for reform could be provided through an extended program period with multiple tranching.

125. As only a few SDPs are nearing completion, or have just been completed, the experiences have yet to be evaluated in PPARs or PCRs. However, the OEM's consultations with government officials indicated positive experiences (Appendix 10, Part D). The investment component appears to strengthen ownership.

## V. FACTORS AFFECTING PERFORMANCE

126. The preceding analysis suggests that program lending has made a considerable contribution to the reform process, but sometimes below its potential. Factors relevant to program lending performance are analyzed below.

### A. Factors Relating to Developing Member Countries

#### 1. Absorptive Capacity

127. Low absorptive capacity of DMCs is one of the fundamental causes of poor performance for program loans. Capacity building is a consistent element of programs, principally through TAs. However, as discussed in Section IV B, attention to capacity building has not been adequate. DMCs have suggested improvement of TA support.

128. Financial sector reform and the necessary investment in human resources development illustrate the challenge of capacity building. While many of the TAs in support of ADB's 19 completed and ongoing programs for the financial sector have been very helpful in improving banking operations and other aspects, a much more extensive and long-term commitment is needed. As observed in a recent evaluation of country assistance to Viet Nam, "the full institutional requirements for financial sector development are too complex and lengthy to be readily incorporated in the conditions for a single loan."[68] An element of the program loans should have been reserved for capacity building. At the same time, specific reform task forces could be created to stimulate and coordinate changes in several parts of the same sector.

129. Underestimation of the problem and insufficient resources to build capacity were common complaints by government officials in the DMCs visited by the OEM. Most government officials felt that ADB underestimated the institutional capacity needed to implement reforms. They also felt that successful implementation of reform measures typically required major and sustained interventions at the highest levels of government, and that the large number of agencies usually involved in programs compounded implementation difficulties. They believed that implementing programs was much more difficult than implementing projects, and that consequently much greater attention should be given to the capacity to implement programs. For some DMCs, it is clear that the reform process is reasonably advanced but the skills are simply not available to operate the system effectively.[69]

130. Capacity building also relates to the process of formulation and design. It is notable that the programs rated as generally successful had a high degree of government authorship of the program design (Section III C). Capacity in this context has two components: first, the ability to

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[68] CAP: VIE 99023: *Country Assistance Program Evaluation in the Socialist Republic of Viet Nam*, December 1999.

[69] For example, a Bankruptcy Law was passed by the Legislative Assembly to fulfill one of the conditionalities under the 1993 Industrial Sector Program in Mongolia. According to the Ministry of Justice, the law has never been used to settle a case, as the necessary expertise is not available. The program should have been accompanied by greater investment in skill development.

undertake policy analysis that identifies the opportunities for change and assesses the likely consequences; second, the facility to coordinate different organizations, both in and outside government, toward program goals. The skills required take longer to generate than one program period. However, the facility to coordinate a set of institutions in formulating joint goals is transferable across sectors once the skill has been established.

### 2. Political Economy Factors

131. Recent studies by the World Bank and others on the effectiveness of policy-based lending have highlighted the reform process and key political economy factors that influence this process.[70] It is increasingly recognized that policy-based lending is not just a matter of packaging optimal market-based rules, and setting a tight schedule of conditionalities for their implementation. Rather, policy reform is the art of the possible, and making reform popular through civil participation and "win-win" outcomes for stakeholders.

132. According to these studies, a small number of political economy factors in DMCs are the main explanations for the success or failure of policy-based loans. These factors include:

(i) **commitment to reform**. Where a government is a genuine reformer, program loans are much more likely to be successful. This is especially the case where the government has been an active participant in the design of the program and ownership is strong;[71]

(ii) **social cohesion.** A high degree of social cohesion enhances the likelihood of reaching a consensus on policy reform. The corollary is that a high degree of social conflict or disparity hampers reform;

(iii) **timing and accountability.** A new (reforming) government will have a window of opportunity for advancing the reform agenda at the beginning of its tenure. On the other hand, reforms introduced in the last days of an old government are at risk of not being sustained;

(iv) **length of tenure.** Related to the previous point, the competitive process of multiparty democratic governments can be a spur to reform. However, a government is likely to be more bold in undertaking reforms at the start of its tenure and grow more cautious as reelection time approaches;[72] and

[70] References include David Dollar and Jakob Svensson, *What Explains the Success or Failure of Structural Adjustment Programs*, World Bank, April 1998; Paul Collier, *Consensus-Building, Knowledge and Conditionality*, World Bank, 1999; and R.H. Bates and A.O. Krueger (eds.), *Political and Economic Interactions in Economic Policy Reform*, Blackwell Publisher, Cambridge, Massachusetts, 1993. Also, World Bank, *Assessing Aid: What Works, What Doesn't and Why*, Policy Research Report, 1998, and *World Development Report 2000/2001: Attacking Poverty*, Oxford University Press, 2000.

[71] In the case of Mongolia, all international loans must receive parliamentary approval, offering the opportunity for opposition comment. Viet Nam has generally displayed considerable caution before accepting a program loan, but also strong commitment to its successful implementation.

[72] "Reformist governments with slender majorities have had to tread carefully, always trying to manage opposition from specific groups and to soften the impact of the reforms on the population at large, in order to ensure that they retain public support." However, the fiscal stimulus resulting from a program loan tranche can be attractive to a government just prior to elections.

(v) **extent of prereform crisis.** The general view is that crisis helps spur reform. While some elements of society may find it especially difficult to adapt during a recession, the government is more likely to be able to mobilize public opinion in favor of action.

133. It is the responsibility of ADB to assess these factors, and consequently to form a view about the appropriate timing of the program interventions, and the time period it may take to achieve reforms. There are sensitivities relating to the conditions within which programs are implemented. Some matters may be confidential. In many cases, ADB and counterpart staff are aware of potential obstacles to reform, but are unable to articulate them publicly, as it could increase resistance to reform measures. Given the expanded number of resident missions, ADB should adopt a mechanism, such as notes to file, for recording information about the internal dynamics of borrowing countries relevant to program design and subsequent monitoring.

134. From the political economy perspective, DMCs present a very diverse picture. Each has its own complexities, some favoring and others hampering reform. The number of programs with PPARs is not big enough at present to draw firm conclusions about countries that have been good performers and those that have not. However, looking at approved loans as a whole, including project loans, Group A countries are shown as having a significantly lower rate of generally successful projects and programs, and a significantly higher rate of unsuccessful projects and programs.[73] The country performance criteria to guide resource use should be reviewed carefully to determine their relevance to policy-based lending.[74] It may be that a country rated as scoring satisfactorily for sector or project loans nonetheless scores poorly on political economy factors critical to successful policy-based lending.

135. Until the mid-1990s, ADB did not address general governance issues in program lending. Since then, however, such issues have increasingly come into focus.[75] This should complement the need for programs in other sectors to be supported by stronger government institutions, including the legal system.

136. According to a research report by the World Bank, "the role of adjustment (or policy-based) lending is to identify reformers not to create them."[76] ADB has echoed this sentiment in its paper outlining a performance-based system for allocating ADF resources to DMCs: "In settings where poor policies were pursued or where the institutional environment was weak, aid has not worked. Not surprisingly, where policies were sound and institutions strong, aid has accelerated the process of poverty-reducing growth, provided policy conditions are compatible with country ownership. It follows that to realize its overarching goal of poverty reduction, ADB must strengthen the linkage between country ownership (effective development management) and the allocation of scarce ADF resources among recipient countries. Aid must flow to those that will make the best use of it."[77]

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[73] In the early phases of ADF funding, up to 1991, programs funded through ADF resources had lower ratings than projects. ADB, *Special Evaluation Study on ADF I-V,* draft, 2001.

[74] R221-00: *Seventh Replenishment of the Asian Development Fund: ADF VIII Donors' Report: Fighting Poverty in Asia,* November 2000, Appendix 7.

[75] Nineteen loans in governance-related reform areas were provided to a total of 16 countries during 1996-1998. This includes such activities as privatization of SOEs, which is supported by loans in a variety of sectors.

[76] Footnote 23.

[77] Footnote 27.

137. Among other factors, DMCs need to be assessed on the following: whether or not their public administrations are efficient and accountable, the strength of the legal system, the degree of decentralization and the ability of local government to deliver public services, the capacity of the private sector to respond to new opportunities, and more generally, the opportunity for civil participation and public debate.

## B. Internal Asian Development Bank Factors

### 1. Policy Framework and Modality

138. The 1987 policy framework for program loans insufficiently recognized policy reform as a process. The policy matrix and conditionalities attached to tranche release provide a straitjacket for reform. Policy reform is a process that requires room to accommodate the views of various interests and to make adjustments as more is learned about the challenges addressed. Further, policy reform requires flexibility so as to accommodate changing circumstances, including a change in government. Contingencies for changing circumstances are difficult to build into the current policy framework.

139. Successful policy reform is critically dependent on such factors as the status of the government mandate and tenure, the degree of social cohesion, and vested interests affected by the proposed reforms. These factors need to be given more prominence in the assessment of risks associated with a program. PPARs and PCRs show that such risks, on average, are greater than for projects. Program risks fall on some groups rather than others within the borrowing country. Forming a coalition for reform requires a sharper statement of the risks being borne.

140. Program loans have a weak incentive structure. Funds from program loans accrue to the Ministry of Finance, with little, if any, benefit accruing to the ministry or ministries responsible for implementing the program elements. Even the ultimate beneficiaries may perceive little benefit, e.g., the farmers targeted by the Agriculture Sector Program Loan to Thailand. A recent PPAR succinctly addressed the core issues concerning inadequacies in the incentive system of program loans.[78] Greater attention to capacity building and earmarking of some funds could enhance incentives for line ministries and public agencies.

141. Policy matrices for program loans are often complex and unrealistic, and the conditionalities too numerous. Even where purposes and outputs are logically linked, too many objectives and conditions obscure the underlying goal of the program. Where there is no prioritization, it is difficult to establish a manageable system for monitoring of outputs and impacts. Taken together, these comments suggest that the policy framework should focus on the main objectives of a program, with a clearer assessment of risks.

142. A further limitation of the policy matrix is that it is difficult to accommodate an assessment of alternatives. The framework lays out the linkage from policy changes to effects,

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[78] PPA: 1147-BAN: *Second Industrial Program*, July 2000.

for the “with program” case. However, equally important for understanding what policy changes need to be made is the “without program” case. The without program scenario, in most cases, should be assessed in terms of the costs of not changing. A comparison between the costs of not changing, and the effects of policy changes, may help to engender support for reforms.

### 2. Institutional Factors

143. Lack of the necessary knowledge and ability to take into account political economy factors that bear on successful policy reform has proven a weakness in ADB. The skills needed for program lending are fundamentally different from those required for project design and administration. Consultants support staff resources in preparing programs. However, ADB’s search for policy experts has not always been successful. ADB needs to build up a roster of experts, particularly those with experience in the region, and find ways for them to participate in the design and implementation of program loans.

144. Three sets of problems have been highlighted in relation to ADB’s ability to design and implement program loans: (i) weak sector and country focus, resulting from insufficient attention to policy dialogue and capacity building; (ii) current review and approval mechanisms that limit the time that can be spent on substantive issues; and (iii) insufficient staff resources and skills to address new areas of responsibility, including social, environmental, governance, and poverty reduction objectives.

145. ADB’s limitations concerning the design of program loans reflect uncertainties about the process of development and how to assist DMCs in making the transition to more open, market-oriented economies.[79] A more carefully sequenced and integrated approach, together with greater emphasis on government institutions (e.g., court systems and social safety nets), is essential for success. Program loans during the late 1980s and much of the 1990s reflected shortcomings in addressing preconditions for structural reforms.

146. Deficiencies in program design may also reflect resource limitations. Program loans are both labor intensive and demanding of specialized experience. Policy reform cannot be addressed as a purely technical matter or simply as an extension of sector work. It often requires high-level dialogue between borrowers and ADB. Insufficient staff resources and overstretched application of skills are a limitation on program design and implementation. Additional training of ADB staff in the formulation and supervision of programs needs to be undertaken.

147. Through staff consultants, part of TA operations, and chiefly through ADB staff resources, a substantial amount of economic and sector work (ESW) is undertaken within ADB. A recent evaluation concludes that a greater impact can be achieved from ESW without

[79] The Lao PDR government officials, among others, noted the debate about the incremental versus the “big bang” approach to reform, and the confusion this caused concerning proposed reforms. See Supplementary Appendix B: Country Consultations: Lao PDR. During the 1980s and 1990s, the 10 policy priorities of what is termed the “Washington consensus” (fiscal discipline; greater public expenditure for health, education and infrastructure; tax reform; commercial interest rates; competitive exchange rates; trade liberalization; openness to foreign direct investment; privatization of state enterprises; deregulation; and property rights) have tended to guide policy reform, but the limitations are now widely recognized.

substantial additional resources.[80] The key points are to change the focus in ESW management from inputs to results, and to institute ESW as a separate and identifiable nonlending service within ADB. ESW has been best when in support of particular projects and programs. However, a more systematic screening and quality assurance process, regular self-evaluation and client feedback, and improved dissemination would enhance its impact. Changes in the way ESW is conducted could help to engage governments and other development partners to further policy reform processes in a country.

148. ADB has, at various times, cited its low administrative costs relative to the World Bank as an indicator of efficiency. It may also be an indicator that ADB is putting fewer resources into program design and implementation than other agencies. Staff incentive, like borrower incentive, diminishes with tranche releases. Programs, more than projects, need continued attention from staff, backed up by an ongoing quality assurance system.

149. The World Bank's experience with policy-based lending has been similar to that of ADB. The World Bank has extensively reviewed the effectiveness of its policy-based lending, including sector loans in finance, industry, and agriculture where the interventions have often overlapped with ADB policy lending. According to two research reports, one third of the World Bank's adjustment loans are not successful (Appendix 11). Conclusions are clear: policy reform is dependent on a number of key political economy factors, such as commitment to reform. Financial assistance has little bearing on the speed or scope of reform. Even if loan conditionalities are met, the larger objectives of reform are only met if the country context for reform is conducive, i.e., policy-based lending is only successful in countries open to reform. The reports conclude that the key to improving the contribution of policy-based lending is to select promising candidate countries for support. Funding agencies must, therefore, become more selective and have a better understanding of what constitutes a positive environment for reform. The challenge is to ensure that the reforms are tailored to the economic, social, and political circumstances of the country concerned and that they are pro-poor.

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[80] SST: STU 2001-12: *Special Evaluation Study on Selected Economic and Sector Work*, October 2001.

# VI. LOOKING FORWARD

150. ADB has realigned its development goals to focus on poverty reduction. It is appropriate to match this realignment with lending instruments and processes that are more effective and better attuned to this overarching goal.

## A. Future Program Lending

151. Many DMCs continue to have weak governance and economic systems. While first-generation reforms, such as price and trade liberalization, have been accomplished in a more or less satisfactory manner in most DMCs, many second-generation reforms remain to be undertaken. In particular, social sector and systemic reforms (organizational restructuring and capacity building) present a major challenge. Program lending will continue to be a vital part of development assistance for the foreseeable future, to achieve reform in nontradable sectors meeting the population's needs, but without the direct market test of international competition.

152. Fresh approaches are needed. Demand for program lending is expected to remain strong. However, DMCs are likely to be less amenable to time-bound and rigid conditionalities, as more is learned from experience about what works and what does not. DMC officials interviewed by the OEM strongly endorsed genuine partnership with ADB. The design and implementation of program lending must be based on a relationship of mutual commitment and policy compact.

153. While market-based reforms have brought significant benefits, some elements of society have not benefited. Trade liberalization, removal of subsidies for fertilizer, electricity, water, and credit, privatization of SOEs, and many other reforms can have harmful effects, including for the poor, unless coupled with counterbalancing measures. Policy reform requires a process of consensus building. With the growing awareness that development is everyone's business, mechanisms for participation must be introduced, and the losers from reform fairly compensated.

## B. Preparedness of the Asian Development Bank

154. The period since 1987 comprises more than 13 years of experience with program lending in support of reform. It is apparent that policy reform is a much more complex, difficult, and long-term exercise than initially anticipated. While many governments have agreed to programs entailing ambitious reforms, very often the motivation has been BOP or fiscal support and not the reforms themselves. Lacking real ownership, the quality of compliance with program conditionalities has suffered. ADB has recognized that these and other lessons call for the formulation of a long-term strategic framework, together with substantial changes in ADB's processes, instruments, and organization.[81] A window of opportunity is now open for fresh approaches to program lending to help strengthen the partnership between DMCs and ADB.

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[81] Sec.M17-01: *Long-Term Strategic Framework of the Asian Development Bank (2001-2015),* 21 February.

155. SDPs offer advantages, and have generated an increase in stakeholder interest due to the investment component. The program cluster approach to program lending introduced in 1999 is also likely to prove to be an improvement as it requires a medium- to long-term framework for policy reform.[82] A sequence of program loans within a broader reform framework should allow for more dynamic design and implementation, and greater sustainability through continued follow-up on policy and institutional actions. The program cluster approach is expected to be particularly well suited to additional elements in ADB operations, such as governance and capacity building.

156. These new forms of activity cannot yet be assessed. Nevertheless, there is a scope for further improvement of the application of program lending to meet the continuing need for sector reform within the context of poverty reduction.

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[82] The program cluster approach has the following features: (i) as its basis, an extension of the existing program loan modality; (ii) a process approach rather than a blueprint approach; (iii) chronological sequencing of reforms, allowing for pilot stages and response to unanticipated changes in the policy environment; (iv) vertical packaging of reforms, allowing for multilayered institutional reform and capacity building (e.g., central and local governments); (v) horizontal (cross-sector) packaging, allowing for policy change to be undertaken in two or three sectors simultaneously to achieve a common goal; and (vi) a medium- to long-term commitment (four to seven years) and moderately paced disbursement.

# VII. KEY FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

## A. Key Findings

157. From November 1987, when a reform objective was explicitly introduced into ADB program lending, to the end of 2000, 86 programs and SDPs were approved, accounting for 22 percent of ADB's total lending approved in this period. There has been a significant increase in the number of programs, from around four per year up to the mid-1990s to around 10 per year since 1996. Program lending is diverse: although by amount it has been concentrated in a few DMCs, it has been extended to a total of 27 countries. The initial focus on the agriculture and financial sectors has continued, but program lending for the industry sector has been overtaken by lending for public sector reforms and other activities.

158. Most completed programs substantially achieved their immediate outputs. Conditions, despite being numerous and various, were met fully or partly at a level of 93 percent. There were delays in achievement. Some delays were understandable, caused as much by ambitious time frames in design as by deficiencies in implementation. It can be said that there was some flexibility in implementation, but not by design. Ratings of programs are much less diverse for programs than for projects, with most programs rated as partly successful.

159. ADB adopts a relatively rigid approach to implementation of program loans. Since 1987, with few exceptions, program loans have been designed with two tranches. A delay in second tranche release is the norm rather than the exception; 83 percent of the program loans experienced delays or cancellations of second tranches. Implementation of programs has focused on the issue of whether the conditions for second tranche release had been met. The only formal change in scope allowed during implementation is the exceptional waiver or deferral of a release condition. This rigid formulation contrasts with the implementation of projects where there are ample provisions for changes in scope.

160. Program impacts are difficult to measure and attribute. There were positive impacts on the real economy as a result of reform programs, based on case-by-case evaluations, but in several cases the impact was smaller than expected. An early assessment concluded that there were no negative impacts of programs on the poor, but very little of a positive impact could be identified either. Some programs have had a distinct impact on the conditions for private sector development. However, many public sector reform initiatives, including changes in ownership, took much longer, and met more resistance, than anticipated.

161. A key determinant of program success is government ownership of the program. This can be assessed through such indicators as the degree of internal government discussion prior to and during program formulation, the degree of government authorship of program documentation, and the degree of government influence over the speed of implementation. However, formulation and design should involve a participation process wider than normal government consultations. Although the borrower—the government—is responsible for the development policy letter, this should represent a consensus from all involved parties, including

the private sector, nongovernment agencies, program beneficiaries, and people affected negatively by a program.

162. Program loans, without the crisis loans, were on average larger than project loans during 1987-2000. Frequently, government borrowing of program loans was still motivated by BOP or fiscal requirements; in many cases loan size has not been strictly limited to adjustment costs of program changes. Nevertheless, ADB has made serious attempts to estimate and use adjustment costs as the basis for determining loan size. The methodology for doing so is still evolving, and needs to allow for offsetting revenues from programs, costs to stakeholders beyond the fiscal or public sector impact, and expectations about cost sharing by government.

163. The repetitive nature of lessons learned from program evaluations, confirmed by the uniformity of program ratings, indicates that learning across programs needs to be improved. Although lessons learned are recorded and disseminated, they are not necessarily applied. PPARs and PCRs have identified a number of generic lessons, the most frequent of which is the need for stronger government ownership of the reform process. Others refer to the ambitious nature of reform programs, and the lack of clear linkages between program outputs and goals. In some cases, lessons were incorporated in subsequent programs in the same sector, but in other cases they were not.

164. Significant overall progress has been made in the Asian and Pacific region in implementing and sustaining policy reforms. However, in many cases, there are still problems of quality of compliance with conditionalities and the sustainability of reforms. Meeting legislative conditions without implementing rules and regulations is one indicator of this. The recurrence of conditionalities, and reversal of conditions after loan closing, are other indicators. These problems of sustainability are not just problems of implementation, but partly of program formulation and design. When not all stakeholders have been involved, pressures arise that undermine sustainability.

165. Policy matrices are frequently long, with many conditions, but tend to lack linkages between conditions and program purposes, and between purposes and expected impacts. The logical frameworks and policy matrices cannot easily accommodate program alternatives, or the without program scenario from which program impacts can be defined. Program risks are borne by some groups within the borrowing country rather than by others. Risks, their mitigation, and incentives for reform are not always addressed in assessment of policy changes. Programs generally have been designed with too many conditions and too short a period. Program lending needs to adopt much greater flexibility in both design and implementation, allowing for the possibility of multiple tranching, floating tranches, and even single-tranche loans, depending on the circumstances and the objectives to be achieved.

166. The main mechanism for institutional development in relation to program lending is TA. Although some TAs proved effective in support of programs, others did not. However, implementation of programs, and the coordination it involves, is more complex than implementation of projects. TA support has been for the design and implementation of a particular program. It has not focused directly on building capacity among DMC governments in policy analysis and program formulation at a generic level. Earmarking of counterpart funds could be used to build capacity for policy analysis and program formulation and implementation.

167. Program formulation and implementation require a different set of skills than project lending. Any deficiency within ADB in terms of skills may have been exacerbated by insufficient time to deal with the key issues. Some of the program design and implementation issues can only be overcome by policy dialogue at a high level of government and ADB. Ideally, program formulation and implementation should be reinforced with additional resources for training of staff and peer review of program design.

## B. Conclusions

168. Conclusions can be drawn on the relevance, efficacy, efficiency, sustainability, and institutional development and other impacts of programs. Program lending has had a high level of relevance to the borrowing needs of DMCs. Most DMCs have shown a demand for program lending. The program loan modality proved a flexible instrument in the context of the Asian financial crisis. Useful modifications in the modality toward SDPs, special program loans, and the program cluster approach have already been made. Implementing and sustaining policy reforms require a partnership approach that brings together the appropriate knowledge and resources. Program lending will remain relevant to DMC needs in the future.

169. Program lending has been moderately efficacious. It has supported substantive legislative and policy changes. However, programs have been given an almost uniform rating of partly successful by PPAR evaluations. Efforts need to be made to improve both program lending and the approach to program evaluation.

170. The design and implementation of programs can be characterized as attempting to achieve a lot in a limited time frame. Most program conditions have been met. However, there have been significant delays relative to planned disbursements. There has been an almost uniform adherence to loans with two tranches, and to relatively short program periods. Programs have not always been firmly based on an assessment of achievable rates of change, and have therefore been too inflexible.

171. Programs are also not always based on government authorship of the reform package. Government authorship, together with its ownership of the formulation and implementation process, improves the results of reform programs. Government ownership needs to be complemented by greater participation in program formulation of those that will be affected, directly and indirectly, by the program. Program design has not fully taken into account the informal rules that characterize all economic structures, nor the incentive structure for those whose behavior has to change.

172. It is difficult to assess the efficiency of program lending. Despite being more complicated and requiring different skills than project lending, approval of programs has been achieved at the same level of resource use as for projects. This could be interpreted as formulating and implementing programs with fewer resources than would have been desirable.

173. Programs have not always led to sustainable outcomes. There has been a problem of compliance quality even when conditions have formally been met. Some reforms have not been fully implemented, and a few have been reversed. Support for policy changes needs to be built up through analysis of the costs of not changing, and dissemination of information on the

problems that the policy changes are addressing. Greater attention to the distribution of risk among those likely to be affected by the program would point to measures that may be necessary to ensure security of incomes during the period of change.

174. Institutional development and capacity building in the DMCs have lagged behind requirements. Skills in policy analysis need time to develop, and TA has been variable in its impact. Many of the programs have had a substantial impact on the economy, trade, and prices. However, in many cases, development impacts have not been identified or monitored. The overall impact of program lending has been smaller, and less clear, than anticipated.

## C. Recommendations

175. Several specific recommendations can be drawn from this evaluation of program lending over a 13-year period. These recommendations are made in order to increase the efficacy, sustainability, and development impact of program lending.

176. There are several options for the design of program loans. Programs should involve multiple tranches where appropriate. This would help distinguish lending for reform from lending for BOP or fiscal support. There should be greater flexibility in assessing the continued relevance and appropriate timing of conditions. Floating tranches could be introduced into some programs, to be released on implementation of significant legislative or other actions, whenever that occurs within the program period. In other cases, the single tranche design may be appropriate. It is recommended that ADB and DMC governments incorporate greater flexibility in meeting conditions into the design of programs. In all cases, this should include a justification for the number of tranches, and for the period of the program.

177. Government authorship of the reform package needs to be complemented by participation of affected groups and sectors in program formulation. A clear analysis of the without program case should be developed. The costs of not reforming should be publicized along with the benefits of the program, through publicity drives. It is recommended that ADB and DMC governments collaborate on the analysis of costs without and with the program, and that DMC governments formulate schemes for dissemination of information relating to proposed policy changes.

178. Additional resources need to be used for building capacity in DMC governments for program design and implementation. Program lending supports policy changes that are expected to have a sector-wide or economy-wide impact. If programs are properly designed and implemented, the beneficial effects will be far greater than any direct costs of program measures and adjustment costs. Successful design and implementation of programs require specialist skills of analysis and coordination. It is recommended that DMC governments use a significant amount from the counterpart funds from program loans or other sources for building their capacity for designing and implementing programs.

179. Each program analysis and design should be assessed within ADB by a small peer review group set up for the particular program in question. Staff consultants, particularly consultants from the Asian and Pacific region with direct experience of implementing sector

reform programs, could be involved in the peer review process. It is recommended that ADB consider such peer reviews for program preparation and implementation.

180. Provision for limited forms of change in scope and implementation arrangement of programs through Management approval should be formulated. Greater flexibility in design requires greater flexibility in implementation. The Board would not need to be informed prior to such changes, or to formally approve tranche releases, apart from exceptional cases. It is recommended that a proposal be formulated for Board consideration to delegate the authority for approving such change to Management.

181. Improvements are required in the way in which programs are evaluated, in order to provide further insight into program design and implementation. It is recommended that the Operations Evaluation Department (i) undertake reevaluation studies of three selected programs to better assess the sustainability of program reforms; (ii) formulate some guidelines for the evaluation of programs including the evaluation of impacts in light of current strategic concerns; and (iii) undertake evaluation of selected programs during implementation.

**APPENDIXES**



**SUPPLEMENTARY APPENDIXES**
(available on request)

# EVOLUTION OF THE PROGRAM LENDING FRAMEWORK

## A. Before 1987[1]

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

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

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

## B. The 1987 Changes[3]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**C. The 1996 Changes: Sector Development Programs**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) noncrisis situations, to support changes in prevailing policies and institutions or to introduce new changes; and

(ii) crisis situations, to help mitigate the BOP and fiscal consequences of the crisis, and address the structural causes.

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

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

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

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

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

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

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

# PROGRAMS AND PROGRAM LENDING, 1987-2000

## Table A2.1: Total Programs, 1987-2000

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

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

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

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

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

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

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

PPAR = program performance audit report; PCR = program completion report; SDP = sector development program; TA = technical assistance.
GS = generally successful; HS = highly successful; PS = partly successful; S = successful; US = unsuccessful; NR = no rating.
Sources: Loan Financial Information System, Postevaluation Information System.

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

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

TA = technical assistance.
Source: Loan Financial Information System.

## THE CRISIS LOANS

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

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

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

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

[a] An additional $300 million was made available through cofinancing with the Overseas Economic Cooperation Fund (now the Japan Bank for International Cooperation).
[b] An additional $15 million loan provided support for institutional strengthening of the financial sector.
[c] There was an additional $47 million investment component and $50 million technical assistance loan component.
[d] There was an additional $200 million investment component.
[e] There was an additional $200 million investment component.
[f] There was an additional $120 million investment component.
Source: Loan Financial Information System.

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

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

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

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

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

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

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

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

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4 SST:THA 99020: *Interim Assessment of ADB's Lending to Thailand During the Economic Crisis*, December 1999.
5 SST:INO 2001-09: *ADB's Crisis Management Interventions in Indonesia*, August 2001.

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

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

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

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

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

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

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

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

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

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

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

# PROGRAMS BY COUNTRY AND SECTOR, AND THEIR RATINGS

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

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

SDP = sector development program; TA = technical assistance.

[a] Amount of program loans, not TA and project loans.

Source: Loan Financial Information System.

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

| Sector/Subsector | Programs: Total Programs Number | Programs: Total Programs Amount ($ million) | Programs: TA Loans Number | Programs: TA Loans Amount ($ million) | Sector Development Programs: Total SDP Number | Sector Development Programs: Total SDP Amount ($ million) | Sector Development Programs: TA Loans Number | Sector Development Programs: TA Loans Amount ($ million) | Sector Development Programs: Projects Number | Sector Development Programs: Projects Amount ($ million) | Total: Number | Total: Amount ($ million) | Total: % of Total[a] Amount | Total: Without Crisis Loans Amount ($ million) | Total: Without Crisis Loans % of Total Amount |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Agriculture and Natural Resources** | | | | | | | | | | | | | | | |
| Fisheries | 1 | 80.0 | | | | | | | | | 1 | 80.0 | 0.6 | 80.00 | 1.1 |
| Industrial Crops and Agro-Industry | | | | | 1 | 100.0 | | | 1 | 75.0 | 1 | 100.0 | 0.7 | 100.00 | 1.4 |
| Irrigation and Rural Development | 1 | 51.7 | | | | | | | | | 1 | 51.7 | 0.4 | 51.70 | 0.7 |
| Forestry | 2 | 160.0 | | | | | | | | | 2 | 160.0 | 1.1 | 160.00 | 2.2 |
| Agricultural Support Services | 18 | 1,570.0 | | | 3 | 102.0 | | | 3 | 110.0 | 21 | 1,672.0 | 11.5 | 1,372.00 | 18.9 |
| **Subtotal** | **22** | **1,861.7** | | | **4** | **202.0** | | | **4** | **185.0** | **26** | **2,063.7** | **14.2** | **1,763.70** | **24.3** |
| **Energy** | | | | | | | | | | | | | | | |
| Electric Power | 3 | 1,030.0 | 1 | 5.1 | 1 | 150.0 | | | 1 | 200.0 | 4 | 1,180.0 | 8.1 | 800.00 | 11.0 |
| Fuel and Minerals | 1 | 250.0 | | | | | | | | | 1 | 250.0 | 1.7 | 250.00 | 3.5 |
| **Subtotal** | **4** | **1,280.0** | **1** | **5.1** | **1** | **150.0** | | | **1** | **200.0** | **5** | **1,430.0** | **9.8** | **1,050.00** | **14.5** |
| **Industry (Non-Agriculture)** | **8** | **1,090.6** | **3** | **7.0** | | | | | | | **8** | **1,090.6** | **7.5** | **1,090.58** | **15.1** |
| **Transport and Communications** | | | | | | | | | | | | | | | |
| Roads and Road Transport | 1 | 100.0 | | | | | | | | | 1 | 100.0 | 0.7 | 100.00 | 1.4 |
| Railways | 1 | 80.0 | | | | | | | | | 1 | 80.0 | 0.6 | 80.00 | 1.1 |
| **Subtotal** | **2** | **180.0** | | | | | | | | | **2** | **180.0** | **1.2** | **180.00** | **2.5** |
| **Social Infrastructure** | | | | | | | | | | | | | | | |
| Education | | | | | 2 | 25.5 | | | 2 | 22.7 | 2 | 25.5 | 0.2 | 25.50 | 0.4 |
| Urban Development and Housing | | | | | 1 | 200.0 | | | 1 | 120.0 | 1 | 200.0 | 1.4 | | |
| Health and Population | 1 | 10.0 | | | 4 | 254.0 | | | 4 | 421.9 | 5 | 264.0 | 1.8 | 64.00 | 0.9 |
| **Subtotal** | **1** | **10.0** | | | **7** | **479.5** | | | **7** | **564.6** | **8** | **489.5** | **3.4** | **89.50** | **1.2** |
| **Finance Sector** | | | | | | | | | | | | - | | | |
| Capital Market Development | 17 | 5,892.5 | 4 | 24.0 | | | | | | | 17 | 5,892.5 | 40.6 | 1,892.50 | 26.1 |
| Development Finance Institution | 1 | 300.0 | | | 2 | 1,404.0 | 1 | 50.0 | 2 | 51.0 | 3 | 1,704.0 | 11.7 | 4.00 | 0.1 |
| **Subtotal** | **18** | **6,192.5** | **4** | **24.0** | **2** | **1,404.0** | **1** | **50.0** | **2** | **51.0** | **20** | **7,596.5** | **52.3** | **1,896.50** | **26.2** |
| **Multisector** | **2** | **520.0** | | | | | | | | | **2** | **520.0** | **3.6** | **20.00** | **0.3** |
| **Public Sector Management** | **9** | **589.0** | **1** | **1.0** | | | | | | | **9** | **589.0** | **4.1** | **589.00** | **8.1** |
| **Private Sector Development and Corporate Governance** | **4** | **265.0** | **1** | **4.0** | | | | | | | **4** | **265.0** | **1.8** | **265.00** | **3.7** |
| **Environment** | | | | | **2** | **300.0** | | | **3** | **171.0** | **2** | **300.0** | **2.1** | **300.00** | **4.1** |
| **Total** | **70** | **11,988.8** | **10** | **41.1** | **16** | **2,535.5** | **1** | **50.0** | **17** | **1,171.6** | **86** | **14,524.3** | **100.0** | **7,244.28** | **100.0** |

SDP = sector development program; TA = technical assistance.

[a] Amount of program loans, not TA and project loans.

Source: Loan Financial Information System.

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

**Agriculture**

**Programs**

| | | | GS | | PS | | US | | NR | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | | 0 | 0.0 | 10 | 100.0 | 0 | 0.0 | 0 | 0.0 | 10 | 100.0 |
| PCRs (without PPAR) | | | 1 | 16.7 | 4 | 66.7 | | 0.0 | 1 | 16.7 | 6 | 100.0 |
| | **HS** | | **S** | | **PS** | | **US** | | **NR** | | **Total** | |
| | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | 0.0 | | 0.0 | 2 | 100.0 | | 0.0 | | 0.0 | 2 | 100.0 |
| PCRs (without PPAR) | 1 | 100.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | 1 | 100.0 |

**Projects (incl. Sector Loans)**

| | | | GS | | PS | | US | | NR | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | | 6 | 60.0 | 1 | 10.0 | 3 | 30.0 | | 0.0 | 10 | 100.0 |
| PCRs (without PPAR) | | | 19 | 43.2 | 15 | 34.1 | 8 | 18.2 | 2 | 4.5 | 44 | 100.0 |
| | **HS** | | **S** | | **PS** | | **US** | | **NR** | | **Total** | |
| | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | 0.0 | 1 | 100.0 | | 0.0 | | 0.0 | | 0.0 | 1 | 100.0 |
| PCRs (without PPAR) | 0 | 0.0 | 1 | 100.0 | | 0.0 | | 0.0 | | 0.0 | 1 | 100.0 |

**Industry**

**Programs**

| | | | GS | | PS | | US | | NR | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | | 2 | 66.7 | 1 | 33.3 | | 0.0 | | 0.0 | 3 | 100.0 |
| PCRs (without PPAR) | | | 1 | 100.0 | | 0.0 | | 0.0 | | 0.0 | 1 | 100.0 |
| | **HS** | | **S** | | **PS** | | **US** | | **NR** | | **Total** | |
| | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | 0.0 | | 0.0 | 1 | 50.0 | 1 | 50.0 | | 0.0 | 2 | 100.0 |
| PCRs (without PPAR) | 0 | | | | | | | | | | 0 | 0.0 |

**Projects (incl. Sector Loans)**

| | | | GS | | PS | | US | | NR | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | | 2 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 2 | 100.0 |
| PCRs (without PPAR) | | | 1 | 25.0 | 2 | 50.0 | 0 | 0.0 | 1 | 25.0 | 4 | 100.0 |
| | **HS** | | **S** | | **PS** | | **US** | | **NR** | | **Total** | |
| | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | 0 | | 0 | | 0 | | 0 | | | | 0 | 0.0 |
| PCRs (without PPAR) | 0 | | 0 | | | | | | | | 0 | 0.0 |

**Finance**

**Programs**

| | | | GS | | PS | | US | | NR | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | | 1 | 33.3 | 1 | 33.3 | | 0.0 | 1 | 33.3 | 3 | 100.0 |
| PCRs (without PPAR) | | | 2 | 40.0 | 2 | 40.0 | | 0.0 | 1 | 20.0 | 5 | 100.0 |
| | **HS** | | **S** | | **PS** | | **US** | | **NR** | | **Total** | |
| | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | 0 | | 0 | | 0 | | 0 | | | | 0 | 0.0 |
| PCRs (without PPAR) | 0 | 0.0 | 1 | 100.0 | | 0.0 | | 0.0 | | 0.0 | 1 | 100.0 |

**Projects (incl. Sector Loans)**

| | | | GS | | PS | | US | | NR | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | | | 0 | 0.0 | 5 | 100.0 | 0 | 0.0 | 0 | 0.0 | 5 | 100.0 |
| PCRs (without PPAR) | | | 8 | 50.0 | 5 | 31.3 | 1 | 6.3 | 2 | 12.5 | 16 | 100.0 |
| | **HS** | | **S** | | **PS** | | **US** | | **NR** | | **Total** | |
| | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |
| PPARs | 0 | 0.0 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 1 | 100.0 |
| PCRs (without PPAR) | 0 | 0.0 | 2 | 100.0 | 0 | 0.0 | | 0.0 | | 0.0 | 2 | 100.0 |

PPAR = project/program performance audit report; PCR = project/program completion report; GS = generally successful; PS = partly successful; US = unsuccessful; NR =

Source: Postevaluation Information System.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: Postevaluation Information System.

# TRANCHE RELEASES AND DELAYS

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

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

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

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

SDP = sector development program.

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

[b] Release of third tranche.

[c] Release of fourth tranche.

[d] Includes three programs amounting to $268.1 million that have no tranche.

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

[f] Average for delayed second tranche only, in months.

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

| | Release of First Tranche | | | Release of Second Tranche | | | | | | | Release of Third/Last Tranche | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | On Schedule | Delayed | | On Schedule | Ahead of Schedule | | Delayed | | Cancelled | Proportion | On Schedule | Delayed | | Cancelled |
| Country Group/Country | Number | Number | Average Months | Number | Number | Average Months | Number | Average Months | Number | Delayed or Cancelled | Number | Number | Average Months | Number |
| **Group A** | | | | | | | | | | | | | | |
| Cambodia | | 1 | 2.1 | | | | 1 | 23.5 | | | | | | |
| Kyrgyz Republic | 2 | 1 | 1.0 | | | | 3 | 4.3 | | | | | | |
| Lao PDR | 3 | 1 | 1.4 | 1 | | | 3 | 10.8 | | | | | | |
| Mongolia | 3 | 1 | 1.3 | | | | 4 | 5.5 | | | | | | |
| Nepal | 1 | 3 | 0.8 | | | | 3 | 21.2 | 1 | | | | | |
| Samoa | 1 | | | | | | 1 | 2.5 | | | | | | |
| Solomon Islands | 1 | | | | | | | | 1 | | | | | |
| Tajikistan | 1 | | | | | | 1 | 11.9 | | | | | | |
| Vanuatu | 1 | | | | | | 1 | 13.7 | | | | | | |
| **Subtotal** | **13** | **7** | **1.2** | **1** | | | **17** | **10.7** | **2** | **95.0%** | | | | |
| **Group B1** | | | | | | | | | | | | | | |
| Bangladesh | 3 | 1 | 0.6 | | 1 | 1.4 | 2 | 23.0 | 1 | | | | | |
| Cook Islands | 1 | | | | | | 1 | 2.0 | | | | | | |
| Marshall Islands | 1 | | | | | | 1 | 10.9 | | | | 1 | 20.0 | |
| Micronesia, Fed. States of | | 1 | 1.3 | | | | 1 | 6.1 | | | | | | |
| Pakistan | 1 | 1 | 0.9 | | | | 2 | 21.5 | | | | | | |
| Sri Lanka | 2 | 1 | 1.0 | | | | 2 | 11.8 | 1 | | | | | |
| Viet Nam | 1 | 1 | 1.1 | | | | 2 | 9.8 | | | | | | |
| **Subtotal** | **9** | **5** | **1.0** | | **1** | **1.4** | **11** | **13.7** | **2** | **92.9%** | | **1** | **20.0** | |
| **Group B2** | | | | | | | | | | | | | | |
| India | 4 | | | | | | 3 | 12.1 | 1 | | | | | |
| Indonesia | 5 | | | 3 | | | 2 | 8.3 | | | | | | |
| **Subtotal** | **9** | | | **3** | | | **5** | **10.6** | **1** | **66.7%** | | | | |
| **Group C** | | | | | | | | | | | | | | |
| Fiji Islands | 1 | | | | | | | | | | | | | |
| Kazakhstan | 2 | | | 1 | | | 1 | 5.9 | | | | | | |
| Papua New Guinea | | 2 | 3.0 | | | | 2 | 12.7 | | | | | | |
| Philippines | 3 | 1 | 0.9 | 1 | 1 | 1.5 | 1 | 9.3 | 1 | | | | | |
| Thailand | 2 | | | | | | 1 | 7.7 | | | | | | |
| **Subtotal** | **8** | **3** | **2.3** | **2** | **1** | **1.5** | **5** | **9.7** | **1** | **66.7%** | | | | |
| **Graduate Economy** | | | | | | | | | | | | | | |
| Korea, Republic of | 1 | | | 1 | | | | | | | 1 | | | 1 |
| **Total** | **40** | **15** | **1.3** | **7** | **2** | **1.5** | **38** | **11.4** | **6** | **83.0%** | **1** | **1** | **20.0** | **1** |

Note:

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

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

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

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

# PROGRAM CONDITIONS

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

| | Country | Program Name | Total Policy Conditions | | | | Before Board Consideration of Release of First Tranche | | | | Release of Second Tranche | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total Number | Complied With | Partly Complied With | Not Complied With | Total | Complied With | Partly Complied With | Not Complied With | Total | Complied With | Partly Complied With | Not Complied With | Waived [a] |
| 1 | BAN | Agricultural Inputs Program | 11 | 6 | 2 | 3 | No tranche | | | | | | | | |
| 2 | INO | Non-Oil Export Promotion Program | No policy matrix | | | | | | | | | | | | |
| 3 | PHI | Forestry Sector Program | 26 | 25 | | 1 | | | | | 26 | 25 | | 1 | |
| 4 | BAN | Bangladesh Industrial Program | 12 | 11 | | 1 | No tranche | | | | | | | | |
| 5 | FIJ | Agriculture Diversification Program | 36 | 32 | | 4 | 8 | 6 | | 2 | | | | | |
| 6 | NEP | Agriculture Program | 18 | 10 | 4 | 4 | 1 | 1 | | | 8 | 2 | 5 | 1 | |
| 7 | PAK | Industrial Sector Program | 21 | 15 | 5 | 1 | | | | | 14 | 11 | 2 | 1 | |
| 8 | INO | Financial Sector Program | 29 | 26 | 1 | 2 | 9 | 9 | | | 3 | 3 | | | |
| 9 | LAO | Agricultural Program | 28 | 24 | 2 | 2 | | | | | 8 | 7 | | | 1 |
| 10 | PHI | Fisheries Sector Program | 16 | 15 | | 1 | | | | | 8 | 8 | | | |
| 11 | SRI | Agricultural Program | 24 | 18 | 3 | 3 | | | | | 5 | 5 | | | |
| 12 | SAM | Agriculture Development Program | 32 | 28 | 4 | | 10 | 9 | 1 | | 22 | 18 | 4 | | |
| 13 | PNG | Agriculture Sector Program | 25 | 22 | 2 | 1 | 11 | 10 | | 1 | 7 | 5 | 2 | | |
| 14 | INO | Food Crop Sector Program | 31 | 17 | 12 | 2 | 10 | 9 | 1 | | 7 | 4 | 3 | | |
| 15 | NEP | Forestry Program Loan | 21 | 8 | 2 | 11 | 3 | 2 | | 1 | 12 | 3 | - | 9 | |
| 16 | BAN | Foodcrops Development Program | 34 | 33 | | 1 | 19 | 19 | | | 15 | 14 | | | 1 |
| 17 | PHI | Road and Road Transport Sector Program | 39 | 35 | 2 | 2 | 11 | 11 | | | 20 | 18 | 2 | | |
| 18 | SRI | Financial Sector Program | 35 | 27 | 5 | 3 | 9 | 7 | 2 | | 16 | 15 | 1 | | |
| 19 | LAO | Financial Sector Program | 25 | 9 | 13 | 3 | | | | | 13 | 7 | 1 | | 5 |
| 20 | PAK | Agriculture Program | 28 | 24 | 3 | 1 | 4 | 4 | | | 8 | 8 | | | |
| 21 | SRI | Second Agriculture Program | 53 | 38 | 8 | 7 | 5 | 5 | | | 19 | 12 | 2 | 5 | |
| 22 | BAN | Second Industrial Program | 37 | 11 | 12 | 14 | 6 | 3 | | 3 | 28 | 4 | 6 | 18 | |
| 23 | IND | Hydrocarbon Sector Program | 33 | 30 | 2 | 1 | 7 | 7 | | | 20 | 19 | 1 | | |
| 24 | INO | Second Financial Sector Program | 36 | 23 | 11 | 2 | 6 | 4 | 2 | | 11 | 10 | | | 1 |
| 25 | LAO | Second Agriculture Program | 47 | 42 | 1 | 4 | 8 | 8 | | | 10 | 10 | | | |
| 26 | IND | Financial Sector Program | 53 | 52 | 1 | | 21 | 21 | | | 8 | 7 | 1 | | |
| 27 | NEP | Industrial Sector Program | 49 | 44 | 5 | | 28 | 28 | | | 8 | 7 | 1 | | |
| 28 | MON | Industrial Sector Program | 31 | 29 | | 2 | 14 | 14 | | | 11 | 10 | 1 | | |
| 29 | BAN | Railway Recovery Program | 34 | 31 | 1 | 2 | 5 | 5 | | | 9 | 7 | | 1 | 1 |
| 30 | VIE | Agriculture Sector Program | 45 | 45 | | | 4 | 4 | | | 8 | 8 | | | |
| 31 | PHI | Capital Market Development Program | 47 | 39 | 5 | 3 | | | | | 7 | 7 | | | |
| 32 | KAZ | Agriculture Sector Program | 42 | 39 | 3 | | 7 | 7 | | | 8 | 8 | | | |
| 33 | KGZ | Agriculture Sector Program | 36 | 13 | 20 | 3 | 4 | 4 | | | 9 | 5 | 4 | | |
| 34 | IND | Capital Market Development Program | 28 | 23 | 4 | 1 | 12 | 7 | 5 | | 12 | 10 | 2 | | |
| 35 | MON | Agriculture Sector Program | 31 | 18 | 13 | | 18 | 18 | | | 6 | 6 | | | |
| 36 | COO | Economic Restructuring Program | 111 | 92 | 14 | 5 | 29 | 28 | 1 | | 8 | 7 | 1 | | |
| 37 | MON | Financial Sector Program | 66 | 65 | 1 | | 41 | 41 | | | 12 | 12 | | | |
| 38 | FSM | Public Sector Reform Program | 109 | 90 | 16 | 3 | 55 | 54 | 1 | | 27 | 26 | 1 | | |
| 39 | KGZ | Corporate Governance and Enterprise Reform Program | 43 | 42 | | 1 | 20 | 20 | | | 7 | 7 | | | |
| 40 | KAZ | Pension Reform Program | 41 | 37 | 1 | 3 | 18 | 18 | | | 7 | 7 | | | |
| | **Total** | | **1,463** | **1,188** | **178** | **97** | **403** | **383** | **13** | **7** | **427** | **342** | **40** | **36** | **9** |
| | **Percentages** | | **100.0** | **81.2** | **12.2** | **6.6** | **100.0** | **95.0** | **3.2** | **1.7** | **100.0** | **80.1** | **9.4** | **8.4** | **2.1** |

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

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

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

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

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

## PROGRAM EXAMPLES: IMPACT

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

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

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

[2] Center for Policy Dialogue, *Crisis in Governance*, June 1998, quoted in World Bank, *Bangladesh: Challenges for the New Millennium*, 1999.
[3] The experience is based on the first two program loans; in 1999, an additional program loan was made to Viet Nam: the State-Owned Enterprise Reform and Corporate Governance Program Loan.
[4] ADB, *Country Assistance Program Evaluation in the Socialist Republic of Viet Nam*, December 1999.
[5] ADB, *Country Assistance Program Evaluation for the Philippines*, Operations Evaluation Department, draft, August 2001.
[6] ADB, *Program Performance Audit Report on the Second Industrial Program in Bangladesh*, July 2000.

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| | deficiencies of the voucher system for privatization, which left management of the firms largely unchanged and a lack of any form of social security, it is not surprising that effective privatization has been slow.<br><br>The Agriculture Sector Program Loan to Thailand in 1999 was the cause of demonstrations, drawing attention to perceived imbalances between the real use of funds and the policy reforms. The $300 million loan, and an additional $300 million in cofinancing by Japan, were urgently needed by the Government for fiscal support (including meeting the costs of bank bailouts). Farmers saw little benefit from the loan. On the contrary, three core issues (land-use rights, forestry demarcation, and water user fees) proved highly controversial. |
| 7. Silver Linings to Otherwise Disappointing Results: Lessons from Bangladesh | "One positive outcome from the Second Industrial Program Loan for Bangladesh is that the Government seems committed to the strategy of private sector-led, export-oriented growth of the economy. The desirability of reducing the role of the Government in productive activities outside of some clearly defined areas is now fully established. The Government has ceased setting up new manufacturing units, and new investment in the public manufacturing enterprises (other than fertilizer) has slowed substantially…the inevitability of privatization is no longer seriously questioned."[6] |
| **B. Contribution to the Real Economy** | |
| 1. Weak Contribution to the Targeted Sector | ▪ The Hydrocarbon Sector Program Loan to India in 1991 was expected to result in a 20 percent increase in crude oil production by encouragement of private sector participation; actual crude oil production in 1996 was 8 percent lower.<br>▪ The Agriculture Sector Program Loan to Mongolia in 1995 predicted that liberalization of wheat prices, together with other measures, would lead to a doubling in output; in fact, wheat production has declined by almost 50 percent. Market-based reforms based on individual free entry rather than cooperative forms have led to a concentration of herds around potential markets, and in the context of common property have contributed to serious land degradation through overgrazing.<br>▪ The Financial Sector Program Loan to Indonesia in 1988 was largely superseded by government intervention, marginalizing the relevance of the program loan. The Second Financial Sector Program Loan in 1992 was expected to result in a "sound legal, regulatory, and supervisory framework for the sector"; the Asian financial crisis revealed the depth of inefficiency and weakness of the framework.<br>▪ The Agriculture Program Loan to Pakistan in 1990 was expected to lift productivity in the sector, backed by a long-term investment program. While the Government borrowed $200 million ostensibly for reform of the agriculture sector, it sharply cut the sector's share of total expenditure. Productivity showed little increase, and continued public sector intervention discouraged the private sector.<br>▪ The Second Industrial Program Loan to Bangladesh in 1991 foresaw improved financial discipline of the 160 public manufacturing enterprises, together with selected privatization. While the importance of the public manufacturing enterprises declined considerably, their burden on government finances increased.<br>▪ The Agriculture Sector Program Loan to the Kyrgyz Republic in 1995 suffered from major problems in design in terms of sequencing of reform measures. More concentrated efforts on transforming land ownership and developing land markets, as well as a more gradual transformation of ownership of non-fixed assets and supporting services would have helped in minimizing increased poverty as a result of rapid declines in livestock, poultry, and crop production during the transition period. |
| 2. Mixed Beneficial and Negative Impacts | ▪ The Industrial Sector Program Loan to Mongolia in 1995 predicted that industrial output would stabilize and that the long-term impact on employment would be beneficial, after a period of dislocation. The program, in parallel with an International Monetary Fund (IMF) enhanced structural adjustment facility, entailed a "big bang" approach to reform, including price and trade liberalization and privatization of SOEs. The decline in industrial output did halt, and economic growth resumed despite adverse commodity prices; |

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| | however, employment in industry fell by 10,000.<br>▪ The Health Sector Development Program Loan to Mongolia in 1997 appears to be providing a model for reducing the traditional reliance in Mongolia on curative services in hospitals. The establishment of family group practices as the basis of a mixed system of capitation payments for essential services and private billings for noncore services is being monitored.<br>▪ The Comprehensive Reform Program Loan to Vanuatu in 1998 was to redefine the role of the Government and improve public sector performance, including downsizing the public service by 10-15 percent. As Vanuatu has among the lowest number of government employees per hundred inhabitants, downsizing has proven difficult. However, the number of ministries has been reduced from 28 to 9 and efficiency has improved.<br>▪ The Financial Sector Program Loan to Viet Nam in 1996 was expected to create a regulatory framework conducive to private sector participation, improve the performance of state-owned banks, and initiate the development of a capital market. The program accomplished a great deal but some aspects were overly ambitious, confused by problems of interpretation, or subject to conflicting advice. Moreover, the reforms will remain “paper” reforms in the Vietnamese context until consensus building and institutional capacity are more complete.<br>▪ The Power Sector Restructuring Program Loan to the Philippines in 1998 forecast that the cost of power would fall by 25 percent through a reduction in electricity tariffs for all industries, stimulating a 1.2 percent increase in GDP. This translates into about $750 million annually. If realized, this would represent a huge rate of return for the $600 million investment (including Japan Bank for International Cooperation cofinancing). |
| 3. Where Expected Benefits Have Been Realized | ▪ The Financial Sector Program Loan to India in 1992 contributed to liberalization of the sector, which improved the availability of credit for the private sector, a key factor in stimulating India’s growth rate since the mid-1990s.<br>▪ The Non-Oil Export Promotion Program to Indonesia in 1987 facilitated realignment of the exchange rate as well as trade liberalization, leading to a marked expansion of exports; the fiscal infusion of $150 million at a critical time enabled the Government to maintain vital social and poverty-related expenditures.<br>▪ The first and second Agriculture Program loans to the Lao PDR had the objective of enhancing agricultural productivity, diversity, and output, which appears to have occurred, at least in the Mekong flatlands; however, many factors contributed to this, including general liberalization and other agency support.<br>▪ The Education Sector Development Loan to Mongolia in 1996 has successfully led to extensive rationalization of the school system, especially in terms of reducing the number of teachers to a more sustainable level and encouraging older, less qualified teachers to retire; the investment component of the loan helped equip and upgrade the remaining schools. |
| 4. Mongolia’s Agriculture Sector Program Loan: Unrealized Production but Improved Resource Allocation | A good illustration of unrealized expectations but a release of resources to potentially more productive endeavors was the Agriculture Sector Program Loan to Mongolia. As noted earlier, wheat production declined by almost 50 percent upon introduction of the reform measures, rather than doubling as predicted. But wheat production was artificially high as a result of heavy government subsidies and import protection. Mongolia clearly does not have a comparative advantage in wheat production, given its climate and shortage of water. The Program effectively terminated government support for wheat production; some production has continued under private enterprise, but it must compete against imports, including food aid from external agencies. |
| 5. Program Loans, Fiscal Support, and Transition Economies: The Needs of the Lao PDR and Mongolia | For the past decade, the Lao PDR’s revenues have never been more than 13 percent of GDP; during the Asian crisis, government revenues fell to less than 10 percent. The fiscal deficit increased to 10 percent of GDP or more.<br><br>This situation reflects the poverty of the Lao PDR, but also hesitations concerning important elements of reform—including revenue and expenditure management. Agency assistance exceeds 20 percent of GDP, but the focus has been on capital projects, notably investment in roads. Indeed, agency assistance finances some 85 percent of total public sector investment. One of the Lao PDR’s most serious problems is the imbalance between current and capital |

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| | expenditures, resulting in a sharp deterioration in health, education, and other vital services.[7] In this context, the fiscal support provided by program loans has been most helpful. The Ministry of Finance, during discussions with the Operations Evaluation Mission, stressed the Government's need of this support. It should be noted that despite this and other support, the Lao PDR's record of macroeconomic management has been mixed.<br><br>In the case of Mongolia, the collapse of the Soviet Union and Council of Mutual Economic Assistance resulted in a 25-30 percent drop in GDP and an even sharper drop in government revenues. The only way to stabilize the situation was a large infusion of fiscal support. The stream of program loans made to Mongolia in the 1990s, together with IMF and World Bank support, provided the necessary infusion, and limited the number of people falling into poverty. It is perfectly rational for Mongolia to borrow heavily at this stage—especially on Asian Development Fund terms. The proper degree of borrowing must weigh exchange rate implications, and current versus future consumption tradeoffs (i.e., the intergenerational issue). Mongolia's record of macroeconomic management has been relatively good. |
| **C. The Lao PDR's External Debt Situation**[8] | Largely as a result of borrowings from multilateral creditors, the Lao PDR's convertible currency debt almost doubled during 1994-1998, from $579 million to $1,100 million. During the 1990s, four program loans were made by ADB to the Lao PDR, totaling $100 million. Unfortunately, the steep depreciation of the kip since the beginning of the Asian crisis sharply increased the real burden of the Lao PDR's debt. Expressed in US dollar terms, the debt to GDP ratio rose from 118 to 195 percent between 1994 and 1998; the debt service ratio rose from 3.3 to 9.9 percent. At the same time, government revenues as a percentage of GDP shrank by some three percentage points, exacerbating the difficulty of servicing the debt. Current expenditures have been badly squeezed, undermining education, health, and other services, and wasting capital investment because of insufficient maintenance. |
| **D. Contribution to ADB's Goals**<br><br>1. Strong Contribution to ADB's Goals | <br><br><br>▪ Concerning poverty reduction, the Social Sector Program Loan to Thailand was explicitly designed to strengthen the social safety net, and cushion the effects of unemployment and other hardships arising from the Asian crisis.<br>▪ With regard to poverty reduction and human development, the Social Protection Sector Development Program Loan to Indonesia helped poor children remain in school during the Asian crisis.<br>▪ In terms of economic growth and poverty reduction, the Agriculture Sector Program Loan to Viet Nam led to increased competition and private marketing, trade liberalization, and land-use reforms; these measures contributed to substantial gains in agricultural output and poverty reduction.<br>▪ In the matter of improved governance, the Comprehensive Reform Program Loan to Vanuatu helped improve public sector performance and reorient the role of the Government.<br><br>▪ With reference to economic growth and poverty alleviation, the Non-Oil Export Promotion Loan to Indonesia contributed to trade and exchange rate liberalization, helping spur export growth; also, fiscal support helped the Government maintain important social sector programs.<br>▪ In relation to encouragement of growth of the private sector, the Railway Recovery Program Loan to Bangladesh involved contracting out to the private sector, and commercialization of operations of the Bangladesh Railways, at that time one of the largest loss-incurring public enterprises. Agriculture program loans also promoted private |

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

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

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| | sector investment in the plantation sector.<br>▪ As regards human development, the Education Sector Development Program Loan to Mongolia supported the Government in implementing wide-ranging reform and rationalization of the education system. |
| 2. Mixed Contribution to ADB's Goals | ▪ Concerning economic growth and poverty alleviation, the Agriculture Sector Program Loan to Sri Lanka led to the elimination of export taxes, and increased agricultural commodity exports. However, aggregate production data show little increase; better sequencing, including phasing of the ending of fertilizer subsidies, would have generated more sustainable progress with less adverse effects.<br>▪ In terms of encouragement of growth of the private sector, the Second Agriculture Program Loan to Sri Lanka helped transfer ownership of sugar mills to the private sector, but import tariff protection was increased to make private investment in sugar mills viable.<br>▪ Regarding poverty reduction, the Industrial Sector Program Loan to Mongolia called for price liberalization and privatization of SOEs, both necessary steps for a more market-based economy, but the measures may have exacerbated worsening poverty trends. The social safety net component of the loan was not effective.<br>▪ In the matter of economic growth and poverty alleviation, the first and second Financial Sector loans to the Lao PDR have not substantially strengthened the sector nor significantly increased credit available to the private sector and farmers. |
| 3. Little or No Contribution to ADB's Goals | ▪ In the area of poverty reduction, the Agriculture Program Loan to Pakistan contained measures that bore heavily on small farmers (e.g., the end of fertilizer subsides) with little offset (e.g., procurement prices for farm products were not raised in the manner expected). Subsidies to manufacturers of fertilizer continued, and the wealth tax on land holdings was largely ineffective.<br>▪ Concerning environmental protection, the industrial and agricultural program loans to Mongolia failed to anticipate the consequences of market liberalization combined with common property rights, contributing to severe overgrazing and land degradation.<br>▪ As regards environmental protection, the Industrial Program Loan to Bangladesh failed to establish environmental monitoring units and it was not possible, therefore, to address potential environment problems associated with the reforms (e.g., privatization of tanneries).<br>▪ In the matter of economic growth, the Financial Sector Program Loan to Sri Lanka was intended to reduce the costs of financial intermediation but there has been no progress in reducing interest rate spreads and hence the core objective of the loan was not realized.<br>▪ With regard to encouragement of growth of the private sector, the Second Industrial Program Loan to Bangladesh focused on privatization of public manufacturing enterprises, but the process was poorly designed and implemented, with the state endeavoring to retain the better performing public manufacturing enterprises and offload the loss-incurring units.[10] |

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

# PROGRAM EXAMPLES: FORMULATION AND DESIGN

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| **A. Explanations for Loan Size** | ▪ Re the Second Industrial Program Loan to Bangladesh, the size of the loan was based on considerations of the scope and extent of policy reforms, the importance of the industry sector (and the role of public manufacturing enterprises within the sector) and the funding requirements for industrial imports (approximately $700 million per annum);<br><br>▪ Re the Capital Market Development Program Loan for Bangladesh, the loan size covers adjustment costs of $130 million over the medium term, for restructuring the Investment Corporation of Bangladesh, rationalization of the tax structure, removal of preferential pricing on government borrowing, institutional strengthening, and other costs;<br><br>▪ Re the Financial Intermediation/Resource Mobilization Program Loan for the Kyrgyz Republic, the loan size reflects the significance of the financial sector and the costs of reform, estimated at $65 million during 2000-2002; these include recapitalization of the banks, reimbursement of depositors, seed capital for the Deposit Insurance Scheme, severance payments for laid-off workers, and the cost to the Government of introducing a competitive primary market for Treasury bills and of eliminating capital gains taxes on securities transactions;<br><br>▪ Re the Financial Sector Program Loan to the Lao PDR, loan size reflects additional demand for foreign exchange resources for investments and imports because of the improved investment environment ($20 million-$30 million annually); further, recapitalization of the commercial banks and the long-term credit facility were estimated at $15 million;<br><br>▪ Re the Capital Market Development Program for the Philippines, “reforms of the securities market and the agencies involved do not have a quantifiable cost; Asian Development Bank (ADB) provision of $150 million will assist the Government in its macro-management of the economy”;[1]<br><br>▪ Re the Agriculture Program Loan to Pakistan, the size of the loan reflects “the scope of the policy adjustment package incorporated in the program, and it also takes into consideration the import requirements for agricultural inputs to sustain sector development”;[2]<br><br>▪ Re the Social Sector Program Loan to Thailand, the amount was determined by the fact that it is the only assistance for social sector issues in the International Monetary Fund (IMF)-led assistance package; the reforms will cost over $900 million during the first two years of implementation;<br><br>▪ Re the Financial Sector Program Loan to Sri Lanka, the size of the loan “is considered reasonable in view of the size of the Sri Lanka economy, the expected impact of the proposed policy measures, and the short term costs of implementation”; [3]<br><br>▪ Re the Public Sector Reform Program Loan to the Solomon Islands, loan size was based on the scope and the costs of the policy reforms, the importance and urgency of the reforms, and the state of the public finances of the Borrower; the cost of staff retrenchment was estimated to be $1.2 million and retirement of debt arrears was estimated to be $14 million; |

[1] Loan 1363-PHI: *Capital Market Development Program,* for $150 million, approved on 22 August 1995.
[2] Loan 1062-PAK(SF): *Agriculture Program*, for $200 million, approved on 11 December 1990.
[3] Loan 1051-SRI(SF): *Financial Sector Program*, for $80 million, approved on 20 November 1990.

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| | ▪ Re the Hydrocarbon Sector Program Loan to India, the loan "will support the high levels of investment needed in the near term";[4]<br><br>▪ Re the Public Sector Resources Management Program for the State of Gujarat, India, the cost of structural adjustment involved will be about $715 million over three years. |
| **B. Inter-Agency Cooperation**<br>1. Bangladesh: A Call for Greater Policy Coordination | Bangladesh's officials stated that major funding agencies need to collaborate more closely in providing sustained and unified support to priority issues. The contribution of funding agencies would be improved if they recognized it is politically difficult in democracies to make policy and institutional reforms across a broad range of sectors at one time. Unsuccessful efforts to promote reforms are counterproductive and set back the reform process. Greater cooperation among funding agencies is needed to identify key bottlenecks. Further, sustained effort is needed to ensure that a limited number of priority bottlenecks are successfully eliminated with clearly demonstrated benefits to the economy. |
| 2. Mongolia's Financial Sector Reform: An Example of ADB/World Bank Cooperation | The recent Second Financial Sector Program Loan to Mongolia is an example of cooperation with the World Bank. ADB and the World Bank, together with the Government, have agreed on a joint policy matrix. Although there are no cross-conditionalities, tranche releases are coordinated. ADB's loan of $15 million for the financial sector addresses nonbanking financial intermediaries, and corporate governance within the banking sector. The World Bank's Financial Sector Adjustment Credit Loan of $32 million supports, principally, banking sector restructuring. Of note, ADB's loan amount is explained in terms of meeting adjustment costs of the reform, while the World Bank frankly acknowledges its loan amount is designed to help the Government meet its fiscal deficit. The two loans follow up on ADB's Financial Sector Program Loan in 1996 and IMF's Enhanced Structural Adjustment Facility Program over the past two years, during which the two agencies worked together to guide especially difficult elements of bank restructuring. |

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

# PROGRAM EXAMPLES: LESSONS LEARNED

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

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

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

# PROGRAM EXAMPLES: IMPLEMENTATION AND MONITORING

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

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

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| 3. Sustainability of Policy Reform: Nepal's Perspective | Nepal's agriculture sector program loans from ADB have included the ending of fertilizer subsidies for farmers. While government officials understood the general rationale for ending these subsidies, they expressed concern for farmers in poor areas unable to afford higher prices. Large subsidies are offered to farmers in northern Indian provinces, which are Nepal's main markets for agricultural goods. The subsidy issue is currently particularly sensitive as rising oil prices have driven up the price of nitrogenous fertilizers. There are now large differences in the prices of legally imported fertilizers and fertilizers smuggled from India; private suppliers in Nepal are ceasing to import fertilizers because they cannot compete, even though the quality of smuggled fertilizer is poor. Ending fertilizer subsidies is no simple matter, as external factors must be taken into account. The issue raises the question of whether ADB should take a subregional approach to addressing such issues. At the very least, compensatory measures should cushion the cost to small farmers. |
| 4. Sustainability and Ownership: Experience of Bangladesh and Sri Lanka | During negotiations in 1987 and 1989 with ADB concerning formation of agriculture sector program loans, both Bangladesh and Sri Lanka strongly indicated that a phased reduction of fertilizer subsidies was possible, but not outright abolishment. Bangladesh government officials indicated that ADB should recognize that the probability of completely removing fertilizer subsides was very low and might be even less as a consequence of external intervention. In the case of Sri Lanka, the Government argued that fertilizer subsidies were not binding constraints to development of the agriculture sector. A new Government was democratically elected in 1994, with a mandate to restore fertilizer subsidies. The new Government also reversed measures to curtail Paddy Marketing Board losses. Clearly, neither Bangladesh nor Sri Lanka had much ownership of the conditionalities. |
| **C. Earmarking of Counterpart Funds** | |
| 1. Ineffective Earmarking of Counterpart Funds | ▪ Counterpart funds from the Agriculture Program Loan to Pakistan were meant to be used to finance the local currency costs of ongoing projects by ADB and to finance other projects in rural areas. In contrast, the Government sharply reduced funding of the agriculture sector following the loan.<br>▪ The Government of the Philippines was to ensure that an appropriate portion of counterpart funds was used to meet the adjustment costs of the Power Sector Restructuring Program Loan. To date, neither the Department of Energy nor the National Power Corporation has received any supplementary support to meet adjustment costs, despite employee severance payouts and other costs.<br>▪ Under the Industrial Sector Program Loan to Mongolia, a conditionality stipulated use of a portion of the counterpart funds to those that became unemployed as a consequence of industrial restructuring and privatization of state-owned enterprises. An operations evaluation mission was unable to find any trace of such an allocation; neither the Government nor ADB had a monitoring system for this purpose. |
| 2. Earmarking of Counterpart Funds | ▪ Concerning the Health Sector Development Program Loan to Mongolia: "The counterpart funds…will be used by the Government to implement the information campaign on primary health care and health sector reforms, to develop the family group practices, to mitigate potential negative impacts on health staff affected by the reforms and for general purposes. The funds necessary for the development of the family group practices will be provided to the local governments of Ulaanbaatar and the three Project *aimag*[2] centers." [3] |

[2] An *aimag* (province) is an administrative region.
[3] Loan 1568-MON(SF): *Health Sector Development Program*, for $4 million, approved on 4 November 1997.

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| | ▪ Counterpart funds from the Industrial Sector Program Loan to Bangladesh were intended to be used in support of rationalizing employment in public manufacturing enterprises. According to the program performance audit report, the cost of the labor redundancy program has been Tk2.8 billion, or approximately equal to the loan amount.<br><br>▪ The Social Protection Sector Development Program Loan to Indonesia stipulated that counterpart funds would be used in support of the social sector in general, and the program reforms. These were very specific, including targeted support to the poor and scholarships to young students to enable them to stay in school. |
| **D. Mongolia's Experience With Sector Development Programs** | The Education Sector Development Program Loan in 1996 resulted in a major restructuring of the school system. The policy component financed severance payments for some 8,000 teachers and staff retired or laid off as a result of the restructuring; generous compensation encouraged older teachers to retire. However, the notion of redundancy and paying people to stop working was alien to Mongolians, resulting in some controversy. The investment component of the loan helped equip and upgrade the remaining schools, leading to better quality education. The Program appears to have been well designed and implemented. Extensive civil consultation helped build understanding and support. The new Government has indicated that it intends to continue with the human resource development strategy adopted in the early 1990s, and that further program loans for this purpose would be welcomed.<br><br>The Health Sector Development Program in 1997 is designed to strengthen primary health care, leading to a reduction in the traditional reliance in Mongolia on curative services in hospitals. The main mechanism for accomplishing this transition is establishment of family group practices, which provide seven or eight core general medical services and refer patients to hospitals only when specialized services are required. In this manner, significant cost savings are expected. The policy loan component met the severance and other dislocational costs associated with the restructuring of the health services. Associated technical assistance helped build capacity in health management in local governments. The project loan component (at four times the policy component) provided funds for medical equipment, minor civil works, and other capital needs. Aspects of the Health Sector Development Program may be difficult to sustain. Despite an extensive information campaign, people prefer direct access to hospitals, noting that the equipment and standard of services offered by family group practices are not very good. Family group doctors are expected to be private sector-based, receiving capitation payments for providing essential health services. They are allowed to charge for services beyond those listed as essential. To date, however, family group doctors have found it difficult to generate sufficient income to upgrade their equipment and services, leading patients to prefer the traditional hospitals. The sparse, widely scattered population hinders the privatization option. Other options, including a public health system with incentives for efficiency, may have to be considered before expanding the experiment. The new Government is anxious to build on the lessons learned from the first loan, and is seeking further support for the health sector. There is considerable interest in the program cluster approach. |

## WORLD BANK FINDINGS ON POLICY-BASED LENDING

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

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

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

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

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

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

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

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

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

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

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