GOOD PRACTICES FOR THE EVALUATION OF POLICY-BASED LENDING BY MULTILATERAL DEVELOPMENT BANKS

Prepared for the Evaluation Cooperation Group of the Multilateral Development Banks by the Asian Development Bank*

March 2005

## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABBREVIATIONS</td>
<td>iii</td>
</tr>
<tr>
<td>FOREWORD</td>
<td>iv</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>vi</td>
</tr>
<tr>
<td>I. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>A. Origins of the Report</td>
<td>1</td>
</tr>
<tr>
<td>B. Are Policy-Based Lending and Its Evaluation Different?</td>
<td>1</td>
</tr>
<tr>
<td>C. Study Purpose and Approach</td>
<td>2</td>
</tr>
<tr>
<td>II. THE POLICY-BASED LENDING CONTEXT</td>
<td>4</td>
</tr>
<tr>
<td>A. Policy-Based Lending Instruments</td>
<td>4</td>
</tr>
<tr>
<td>B. Evolution of Taxonomy of Policy-Based Lending:</td>
<td>5</td>
</tr>
<tr>
<td>Objectives and Modalities</td>
<td></td>
</tr>
<tr>
<td>C. Role of Policy-Based Lending Operations: Regional and Country Differences</td>
<td>6</td>
</tr>
<tr>
<td>D. Role of Policy-Based Lending Operations in Multilateral Development Banks</td>
<td>7</td>
</tr>
<tr>
<td>III. POLICY-BASED LENDING PREPARATION, EVALUATION, AND RATING:</td>
<td>8</td>
</tr>
<tr>
<td>COMPARING EXISTING PRACTICES</td>
<td></td>
</tr>
<tr>
<td>A. Policy-Based Lending Preparation</td>
<td>8</td>
</tr>
<tr>
<td>B. Policy-Based Lending Evaluation Approach</td>
<td>9</td>
</tr>
<tr>
<td>C. Completion Reports: Coverage, Timing, and Focus</td>
<td>10</td>
</tr>
<tr>
<td>D. Postevaluations: Coverage, Timing, and Focus</td>
<td>12</td>
</tr>
<tr>
<td>E. Policy-Based Lending Rating Systems</td>
<td>13</td>
</tr>
<tr>
<td>IV. KEY ISSUES AND GOOD PRACTICES IN EVALUATING INDIVIDUAL POLICY-BASED LENDING OPERATIONS</td>
<td>15</td>
</tr>
<tr>
<td>A. Timing</td>
<td>15</td>
</tr>
<tr>
<td>B. Evaluating Policy-Based Lending Inputs</td>
<td>15</td>
</tr>
<tr>
<td>C. Evaluating Outputs</td>
<td>29</td>
</tr>
<tr>
<td>D. Evaluating Outcomes</td>
<td>29</td>
</tr>
<tr>
<td>E. Evaluating Impacts</td>
<td>33</td>
</tr>
<tr>
<td>F. Evaluating the Policy-Based Lending Process</td>
<td>41</td>
</tr>
<tr>
<td>G. Reflecting Multiple Evaluation Realities</td>
<td>42</td>
</tr>
<tr>
<td>V. RATING POLICY-BASED LENDING OPERATIONS</td>
<td>43</td>
</tr>
<tr>
<td>A. Ratings</td>
<td>43</td>
</tr>
<tr>
<td>B. Criteria and Subcriteria</td>
<td>44</td>
</tr>
<tr>
<td>C. Aggregation and Weighting</td>
<td>45</td>
</tr>
<tr>
<td>VI. MANAGEMENT OF THE POLICY-BASED LENDING EVALUATION PROCESS</td>
<td>46</td>
</tr>
<tr>
<td>A. Coverage and Timing</td>
<td>46</td>
</tr>
<tr>
<td>B. Fostering Policy-Based Lending Evaluation Usage and Accountability</td>
<td>48</td>
</tr>
<tr>
<td>C. Disclosure</td>
<td>49</td>
</tr>
</tbody>
</table>
VII. CONCLUSIONS

 SOURCES CONSULTED

 APPENDIXES

1. Multilateral Development Bank Policy-Based Lending Operations
2. Role of Policy-Based Lending Operations in Multilateral Development Banks
3. Selected Characteristics of Multilateral Development Bank Policy-Based Lending Operations
4. Examples of a Results Framework and a Retrospective Logical Framework Matrix
5. Inter-American Development Bank Evaluability Assessment Instrument
6. Distilling Performance Criteria from a Meta-Review of Policy-Based Lending Evaluations
7. Subcriteria for Evaluating Policy-Based Lending Operation
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AsDB</td>
<td>Asian Development Bank</td>
</tr>
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<td>BOP</td>
<td>balance of payments</td>
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<tr>
<td>CCL</td>
<td>contingent credit line</td>
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<td>CR</td>
<td>completion report</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DMC</td>
<td>developing member country</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ECG</td>
<td>Evaluation Cooperation Group</td>
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<td>ESAF</td>
<td>Enhanced Structural Adjustment Facility</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GPS</td>
<td>good practice standards</td>
</tr>
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<td>IADB</td>
<td>Inter-American Development Bank</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MDB</td>
<td>multilateral development bank</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PBL</td>
<td>policy-based lending</td>
</tr>
<tr>
<td>PBLs</td>
<td>policy-based lending operations</td>
</tr>
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<td>PCA</td>
<td>program cluster approach</td>
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<td>PRGF</td>
<td>Poverty Reduction Growth and Facility</td>
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<td>PRSC</td>
<td>poverty reduction support credit</td>
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<td>PSAL</td>
<td>programmatic structural adjustment loan</td>
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<td>SAL</td>
<td>structural adjustment loan</td>
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<td>SAPRIN</td>
<td>Structural Adjustment Participatory Review Initiative Network</td>
</tr>
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<td>SBA</td>
<td>stand-by agreement</td>
</tr>
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<td>SDP</td>
<td>sector development program</td>
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<td>SECAL</td>
<td>sector adjustment loan</td>
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<td>SNAL</td>
<td>subnational adjustment loan</td>
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<td>SPL</td>
<td>special program loan</td>
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<td>SRF</td>
<td>supplementary reserve facility</td>
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<tr>
<td>SSAL</td>
<td>special structural adjustment loan</td>
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<tr>
<td>TA</td>
<td>technical assistance</td>
</tr>
</tbody>
</table>
The Evaluation Cooperation Group (ECG) of the multilateral development banks (MDBs) was set up in 1996 to facilitate the exchange of methods and lessons relating to evaluation of operations in the different institutions. An early focus of cooperation was the establishing of good practice standards for the evaluation of individual public sector operations. These good practice standards concern the selection and rating of individual operations, and governance matters relating to independence of the evaluation function and disclosure of results. They utilize internationally accepted evaluation criteria.

The good practice standards for public sector operations are generally derived from evaluations of investment operations. However, increasingly the MDBs have undertaken lending and technical assistance operations designed to encourage and facilitate policy change. Initially, these operations had a macroeconomic focus. More recently the focus has shifted to regulatory frameworks and policies at the sector level.

In 2002, the ECG decided to take stock of practices used to evaluate policy-based lending operations (PBLs), and to identify what seemed to be good practices. This publication, Good Practices for the Evaluation of Policy-Based Lending by Multilateral Development Banks, is the result of that stocktaking exercise. It briefly surveys the types of operations that fall into this category and the results of such evaluations, before assessing the criteria and forms of analysis that have been used in their evaluation. It ends with specific consideration of the criteria that can be used in the rating of such operations.

This document is not a handbook or a guideline on how to do such evaluations. Rather, it is a summary of the criteria and forms of analysis that have been implemented successfully in the evaluation of PBLs up to now. The main purpose is to help in formulating an addendum to the good practice standards for the case of policy-based lending (PBL) in order to enhance the quality and comparability of evaluations. The secondary purpose is to disseminate information on the criteria and approaches that have been used in evaluation of this type of lending operation.

We believe that the material presented here will be of interest to evaluators, both those in operations departments and those in independent evaluation offices, in multilateral development banks in reconsideration of their approach to PBL evaluations. It should also be of interest to a broader population of evaluators in bilateral agencies who use budget support and program operations, and those in governments who implement such modalities. The criteria and forms of analysis put forward may also be of interest to those formulating PBLs, and the wider public concerned with the outcomes of MDB operations.
This publication has been prepared by the Operations Evaluation Department of the Asian Development Bank on behalf of the ECG, and after extensive discussions with the many stakeholders of PBLs in the member institutions. The principal authors are Steven R. Tabor, consultant to the Asian Development Bank, and Stephen Curry, formerly lead evaluation specialist, Operations Evaluation Department, Asian Development Bank.

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EXECUTIVE SUMMARY

In 2002, the Evaluation Cooperation Group of the multilateral development banks (MDBs) agreed on Good Practice Standards for the Evaluation of MDB-Assisted Public Sector Operations (GPS). These established a set of criteria and procedures for the evaluation of individual and broader operations. These criteria and procedures are more straightforward to apply in the evaluation of investment projects, where there are clear project-level objectives, implementation schedules, and procurement processes, than in the evaluation of policy-based lending (PBL), where objectives are broader, implementation schedules less precise, and procurement processes undefined.

This report, *Good Practices for the Evaluation of Policy-Based Lending by Multilateral Development Banks*, illustrates good practices in applying the criteria and procedures of the GPS to mandatory evaluations of policy-based lending operations (PBLs). The report is the result of a review of materials, including PBL reports, monitoring and evaluation frameworks at approval, evaluation guidelines and protocols, and completion reports (CRs) from each MDB; discussions with PBL producers and users during MDB site visits; and a review of other assessments of PBL. This study deals with what are judged to be good practices that can be considered for application in any particular evaluation. In particular, it benefits from a review of the many performance reports on PBLs, from which good practice lessons have largely been drawn. This is not a “how-to-do-it” manual, but a review of the issues and approaches that have been taken into account in the better evaluations.

PBL has evolved over the last two decades. Its objectives have evolved from stabilization to encompass support for development policy change at the national and sector levels. This has resulted in operations that are more complex in both design and implementation. Policy and institutional reform, as now supported under PBL, is an ongoing, evolving process, sensitive to factors such as ownership, political economy of decision making, participation, and quality of design. A number of lending modalities have been developed as variations on the basic purpose of facilitating policy change, including crisis modalities, and hybrid modalities, which also include an investment component. PBL has played a larger role than before in MDB operations, not only during the crisis periods of the late 1990s. For the regional development banks with such modalities, PBL is now more than 20% of approvals by loan amount; for the World Bank it is now more than 30% of approvals.

While MDB evaluation practices differ, the conceptual frameworks are similar. A PBL operation is assessed as an external assistance instrument in which agreed upon inputs contribute to outputs, which give rise to outcomes, which in turn contribute to impacts. Assessment of PBL performance, from the various levels of inputs to impacts, is used to provide accountability and distill lessons. Standard criteria, such as relevance, efficacy, efficiency, sustainability, institutional development, impact, borrower performance, and MDB performance, are applied to assess overall performance, and, in some MDBs, to rate PBLs.

Currently, the African Development Bank (AfDB), the Asian Development Bank (AsDB), and the World Bank rate individual PBLs at the CR and performance report stages. Up to 2003, AfDB and AsDB rated all their PBLs at both stages. The World Bank maintains a 25% proportion for performance reports, as for its investment operations. There are differences in the success rates for PBLs in these institutions substantial enough to indicate different uses of the same criteria.
In several areas the definitions and approaches set forth in the GPS require interpretation, modification, and elaboration when applied to the evaluation of PBLs. A set of good practices for the evaluation of PBL is also important to foster harmonization across the MDBs.

**Timing.** PBLs generate outputs and outcomes that become apparent only some time after a program has been completed. Impacts may take even longer to be realized. Completion reporting tends to focus on PBL implementation and its immediate outputs and outcomes. For postevaluations, the challenge is to ensure that sufficient time has elapsed since PBL completion for outcomes and impacts to be realized and for the sustainability of an operation to be apparent. The mandatory timing of CRs and postevaluations poses limits on the choice of technique for ex-post evaluation, since assessments are often required well before all impacts have been realized. Where there is a series of overlapping and related PBLs, the timing question is more complicated, since the policy reform effort will have been supported by several operations. In such instances, the appropriate timing of an evaluation depends on a judgment of when the outcomes and impacts of a sequence of related PBLs are likely to be realized.

**Evaluability.** Evaluability can be improved by taking steps to reveal key unwritten objectives, and by identifying macroeconomic assumptions and program and macro-targets to which the PBL operation was expected to contribute. In those cases where a PBL framework was absent or ill defined, a retrospective logframe or results framework can help to guide the evaluation. Assessing the degree to which the PBL operation made adequate arrangements for monitoring and evaluation also helps to signal the need for more systematic PBL evaluability.

**Evaluating Inputs.** Assessments of the internal logic of a PBL operation, its consistency with other operations, and the validity of underlying assumptions are key components of a PBL evaluation. The design of a PBL operation, in terms of its inputs and the process by which those are derived, can be compared to processes and practices suitable for replication or avoidance. Ownership is now well recognized as an important determinant of PBL performance, and ownership evaluation may draw on checklists of key ownership questions, such as those used by the AsDB and the World Bank, that build on the methodological approaches employed in leadership analysis, stakeholder analysis, institutional assessment, and reform readiness analysis. Conducive political conditions are an important determinant of effective PBL. Whether or not the political economy of decision making, at design and implementation, was conducive to effective reform is a crucial part of the assessment. This implies a need to understand the process of policy decision making, the role of reform champions, the likely winners and losers of the reform process, and the nature of the institutional incentives facing those affected by reform.

**Evaluating Outputs and Outcomes.** Systematic effort is needed to assess whether PBL outputs and outcomes were achieved. In assessing PBL outputs, evaluators need to assess not only the extent to which inputs were delivered (i.e., agreed upon reforms took place), but also the degree to which complementary measures necessary for their implementation occurred. This may include a large number of complementary changes in legislation, regulation, public awareness, and institutional arrangements. A review of performance indicators, activity surveys, and structured interviews with key stakeholders can be used to identify and assess PBL outputs and outcomes. Observed outputs and outcomes can be benchmarked against regional and international standards of public policy and institutional performance to assess the significance of PBL-supported reform.
Comparing the situation before a PBL operation to that after has emerged as the most common technique for evaluating outcomes. This approach compares actual results with actual prior conditions, but suffers from the strong assumption that the PBL operation was responsible for socioeconomic changes. A variety of alternative techniques can be applied to isolate policy effects from other factors that may have influenced socioeconomic activity. A comparison of what would have resulted without the program, with an appropriate counterfactual, is the appropriate way to evaluate outcomes, although serious construction of counterfactuals is relatively rare in MDB evaluations. Individuals intimately involved in a reform process can often identify the counterfactual.

**Evaluating Impacts.** PBL evaluations draw on a wide range of quantitative and qualitative techniques to assess impact. Quantitative techniques include partial equilibrium analysis, representative household models, simulation models, and applied general equilibrium models. Common qualitative techniques include beneficiary satisfaction surveys with the results of policy change being “scored” directly by stakeholders.

Increasingly, the use of formal quantitative attribution (e.g., X% of policy change is due to this loan) in performance evaluation has been replaced by a qualitative assessment of the “additionality,” over and beyond funding, that PBL has brought to the policy reform process. This involves placing greater weight on the roles played by the government and the MDB in the reform process rather than attempting to quantify who was responsible for what.

While PBL output and outcome evaluations typically discuss key aspects of economic performance, seldom do they assess whether PBL-generated effects fostered growth, employment, and private sector development. In some cases, a qualitative assessment of the linkages between the PBL operation and the desired development objectives is sufficient to identify what elements were missing, or could have been better designed. With adequate benchmarks and ex-post performance information, simulations, cost-benefit, cost-effectiveness, and other quantitative techniques can also be used to inform such judgments.

Evaluation of PBL poverty impacts draws on a variety of techniques and survey instruments to assess changes in living standards, livelihoods, benefit incidence, and the performance of safeguard measures. Increasingly, PBL evaluation is called on to assess whether or not a reform operation could have been more “pro-poor” in its design and implementation.

**Evaluating the PBL Process.** The efficiency of the PBL process can be assessed through the extent to which PBL served to reduce the transaction costs of external assistance and provided timely disbursement of resources to the budget. The extent to which PBL, and associated technical assistance (TA), contributed to fostering institutional development can be evaluated in terms of whether or not improved governance practices, or improved skills, procedures, incentives, structures, or institutional mechanisms came into effect. Evaluating the contribution made by PBL to building the capacity to lead and manage the policy reform process is also important.

PBLs are evaluated by research institutes, government agencies, bilateral agencies, nongovernment organizations, and others. These may generate findings different from those reached by MDB evaluators. Capturing and reflecting PBL assessments of those affected can help provide important insights to both the government and the MDB as to why a policy reform operation may be perceived differently by different stakeholders.
Rating PBLs. Evaluators agree that PBLs must be relevant, efficacious, efficient, and sustainable; should generate positive impacts; should contribute to institutional capacity development; and should involve suitable MDB and borrower performance. Drawing on existing subcriteria used by MDBs, and the results of this study, PBL-specific rating subcriteria have been identified. Impact and institutional development are designated as noncore criteria in the GPS, but these may be the most important criteria for assessing PBLs. Consideration should be given to incorporating these as core criteria for PBLs. Given the strong interdependencies across PBL rating criteria, a failure to achieve a minimum assessment under any of the core performance criteria implies that a PBL operation is unlikely to achieve or sustain its benefits. For this reason, it would be appropriate if rating systems specified minimum performance thresholds for an operation to be rated satisfactory. For those PBLs where efficiency can be measured only at high cost, the weight for this criterion in rating systems is appropriately reduced.

Coverage. For evaluation of individual PBLs, there may be merit in higher coverage, since policy reform provides an enabling environment for other aid operations and for economic activity as a whole. The complexity of an operation, the extent to which it provides lessons for other operations, and the degree to which there are similar or overlapping operations affect whether PBLs are evaluated singly or in clusters. Since PBLs and associated TA both contribute to policy reform performance, it is generally appropriate to evaluate and rate PBLs and related TA together.

Usage and Accountability. A combination of measures aimed at making evaluation products more user friendly and measures aimed at stimulating user demand can enhance utilization of PBL evaluations. Making evaluation reports shorter and more readable, disclosing them to the public, involving MDB Boards and Management in the selection of evaluation topics, preparing evaluation summaries for public dissemination, presenting evaluation products verbally to Boards and other key users, summarizing findings and lessons learned from evaluations on in-house databases, preparing press releases and briefings on evaluation products, summarizing evaluation findings in annual evaluation reports, hosting conferences and training sessions on evaluation findings and methodologies, and encouraging public consultation on evaluation methods and findings are some of the ways that MDB evaluation offices have attempted to stimulate utilization of evaluation findings.

Disclosure. Although it is generally advisable to follow the GPS advocacy of full disclosure of evaluations, the policy reform process may benefit from confidentiality in some circumstances. Even so, a minimum level of evaluation-finding disclosure in summary form is still possible. In addition, early disclosure of evaluation objectives and approach serves to enhance access to information and to foster participation in the evaluation.
I. INTRODUCTION

A. Origins of the Report

1. Policy change has become more central to all forms of the operations of external funding agencies during the past two decades. Policy-based lending (PBL) is a form of lending associated with and in support of changes in specific policy. Multilateral development banks (MDBs) provide assistance for policy reform at the macroeconomic, structural, and sector levels simultaneously in countries undergoing reform. In addition to policy-based lending operations (PBLs), the MDBs also assist the process of policy change through dialogue, technical assistance (TA), training, networking, economic and sector analysis, and the development and dissemination of new knowledge. Investment operations routinely include policy and institutional reform components, blurring the distinction between PBLs and investment operations. Bilateral and multilateral agencies other than MDBs also provide considerable assistance for policy reform, primarily through budget support and TA. However, the MDBs tend to lead the process of PBL formulation and provide long-term loan finance to support policy change.

2. There is now considerable experience with the design and implementation of PBL in the MDBs. Several evaluations of specific PBLs and clusters of PBLs have been undertaken. Self-evaluation is undertaken by operational departments in the form of midterm reviews, tranche releases, and completion reports (CRs). Independent evaluation is undertaken by the operations evaluation departments of the MDBs.

3. There are significant differences in the approaches and results of evaluations, both in relation to the achievement of outputs, and in relation to the assessment of outcomes and impacts. In a meeting of the Evaluation Cooperation Group (ECG) of the MDBs in September 2002, it was decided to take stock of current PBL evaluation policies, and to identify good practices. This task has been managed for the ECG by the Asian Development Bank (AsDB).

B. Are Policy-Based Lending and Its Evaluation Different?

4. PBL has become a routine component in the assistance tool kit and assumes a growing proportion of total loan approvals and disbursements of the MDBs. However, there is no single set of agreed upon criteria, methods, and techniques for the evaluation of PBL. Although the same general criteria may be applied to different forms of investment project or PBL evaluation, the way in which this is done allows for considerable variability in the assessment of PBL.

5. From an evaluation perspective, PBLs differ from investment operations in the following ways:
   (i) PBLs disburse in 1-3 tranches, generally within 1-3 years. Disbursement is against completion of reform measures. There is generally a negative list of imports for which the funds cannot be spent. This compares with disbursement under investment projects, where payments are usually made directly to contractors and suppliers against authorized claims for work done or supplies delivered.
   (ii) It is difficult to predict PBL outcomes or impacts—the theory underlying the dynamic linkages between complex, multifaceted policy and institutional reform packages and socioeconomic performance is not well established. Measuring impacts empirically is also difficult—there is rarely a “control” group against which progress can be measured.
(iii) Political factors may exert an important influence on the objectives, scope, and composition of PBL. However, the contribution of such important factors may not be captured in project documentation. Given their politically sensitive nature, project files may not provide a clear rationale for PBL design.

(iv) PBLs define important actions that are within the government’s power—and not the vast number of complementary changes by others required to implement new policies. The extent to which policy reform actually takes place depends, therefore, on many factors that are not generally defined within any PBL operation.

(v) Policy and institutional reforms generally take longer than the life of any PBL operation to implement. Some time is needed after an operation has been completed to assess whether or not the government has stayed the course and implemented agreed upon reforms.

(vi) It is more difficult to assess and attribute the impacts of PBL than investments. Separability and ceterus paribus¹ assumptions are difficult to invoke, because PBLs aim to make nonmarginal changes to the rules and incentive systems under which economic actors operate.

(vii) Assessing PBL impacts is complicated by the interaction of MDB-supported reforms with contemporaneous changes in other public policies, shocks, cyclical factors, and changes in market conditions. Isolating and attributing change to any particular set of PBL-supported reforms is information intensive and analytically demanding.

(viii) PBLs are often launched in response to macroeconomic distress. Preparation and implementation may be compressed into a short time. The combination of short preparation periods and time-sensitive implementation limits the extent to which PBL design may include baseline studies or other inputs that provide a solid foundation for self- and independent evaluation.

(ix) Policy change is a contentious process. It is difficult to establish the credibility and objectivity of an evaluation.

C. Study Purpose and Approach

1. Purpose

6. The ECG has prepared a set of good practice standards (GPS) for application to public sector operations.² They were based in part on a review of practices relating principally to the evaluation of investment projects. The GPS were derived from the evaluation principles of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) were built on good evaluation practice, and were designed to be consistent with MDBs operational policies. The role of the independent evaluation office is defined, and a series of evaluation criteria are identified and defined. The four core evaluation criteria that should be applied to all operations are relevance, efficacy (achievement of objectives), efficiency, and sustainability. Four complementary criteria are also identified, namely institutional development, other impacts (poverty, transition, environmental, additionality, etc.), borrower performance, and MDB performance. A rating—i.e. an aggregate project performance indicator—is to be based on the first four core criteria, and may optionally take into consideration the complementary criteria. The GPS also underscore the importance of drawing

¹ If all other relevant things, factors, or elements remain unaltered.
clear and concise lessons from an evaluation, and of relating these to what might have been done to obtain better results. Issues concerning the management of evaluation processes are also discussed in the GPS, including timing, coverage, selection, documentation, annual reporting, and dissemination. The GPS call for special guidelines to be prepared for the evaluation of PBLs, in recognition of the differences between investment operations and PBLs from an evaluation perspective.

7. Given the special purposes of PBL, the GPS need interpretation and modification for the evaluation of PBLs. In September 2002, the ECG agreed to undertake a study of good practices for the evaluation of PBL, the objectives of which are to
   (i) enumerate and characterize current approaches to the evaluation of PBLs in the MDBs,
   (ii) identify good practices, and
   (iii) prepare the outline of a good practices paper for the evaluation of PBLs in the MDBs.

8. Good practices are those that enable evaluators to provide a systematic and objective assessment of an ongoing or completed PBL operation, its design, implementation, outputs, outcomes, and impacts. Good PBL evaluation practices should also contribute to change within institutions, or “accelerate social learning by affecting the perceptions of individual decision makers, the design of the rules of the game, and the behavior of the players”.

9. Policy and policy change are understood in many ways. For the purposes of this study, policy is defined as the rules and regulations established by a government that shape the enabling environment in which both public and private goods and services are produced, distributed, and consumed or accumulated. Policy can be distinguished from administration, or the execution of public affairs. By extension, PBL is defined as a time-bound set of discrete changes in public policy, achievement of which triggers and is supported by MDB financing, and which are marshaled to achieve global, regional, national, sector, or thematic development objectives.

10. PBL is subject to evaluation by many actors other than the MDBs. Even within the MDBs, PBL is frequently subject to special review and analysis by research or operational staff. While informal, research-based, and external evaluation generates important and useful lessons, it should be distinguished from mandatory MDB evaluation, particularly in relation to the accountability, uniformity, and learning requirements that such evaluations must satisfy. In

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4 Partha Dasgupta defines policy change as “perturbations in a prevailing state of affairs. The economic forecast without the project can be thought of as the prevailing state of affairs....both a project and a policy change were really a perturbation of an economic forecast.” By this standard, practically any public action that influences the course of economic affairs could be described as a policy change. (Dasgupta, Partha, 2001, “Valuation and Evaluation,” in Feinstein and Picciotto, eds. op cit. pp. 19-37.) This study adopts a more restricted definition of public policy in order to distinguish PBL from externally financed support for discrete investments and capacity building.

5 Individuals, households, enterprises and non-governmental organizations make and reform their own policies, but those categories of decisions are not the focus of MDB evaluation.

6 The OECD DAC’s 2002, Glossary of Key Terms in Evaluation and Results-Based Management (Paris: OECD) does not define policy reform, PBL, or the evaluation of PBL. The closest is the definition for program evaluation, which is: “evaluation of a set of interventions, marshaled to attain specific global, regional, country, or sector development objectives a development program, is a time-bound intervention involving multiple activities that may cut across sectors, themes and/or geographic areas” (p.30).
line with the scope of the GPS for public sector operations, this study focuses on mandatory PBL evaluation. As such, it concentrates primarily on completion reporting, as an example of self-evaluation, and ex-post PBL performance evaluation, as an example of independent evaluation.

2. **Approach**

11. This good practices study is based on a review of published literature on the evaluation of PBL, MDB evaluation reports and protocols, and structured interviews with MDB officials. Good practices for PBL evaluation are derived from four main sources:

   (i) a meta-review of the findings of PBL cluster and research-based assessments of PBLs; factors identified in the PBL literature as key determinants of PBL success or failure are considered items that merit coverage in PBL evaluations;

   (ii) guidelines, checklists, and other evaluation protocol material cited by MDB staff as being helpful in guiding uniform and consistent PBL evaluation;

   (iii) examples of self- and independent PBL evaluations cited by MDB staff as being illustrative of good practices in gleaning causality or assessing accountability; and

   (iv) PBL evaluations cited by target users within the MDBs as being most relevant to the exercise of their areas of responsibility.

12. This study deals with what are judged to be good practices, which can be considered for application in any particular evaluation. It has benefited from a review of the many performance reports on PBLs, from which good practice lessons have largely been drawn. The reader should note that this is not a “how-to-do-it” manual, but a review of the issues and approaches that have been taken into account in the better evaluations. The study is divided into seven sections. After a discussion of the PBL evaluation context in section II, section III briefly compares existing PBL instruments and evaluation practices of the MDBs. Section IV provides a discussion of key PBL evaluation issues and a review of good practices in evaluating individual PBLs. Section V discusses issues related to rating PBLs, and Section VI, issues related to good practices in the management of the PBL evaluation process. Section VII summarizes the main conclusions of the report.

II. **THE POLICY-BASED LENDING CONTEXT**

A. **Evolution of Policy-Based Lending Instruments**

13. PBL has evolved over time. Changes in the global economic context, regional and country differences, the varying role that PBLs play in the different MDBs, and the findings from numerous evaluations have influenced the scope and content of PBLs.

14. MDB PBL to developing countries came into being in response to a series of adverse global economic events in the late 1970s. The oil price shock of 1979/80, lower export earnings brought about by global recession, and a substantial reduction of external resource flows constituted formidable challenges for most developing countries. Support for macroeconomic stabilization was provided by the International Monetary Fund (IMF). Complementary macroeconomic and sector-level reforms were needed to enhance economic efficiency and responsiveness so that growth would accompany stabilization. Towards this end, the World Bank introduced structural and sector adjustment loans in 1980. Reflecting its origins in the global market turmoil of the late 1970s, PBL was originally conceived primarily as a financing vehicle for managing shocks by providing balance-of-payments (BOP) support.
First-generation adjustment reforms were not always accompanied by reductions in poverty or improvements in social conditions. Starting in the late 1980s, more attention in PBLs was accorded to measures necessary to protect the poor and safeguard the natural environment. This coincided with a shift in the focus of PBL to poverty reduction, support for sustained social and structural reforms, and capacity and institution building.

The regional development banks introduced PBLs after a decade of experience had shown that policy change could be a protracted process, and that additional financing and institutional support for reform were needed to augment what the IMF and the World Bank could provide. From 1986, the African Development Bank (AfDB) restricted its PBLs to projects that were cofinanced (either jointly or in parallel) with the World Bank. Likewise, the Inter-American Development Bank (IADB), until 1991, also restricted its PBLs to those cofinanced with the World Bank. In 1987, the AsDB transformed what had hitherto been credit lines for financing strategic imports into program loans aimed at assisting policy and institutional reform for key sectors.

In the early 1990s, the systemic challenges associated with countries in transition from central planning were added to the burden carried by PBL. It was realized that both institutional change and transition would require a long time frame and assistance focus. Also, during the 1990s, several countries launched decentralization programs, aimed primarily at improving public service delivery. In recognition of the enhanced autonomy and policy-making authority accorded to subnational governments, the MDBs introduced PBLs aimed at supporting subnational policy and institutional reform. Hybrid instruments, which combined sector investment programs and policy reform measures, were introduced.

The sudden reversal of private capital flows in Southeast Asia, Latin America, and Russia in the late 1990s created the need for new forms of internationally coordinated assistance aimed at restoring private financial flows. In recognition of the risks posed to economic development and poverty reduction by sudden shocks and financial contagion, special or emergency forms of PBL were introduced to meet exceptional financing needs.

During the last two decades, international assistance has changed in ways that make it more costly to deliver an investment project. Increased international concern about the social and environmental impacts of investment projects, fiduciary arrangements for their management, and civil society concerns about possible adverse impacts on vulnerable groups or fragile natural resources contributed to the introduction of a number of MDB safeguard policies. As the compliance burden for investment operations increased, and as capabilities to manage the process of policy change improved, PBLs began to be viewed as a more attractive source of external assistance because of their lower transaction costs. At the same time, experience showed that the impact of an investment project carried out in a nonsupportive policy context was far less than if the policy environment was favorable. Rising project preparation costs, together with the understanding that a favorable policy context helps boost returns to all investments, contributed to greater support for PBLs within the MDBs and borrowers alike.

**B. Taxonomy of Policy-Based Lending: Objectives and Modalities**

PBLs go by many different names in the MDBs. At the IMF, PBLs are referred to as “arrangements,” with a distinction drawn largely between short-term (standby) and medium-term (PRGF/ESAF) instruments. The World Bank and the AfDB refer to PBLs that aim at contributing to economy-wide, sector-specific, and subnational development as various categories of

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7 ESAF: enhanced structural adjustment facility, PRGF: poverty reduction growth facility.
adjustment operations. In the AsDB, PBL is called program lending. For the IADB, PBLs are called policy-based loans and emergency operations. All could be described as PBLs from an evaluation standpoint. Appendix 1 includes a more detailed description of the different MDB PBL instruments.

21. From a functional viewpoint, MDB-supported PBLs differ primarily in terms of the time horizon of their expected outcomes and impacts. Functionally, two main categories of PBLs can be distinguished:
   (i) stabilization operations: these focus on macroeconomic measures aimed at restoring short-term BOP and fiscal equilibrium; and
   (ii) development policy operations: these focus on policy and institutional reforms aimed at improving the medium-term structural, sector, and subnational enabling environment for growth, poverty reduction, and sustainable development.

22. Stabilization-oriented PBLs generally have well-defined goals, performance targets, and indicators. Development policy operations, by comparison, because of their longer outcome and impact horizons, and their inclusion of slow-gestating (process-oriented) institutional reforms, tend to include goals, objectives, and performance indicators that are less precisely defined. Moreover, these operations are more likely to be affected by macroeconomic developments and external events, making attribution more difficult.

23. These two broad categories can be further disaggregated into operations that predominantly support reforms that can be implemented instantaneously (i.e., “stroke-of-the-pen” reforms) and those that require more extended processes of institutional evolution to take hold. This distinction has important implications for evaluation. Stroke-of-the-pen reforms, such as the abolition of licensing requirements, can be implemented quickly, and the outputs and outcomes resulting from their implementation are quickly apparent. By contrast, the more process-oriented institutional reforms tend to evolve gradually with effects that cumulate and impact with long lags. For example, the outcomes and impacts of improved prudential regulations for commercial banks may be apparent only many years after the legislative changes are established.

24. In addition to the distinction between stabilization and development policy oriented PBLs, another key difference is the degree to which any single PBL operation can be thought of as a stand-alone assistance activity. Although each PBL operation has a date of final disbursement (or cancellation) and an established completion date, the question of when policy-based assistance actually begins and ends, and whether performance should be assessed relative to part of, or to a series of, PBLs depends very much on the nature of the operations.

C. Role of Policy-Based Lending Operations: Regional and Country Differences

25. The role and focus of PBLs differ by region (Table 1). Despite Asia’s tremendous diversity, that region has generally responded positively to improvements in policy and institutions, with considerable progress registered in growth and poverty reduction over the past three decades. That Asia and the Pacific still has more than two thirds of the globe’s population subsisting on $1 a day or less has inspired PBL architects to focus on measures aimed at making the process of growth more inclusive. The returns to PBLs in Latin America and the Caribbean are more mixed—policy change there has evolved in settings characterized by debt overhangs, high levels of

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8 IADB Emergency Loans may also include an investment component, and hence may be hybrid operations.
9 These are sometimes referred to as first-generation and second-generation PBL operations, respectively.
inflation, financial market fragility-cum-contagion, large flows of commercial credit, inequality, and nearly half of the population subsisting on less than $2 per day. In Sub-Saharan Africa, the high poverty incidence, low levels of infrastructure and institutional development, agriculture’s key role in meeting livelihood requirements, dependence on concessionary inflows and preferential market access, the narrow base of primary commodity exports, and the more limited response to improvements in policy and institutions have exerted an influence on PBLs. In the transition states of Central and Eastern Europe and the former Soviet Union, the transition challenge, combined with the collapse of output and incomes after the COMECON’s (Council for Mutual Economic Cooperation) breakup, has put comprehensive and rapid policy and institutional reform at the center of that region’s development agenda.

Table 1: Regional Poverty Characteristics and Policy-Based Lending Focus

<table>
<thead>
<tr>
<th>Region</th>
<th>Key Characteristics</th>
<th>PBL Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia and the Pacific</td>
<td>Large very-low income populations, economies highly responsive to reform, smaller remote economies with narrow commodity base</td>
<td>More inclusive growth</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>Large near-poor, politically volatile populations; fiscal fragility</td>
<td>Inclusive social policy</td>
</tr>
<tr>
<td>Africa</td>
<td>High poverty incidence and low supply response to better policy</td>
<td>Gradual and long-term reform effort</td>
</tr>
<tr>
<td>Former Soviet Union, Central and Eastern Europe</td>
<td>Enormous transition challenge and early 1990s income collapse</td>
<td>Comprehensive political, economic, and institutional reforms</td>
</tr>
</tbody>
</table>

26. Within each region, the degree of influence that PBL exerts is determined, in part, by the size of the borrower. Financial flows from all the MDBs combined are small compared with public expenditures of the largest developing and transition economies. In contrast, MDB financial flows are quite important to many of the smaller economies, particularly those with limited access to private capital markets.

27. Another factor that influences the role of PBLs is the degree of familiarity with, and comfort that national leaders and civil society have in, this form of external assistance. Some countries such as the People’s Republic of China do not borrow to support the process of policy reform. Others, including some of the highly indebted middle-income borrowers, enter into several PBLs each year. Governments of some countries, such as Brazil, Chile, Costa Rica, Uruguay, and Tunisia routinely design their own PBLs; others rely heavily on the MDBs for this.

D. Role of Policy-Based Lending Operations in Multilateral Development Banks

28. The role and importance of PBLs varies across the MDBs. The IMF is by far the largest source of PBL assistance (Table 2). It entered into an average of 25 arrangements per year between 1991 and 2002, with total annual commitments equivalent to just under $17 billion. The World Bank is the largest by number of operations. It provided support for an average of 42 adjustment operations per annum in the 1990s. The AfDB approved seven PBLs per annum;
the AsDB an average of seven PBLs, but increasing in the second half of the 1990s; and the IADB an average of four PBLs per year from 1993 to 2002.

### Table 2: Role of Policy-Based Lending in the Multilateral Development Banks

<table>
<thead>
<tr>
<th>MDB</th>
<th>Period</th>
<th>Number of PBLs</th>
<th>% of Total Lending</th>
<th>Lending Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>1986-2000</td>
<td>104</td>
<td>20%</td>
<td>US$4.4 billion</td>
</tr>
<tr>
<td>AsDB</td>
<td>1987-2002</td>
<td>117</td>
<td>23%</td>
<td>US$17.8 billion</td>
</tr>
<tr>
<td>IADB</td>
<td>1993-2002</td>
<td>42</td>
<td>24%</td>
<td>US$24 billion</td>
</tr>
<tr>
<td>IMF</td>
<td>1991-2002</td>
<td>302</td>
<td>100%</td>
<td>SDR$203 billion</td>
</tr>
<tr>
<td>World Bank</td>
<td>1990-2000</td>
<td>465</td>
<td>31%</td>
<td>US$93 billion</td>
</tr>
</tbody>
</table>

AfDB=African Development Bank, AsDB=Asian Development Bank, IADB=Inter-American Development Bank, IMF=International Monetary Fund, MDB=Multilateral Development Bank, PBLs=policy-based lending operations, SDR=special drawing right.


29. Although the number of PBLs represents between 5% and 15% of the number of ongoing MDB-financed projects, they are becoming an increasingly important source of MDB development finance, as measured by the share of lending commitments (Appendix 2). On an approval basis, PBLs rose from 13% of total AfDB lending in 1986-1989 to 25% during the second half of the 1990s. For the AsDB, PBL increased from 10% of total lending in 1987-1995 to 35% between 1996-2000, including financial crisis-related lending. PBLs accounted for 9% of total IADB approvals in 1993 and 1994, increasing to 46% during the financial crisis years of 1998 and 1999, and falling back to 22% by 2002. For the World Bank, the proportion of adjustment lending to total lending increased from 17% in the 1980s to 31% in the 1990s.

### III. Policy-Based Lending Preparation, Evaluation, and Rating: Comparing Existing Practices

#### A. Policy-Based Lending Preparation

30. The manner in which PBLs are prepared exerts an influence on the extent to which they can be evaluated. The period from identification to the completion of appraisal for a PBL operation is relatively short, ranging on average from 9 months to 1.5 years. Although PBL preparation processes are often compressed, PBLs generally build on a substantial, country-specific analytical base. This includes government plans, policy dialogue, country strategies, outcomes of advisory TA, and country-specific economic and sector work. Appendix 3 compares the preparation characteristics of a sample of PBLs drawn from the MDBs.

31. The core measures of a PBL operation are summarized in a policy matrix. This lists the main PBL goals and objectives, together with a list of reforms and supporting activities. PBLs also include an attached letter from the government concerning development policy. This letter summarizes the rationale for and commitment to the reform program by the concerned authorities. The number of conditionality items varies—AsDB PBLs up to 2001 had an average of 38 conditions, while World Bank PBLs had an average of 32. The policy matrix also lists a series of targets, typically presented in the form of monitorable indicators and the agency
responsible for implementation. In most instances, the targets refer to what should be accomplished by a specific date, and which measures are a condition for tranche release. The duration of most PBLs is in the range of 1-3 years, with 1-3 tranches. In most instances tranche release is targeted for a particular date, although floating tranches (fund release when reforms are undertaken) are included in some PBLs.

32. PBLs prepared by the AsDB, AfDB, and IADB in recent years have included a logical or results framework in order to improve the design logic, presentation, and evaluability of the operation. This helps to provide a link between the goals and objectives of the operation and the activities, outputs, outcomes, expected impacts, verifiable indicators, and key assumptions. The use of logframes to capture the design logic of an operation is still relatively new, and very few PBLs that have included complete logframes have been postevaluated. There is some evidence, however, that the use of logframes to establish monitorable indicators for outcomes has helped to improve the focus of PBL monitoring efforts.

33. PBLs routinely include a set of performance indicators that are to be monitored regularly during an operation. Monitoring and reporting are generally the responsibility of the executing agency or implementation unit. While PBL loan documents usually contain baseline performance information on macro, sector, social, and fiscal conditions, baseline information may not be available for all targets, particularly for PBLs with large numbers of structural and institutional reforms. Regular monitoring reports (quarterly or biannual) are generally required on the implementation status of agreed upon conditionality items and on agreed upon performance indicators. In some PBLs, specific monitoring arrangements are discussed, and where there are gaps in reporting coverage, provision for special surveys and TA is provided. In many instances, however, PBL monitoring is an unfunded mandate, drawing on the borrower’s existing statistical reporting systems.

34. Differences in the degree to which MDB staff are actively engaged in the identification and preparation of PBLs also influence the evaluation process. In the case of the AsDB, TA plays a large role in the identification and design of PBLs. In the case of the AfDB, economic and sector work, and the appraisal of adjustment operations prepared by the World Bank, together with TA play a major role in shaping adjustment operations. In both instances, other stakeholders may have played a key role in PBL design. At the other end of the spectrum, IMF PBLs are based on staff surveillance and are designed by staff in close cooperation with the country authorities. In the case of the World Bank and the IADB, MDB staff are closely involved in all phases of identification and design, while these PBLs are also supported through a variety of TA activities.

B. Policy-Based Lending Evaluation Approach

35. The conceptual framework for assessing PBLs is similar across evaluations. A PBL operation is assessed as an external assistance instrument in which agreed upon inputs contribute to outputs, which in turn give rise to outcomes, which in turn contribute to impacts (Figure 1).

(i) PBL inputs include agreed upon policy conditionality, finance, and TA.
(ii) PBL outputs refer to the implementation of reforms and the disbursement and utilization of PBL finance. Implementation may require measures that are not explicitly listed in a policy matrix, such as the establishment of suitable institutional arrangements for putting new laws or regulations into practice.
(iii) PBL outcomes refer to changes in the policy or institutional enabling environment that occur as a result of the implementation of agreed upon reforms. This could include, for example, changes in the role of the public and private sectors, governance practice, competitiveness, openness, public expenditure incidence, prudential soundness of the financial system, stakeholder voice in decision making, sector development regimes, distribution of decision-making authorities between central and local governments, and other effects.

(iv) PBL impacts refer to changes in economic, social, environmental, and human development performance directly attributable to PBL-supported policy reform. Changes in economic output, incomes, exports, inflation, health and education levels, poverty incidence, and environmental conditions are some of the types of impact variables that are assessed in PBL evaluations.

Assessment of PBL performance, from the various levels of inputs to impacts, is used to draw conclusions about, and distill lessons from, the performance of an operation. Standard criteria, such as relevance, efficacy, efficiency, sustainability, institutional development impacts, other development impacts, borrower performance, and MDB performance are applied to assess overall performance, and, in some circumstances, to rate PBLs.

C. Completion Reports: Coverage, Timing, and Focus

36. PBLs are formally self-evaluated in midterm reviews, supervision missions, and tranche release assessments. Typically, however, self-evaluation undertaken as part of PBL supervision focuses more on assessing the extent to which a PBL operation’s inputs have been delivered, and the likelihood that performance will be satisfactory.

37. PBL CRs are prepared by all of the MDBs except the IMF. CRs are generally prepared by operational staff, in some instances with the assistance of an experienced consultant. From start to finish, the average duration for preparing a PBL CR is 3-4 months. CRs are based on a review of project files and, in most instances, a brief field mission. The main objectives of a PBL CR are to certify that the project is complete, to capture and provide lessons that can be used to guide future operations, to improve sector and country strategies, and to assess the contribution of the operation in terms of its outputs and outcomes. PBL CRs are prepared shortly after completion, but “shortly” is defined differently among the MDBs. For the IADB, a CR should be prepared within 90 days of the last disbursement; for the AfDB and the World Bank it is within 6 months of the last tranche release; for the AsDB it should be prepared 12-24 months after completion, which is planned some time after the last tranche release.

38. Despite differences in format and presentation, PBL CRs of the different MDBs cover the implementation of agreed upon policy measures and the status of conditionality at completion in great detail. In line with a greater results orientation, recent PBL CRs have focused more attention on the extent to which program objectives were met, and key outputs and outcomes were accomplished, and on identifying any initial positive or negative impacts arising from implementation of the program. Although performance assessment in CRs still appears to accord primary importance to whether or not agreed upon reforms were implemented, the extent to which expected outputs and outcomes from a PBL operation occurred has become an integral part of the overall self-assessment.
Figure 1: The PBL Process and the Evaluation Framework

The PBL Process

- PBL Formulation (Dialogue, Analysis, Identification, Consultation and Appraisal)
- PBL Implementation (Dialogue, Supervision, Tranche Release and Monitoring)
- Program Period Completion
- Recognition and Response Lags
- Changes in the Enabling Policy and Institutional Environment
- Development Results

Assessment Focus

- Inputs
- Outputs
- Outcomes
- Impacts

Summary

- Rating: Application of MDB Performance Criteria (Relevance, Efficacy, Efficiency, Sustainability, Impact, Institutional Development, MDB and Borrower Performance)
- Accountability and Lessons Learned
D. Postevaluations: Coverage, Timing, and Focus

39. Independent evaluations of PBLs after completion have been undertaken by the AfDB, AsDB, IADB, and World Bank. The purposes are to assess PBL performance, draw lessons for future operations, ensure accountability for resource use, assess the validity and coherence of PBL design, ensure the integrity of the self-evaluation process, and assess the role of the MDB in fostering policy change. Postevaluations are conducted some years after completion, once sufficient time has passed to be able to assess outputs, outcomes, impacts, and the sustainability of the reform process. They are typically conducted by individuals with substantial experience in assisting policy reform. Postevaluations involve a desk review of project files; review of country context information; preparation of an issues paper (or first case draft); interviews with key stakeholders in the MDB, the borrower country, and other agencies; and preparation of a draft evaluation report. Throughout this process, consistency checks are applied to assure that the findings and lessons can be validated by multiple sources. After an evaluation report is prepared, it is reviewed internally by the unit responsible for generating it, and externally by the borrower, by MDB management, and by those in operations departments. Stand-alone PBL impact evaluations are relatively rare, in part because impacts are a particular focus of MDB policy research and special evaluation studies. The average duration of a PBL postevaluation is 3-6 months.

40. In most MDBs, the same guidelines used for investment projects are used to guide all postevaluations. Separate guidelines for evaluating PBLs have been issued by the AfDB, and specific terms of reference are drafted for the evaluation of PBLs in the context of special evaluations undertaken by the IADB and IMF. The World Bank and AsDB guidelines used for investment projects are adapted for use in other evaluations.

41. The timing of PBL postevaluations varies across the MDBs. For the AfDB, it is about 2 years after closing; for the AsDB it is about 3 years after completion; in the IADB and the IMF, timing depends on the needs of a special study and could range from a few months after closing to more than a decade; for the World Bank, PBL postevaluations are conducted 1-10 years after closing.¹⁰

42. Coverage also varies among the MDBs. In the AfDB and the AsDB, 100% of PBLs were postevaluated up to 2003. In World Bank, a quarter of all completed operations (including PBLs) are postevaluated. In the IADB, 20% of all operations are postevaluated, including PBLs; as of 2004, those PBLs that have been selected for special studies or country assistance evaluations are postevaluated—more than half have been postevaluated to date. In the IMF, only those PBLs selected for special studies have been postevaluated—to date, a very small proportion of IMF arrangements.

43. PBLs are also postevaluated as parts of special studies, sector reviews, and country program evaluations. In the AsDB, AfDB, and IADB, special evaluations of PBLs as a lending instrument, or of PBLs in a specific sector, have been conducted. These draw on the results of existing performance assessments and are supplemented by a number of additional case studies drawn for the specific purpose of the special study, or by reevaluations. The World Bank has prepared several special-study evaluations of PBLs. These cover PBL as a lending instrument, experience with PBL in specific regions (e.g., high impact adjustment lending in Africa), application in specific PBL focus areas (trade policy, public enterprise reform, public

¹⁰ Differences in the timing of PBL postevaluations are one of the factors that experienced evaluators cite as contributing to difficulties in comparing findings across PBL postevaluations.
sector management), and PBL in the context of sector studies (agriculture, private sector development, finance, and industry). World Bank and IADB country program reviews draw heavily on PBL postevaluations.

44. For mandatory MDB evaluations, the choice of technique is constrained by the large number of operations that must be self- and independently evaluated, and by the need to draw lessons at the country assistance, sector, thematic, and instrument levels. The expectation that a PBL evaluation will be undertaken relatively quickly, and will rely largely on existing databases has an important influence on the evaluation design (Table 3). The mandatory timing of CRs and postevaluations poses limits on the choice of technique for ex-post evaluation, since assessments are often required well before all impacts have been realized. Accordingly, some evaluation approaches, such as randomized experiments, control group trials, large-scale impact surveys, participant self-evaluation, and econometric studies, are more appropriate for policy research than for mandatory evaluation because of the greater expense and time required.\(^{11}\)

Table 3: Multilateral Development Bank Policy-Based Lending Self-Evaluation and Post-Evaluation Approaches

<table>
<thead>
<tr>
<th>Organizational Unit</th>
<th>Focus</th>
<th>Typical Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>-Ex-ante appraisal</td>
<td>Surveillance, diagnostic assessment, stakeholder and institutional assessment, policy simulation</td>
</tr>
<tr>
<td></td>
<td>-Tranche release review</td>
<td>Compliance assessment/mid-term review, participatory design, implementation and monitoring</td>
</tr>
<tr>
<td></td>
<td>-Ex-post completion reporting</td>
<td>Summary of supervision findings, implementation assessment, and performance-at-completion review</td>
</tr>
<tr>
<td>Independent evaluation office</td>
<td>-Performance evaluation, -Cluster and special studies -Service delivery reviews -Sector reviews -Country assistance evaluation</td>
<td>Updating and extension of completion report findings, Triangulation/consistency checks, External reviews, Desk studies, Comparative case studies, Impact evaluations,</td>
</tr>
</tbody>
</table>

E. Policy-Based Lending Rating Systems

45. Some MDBs numerically rate individual operations and others do not. The World Bank, AfDB, and AsDB rate PBLs at the self-evaluation and postevaluation stages (Table 4). For the World Bank, ratings are attested by the operations evaluation department at the self-evaluation stage, and a sample of 25% of the operations are postevaluated and rated. In 2003, the AfDB and the AsDB self and independently evaluated and rated 100% of their PBLs. Neither the IMF

\(^{11}\) For a more detailed discussion of the application of formal “program” evaluation techniques to matters of public policy choice, see Wholey, Hatry, and Newcomer (1994), Weiss (1998) and Ravallion (2000). See Roche (2002) for an insightful discussion of participatory approaches applied to the assessment of the efficacy and impact of Oxfam’s policy advocacy work.
nor the IADB numerically rates the performance of individual PBLs.¹² In the case of the IADB, projects are rated as part of the monitoring process to assess the degree to which assumptions remain valid, development objectives are likely to be achieved and implementation performance is satisfactory. PBLs are also rated at the CR stage. To encourage more emphasis on in-depth analysis, aggregate numerical ratings are neither tabulated nor reported for IADB CRs.

Table 4: Trends in Policy-Based Lending Numerical Performance Ratings by Selected Multilateral Development Banks

<table>
<thead>
<tr>
<th></th>
<th>African Development Bank a</th>
<th>Asian Development Bank</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rated PBL Operations</td>
<td>2 7 4 8 10</td>
<td>Rated PBL Operations 24 22 9 7 2</td>
<td>Rated PBL Operations 69 65 68 76 76</td>
</tr>
<tr>
<td>Proportion Successful</td>
<td>% 50 88 67 89 90</td>
<td>HS/GS/S % 38 27 78 57 50</td>
<td>Satisfactory Outcomes % 69 65 68 76 76</td>
</tr>
</tbody>
</table>

GS=generally successful, HS=highly successful, PBL=policy-based lending, S=successful.

a AfDB figures refer to proportion classified as highly successful and successful at the time of the project performance evaluation review. For AsDB, GS refers to generally successful, HS to highly successful, and S to successful. Figures up to 1992 are based on project performance audit reports (PPARs); for 1993-1998, the figures are based on PPARs and CRs; from 1999 on, figures refer to CR ratings. World Bank ratings are at exit. Outcome refers to those rated at marginally satisfactory or better; Sustainabilty refers to those rated as likely or better; institutional impact refers to those rated as substantial or better.


46. Approaches used to numerically rate PBLs vary across the three MDBs that regularly prepare and publish numerical ratings. For the AfDB, a single rating is provided that is a summary measure of ratings for eight criteria (relevance, achievement of objectives, efficacy, efficiency, institutional development impact, sustainability, borrower performance, and AfDB performance). Some 80 subcriteria are scored on a 4-point scale and aggregated. The weights for each subcriterion can be set by the evaluator. For the AsDB, an aggregate numerical rating is based on scores assigned to relevance, efficacy, efficiency, sustainability, and institutional development and other impacts. These are aggregated using fixed weights. In the World Bank, separate ratings for outcomes (relevance, efficacy, and efficiency), sustainability, institutional development, World Bank performance, and borrower performance are generated. These are based on scores accorded to different subcriteria using a project information form. While the criteria used for making PBL performance evaluations are similar, comparability of performance assessments is complicated by the fact that the weighting and interpretation of the subcriteria differ. For example, in the AfDB case, improvement in outcomes implies that there is actual evidence of improvement in the relevant economic and social indicators, based on a comparison of the situation prior to and following completion of a PBL operation. For the AsDB, outcomes are assessed in terms of the extent to which the program purpose was achieved. In the World Bank, outcomes are assessed relative to performance targets set at appraisal.

¹² The IMF maintains a data base of compliance with its conditions and disbursement against commitments. Compliance and disbursement ratios for IMF operations have been used as proxies for measuring Fund program performance. The European Bank for Reconstruction and Development does not have a PBL modality, but does evaluate its loans and its overall assistance effort for its contribution to political and economic transition, which includes a wide sweep of policy and institutional reforms.
qualified by the extent to which performance has been influenced by exogenous events. Although the differences are subtle, they can result in the same outcomes being evaluated positively according to one standard and negatively according to another.13

IV. KEY ISSUES AND GOOD PRACTICES IN EVALUATING INDIVIDUAL POLICY-BASED LENDING OPERATIONS

47. This chapter draws on the good practices identified in previous evaluations to make a number of suggestions for the evaluation and rating of PBLs. These suggestions have been discussed by the ECG, in the context of the existing GPS for evaluation of public sector operations.

A. Timing

48. PBLs generate outputs and outcomes that may become apparent only some time after a program is completed. Impacts may take even longer to be realized. Completion reporting tends to focus on implementation and on immediate outputs and outcomes. For postevaluations, the challenge is to ensure that sufficient time has lapsed since completion for outcomes and impacts to be realized and for sustainability to be assessed. If PBL evaluations are conducted too soon, there may have been inadequate time for reactions to the policy change. If evaluations are conducted too late, it may be difficult to isolate the effects of the PBL operation. Experienced evaluators report that self-evaluation shortly after completion is adequate for assessing whether or not reforms are under way—i.e., if inputs have been delivered and initial outputs have resulted—and 2-3 years after completion is generally sufficient to assess initial outputs, outcomes, impacts, and the sustainability of PBL-supported reforms for postevaluation purposes.

49. It can be difficult to define when a PBL operation has actually been completed, especially when there are overlapping reform programs focusing on closely related issues, or a series of individual PBLs programmed over a multiyear horizon. One option is to time cluster-evaluations of PBLs to contribute to the formulation of a revised country or strategy underlying the series of operations. More frequent independent evaluations may be warranted in instances in which completion reports highlight substantial difficulties or slippages in implementing the agreed upon strategy, or in instances in which the PBLs seem to provide valuable lessons for replication (or avoidance) in other countries.

B. Evaluating Policy-Based Lending Inputs

1. Capturing All Goals and Objectives

50. Evaluation Against Implicit Objectives. In some instances, key PBL objectives may be both unwritten and ambiguous. Implicit motivating factors can include, for example,

13 A simple example illustrates the importance of differences in the interpretation of performance criteria when it comes to evaluating PBLs, through a case in which agriculture sector growth is much higher after an agriculture sector PBL operation was undertaken than before, but where some of the main conditionality items of the program were not met. Using the AfDB yardstick of outcome, this would likely be deemed to have had a satisfactory outcome. If the program purpose was to improve the enabling environment for agriculture, then an AsDB evaluation would conclude that the outcome was less than satisfactory, since the program purpose was not completely fulfilled. If the growth in agricultural output could be attributed primarily to improved weather conditions, the World Bank evaluation would conclude that outcomes were unsatisfactory, because the main program objectives were not met and there is no sign that changes in policy, once the effects of better climate are factored out, have had any effect.
augmenting liquidity provided by a lead financier, staving off a debt default, providing comfort to other agencies and the private sector that economic management is on track, and ensuring that a fiscally distressed government has sufficient resources to meet counterpart financing requirements of other ongoing MDB operations. Rarely is the contribution to the achievement of these unwritten objectives evaluated. How to reveal and capture this full set of goals and objectives, and to define expected outputs and outcomes in a manner consistent with them, is a special PBL evaluation challenge.

51. MDB evaluators report that interviews with senior policy makers and MDB staff are sufficient to reveal many of the unwritten objectives that motivated PBLs. Additional objectives may also be reflected in country assistance strategies, MDB correspondence, or side agreements reached by senior MDB management and the government. Implicit objectives can also be tested through dissemination of draft evaluation reports and through the evaluation consultation process.

52. Once revealed, there is merit in evaluating a PBL operation relative to its contribution to meeting all objectives, if these are deemed important. To do so, the evaluator must identify suitable output, outcome, and impact indicators, and compare program performance against such indicators. A good example of this is the IADB’s evaluation of its emergency PBLs of the late 1990s. In this instance, the evaluators concluded that a key implicit motivation for those operations was the need to calm the financial markets so as to restore normal capital flows. A range of indicators was selected to test the extent to which this was accomplished (Box 1).

### Box 1: Capturing Implicit Objectives: Evaluation of IADB Emergency Lending

In 2001, the IADB undertook an evaluation of the 12 large emergency PBLs mounted during 1998 and 1999. The evaluation argued that key objectives of large, internationally coordinated financial rescue packages were to combat financial contagion by (a) having a positive announcement effect to calm financial markets, (b) providing liquidity to shore up weak financial institutions, (c) encouraging reform conducive to restoring economic growth, and (d) helping to provide funding for key social programs to help maintain living standards and to thereby contribute to support for the adjustment effort. Although combating financial contagion was not an explicit objective of IADB’s individual emergency lending operations, IADB’s assistance was evaluated against the implicit objectives of the broader international rescue efforts. A series of indicators were used to judge the performance of IADB emergency PBLs against both the general goals and objectives of emergency rescue packages, and country program-specific goals and objectives. Indicators assessed relative to the general (implicit) objective of combating financial contagion included the following:

- The strength of the announcement effect was measured by comparing the performance of the different national equity market indexes, bond market premiums, and credit agency outlook ratings with the time at which PBL commitments, key reforms, and disbursements were announced.
- Changes in the level of domestic and foreign deposits in the banking system were used to measure the extent to which normal capital flows were resumed and liquidity in the banking system was improved.
- Trends in gross domestic product growth were used as a measure of the speed of economic recovery.
- Project performance monitoring reports, tranche release documents, and CRs were used to assess the extent to which countries undertook the reform commitments agreed upon, and whether or not these were an effective response to the economic and social problems they were facing.


53. **Macroeconomic Performance Objectives.** For many development policy-oriented PBLs, a key implicit objective is to provide resources to governments to improve the BOP or to enhance fiscal performance. While macroeconomic objectives are fully explicit in the case of IMF stabilization operations, they tend to be either implicit in development policy-oriented PBLs or subsumed under a broadly defined goal of “restoring sound macroeconomic performance.” For development policy oriented PBLs, the extent to which an ongoing IMF program is in place
is sometimes used as a proxy indicator that the financial transfer is contributing to an improvement in the BOP and fiscal balance. In most instances, evaluating the extent to which the borrower remained in compliance with a concurrent IMF arrangement is a reasonable proxy for the degree to which a PBL operation is contributing to improved macroeconomic performance. However, in cases in which (i) the borrower is a chronic user of IMF resources, (ii) the resources transferred under the PBL operation are large relative to the fiscal and BOP deficit of the borrower, and (iii) the capacity of the borrower to service and sustain its public sector debt appears questionable,\textsuperscript{14} compliance with an ongoing IMF program is unlikely to be a sufficient proxy for improved macroeconomic performance. In these instances, further evaluation is required to assess the extent to which the PBL operation contributed to improved macroeconomic performance. This could include an assessment of the reasonableness of the macroeconomic assumptions and program, and the performance of the authorities in correcting macroeconomic imbalances (Box 2).

\textbf{Box 2: Assessing Coherence and Adequacy of Macroeconomic Reform}

PBLs contribute to BOP and fiscal balance. There are strong links between macro-performance and sector reform. One of the objectives of the Barbados Investment Sector Reform Program (ISRP) was to foster macroeconomic stability. Towards that end, IADB support was provided for tax and trade reform, and to implement a medium-term income policy through which wage concessions could be linked to productivity increases. The completion report for the ISRP found that macroeconomic stability was achieved, partly as a result of favorable international conditions and partly as a result of steadfast implementation of IADB-supported tax and tariff reforms. With respect to income policy, the CR concluded (p.6):

“Attempts to link wage concessions to productivity gains were frustrated by the favorable economic conditions that prevailed during most of the past decade. The value-added tax was so successful that as the fiscal deficit fell, incentives for wage restraint disappeared. Consequently, wage increases have been generous, leading to possible further erosion in Barbados’ competitive position vis-à-vis other Caribbean destinations.”

The reasonableness of any macro-reform program needs to be assessed in the context of the adequacy of the underlying macroeconomic framework. An IMF evaluation of recent capital account crises in Indonesia, Republic of Korea, and Brazil found that deficiencies in the macroeconomic framework contributed to flaws in program design and in the forecasts underpinning operations. The IMF special evaluation reported:

“Part of the problem arises because macroeconomic projections in an IMF program are necessarily the outcome of a negotiation. In the case of Republic of Korea, the authorities were reluctant to accept a growth projection lower than 2.8 percent for 1998; in Brazil, the authorities deliberately wanted to be cautious. More important, forecasts were not derived from an analytical framework in which the key determinants of output and their likely behavior during the crisis could be dealt with adequately. In particular, there was insufficient appreciation of (i) the large currency depreciation which might occur in view of the possibility of multiple equilibria and (ii) the severe balance-sheet effects that might result, which would affect macroeconomic outcomes adversely ...In Indonesia, and to a lesser extent, Korea, much attention has focused on whether the initial stance of fiscal policy was appropriate in view of the output collapse that subsequently occurred......the key questions in this respect are (i) were the macroeconomic projections a good guide for judgments on the fiscal policy stances? (the answer is no in the case of Indonesia and Korea).... (p.58).”


\textsuperscript{14} In the first case, evidence of compliance with an IMF program would not necessarily indicate sustainable fiscal or BOP improvement. In the second case, the PBL financing is large enough to have its own macroeconomic impacts. In the third case, the question of whether or not additional debt can be sustained (i.e., was PBL an appropriate financing choice) is relevant.
2. Enhancing Evaluability

54. The evaluability of PBLs varies across operations. In some cases, the reform logic may not be specified, and outputs, outcomes, and impacts may be declared only in general terms. While it would be a mistake to conclude that a more evaluable PBL operation is better, the degree of evaluability exerts an important influence on the extent to which performance against objectives can be assessed. Several initiatives have been launched by the MDB independent evaluation offices to improve the evaluability of PBLs. However, evaluability is a relatively new concept. Evaluations can be done for operations that did not set up a monitoring framework. They can be done better and more easily if the monitoring framework around the objectives of a PBL operation is in place.

55. PBL evaluations should assess the degree to which a PBL operation made arrangements for its monitoring and evaluation. If gaps in those processes exist, the extent to which capacity-building assistance was made available is also assessed within the evaluation. Examination and assessment of the adequacy of monitoring arrangements is routinely undertaken in MDB evaluations of PBLs. Requiring that borrowers undertake high-quality monitoring for all PBLs is another way of improving evaluability. For example, the IADB requires that borrowers provide the data on board-approved and borrower-agreed-upon measurable indicators for clearly specified goals and objectives of PBLs. PBLs launched in 2001 and afterwards have devoted considerable attention to clearly specified program frameworks, specification of result and impact indicators, and identification of results monitoring arrangements.

56. Results and Logical Frameworks. In recent years, the AsDB and the AfDB have made preparation of a logical framework an obligatory part of the PBL preparation process. In the other MDBs, more careful specification of expected performance indicators of a PBL operation, in terms of outputs, outcomes, and impacts, has been encouraged and is gradually being adopted. This takes the form of results frameworks in IADB (Box 3) and World Bank operations. An example of a results framework, drawn from an IADB fiscal reform PBL operation, is in Appendix 4.

57. Since some of the current generation of PBLs that are subject to evaluation do not have well-defined program frameworks, evaluators must make a judgment as to what the goals, objectives, inputs, outputs, outcomes, and impacts at appraisal were expected to be. Often this is done implicitly in PBL performance reviews. In AfDB evaluations, a retrospective logframe (entitled Evaluation Framework) is included in some of the recent program performance audit reports. In contrast to traditional log-frames, the AfDB evaluation frameworks include columns listing achievement/compliance with agreed upon policy reforms and outcomes/impacts.
58. **Evaluability Assessment.** One of the ways of improving the evaluability of PBLs is to undertake an independent evaluability assessment. In addition to identifying the factors that are necessary for a complete evaluation, evaluability assessments provide a means for communicating the need to improve evaluability to operational staff. The IADB has undertaken such an assessment for recent projects, including PBLs (Box 4). Its evaluability checklist is reproduced in Appendix 5. The IADB’s experience suggests that the main advantage of such an assessment is that it can identify and signal the need for greater clarity and performance orientation in PBL (and project) design, while highlighting the need to adopt design and implementation arrangements that will provide a better information base for more uniform and objective evaluation. The main disadvantage is that evaluability decisions reached on the basis of a review of PBL documents may ignore pertinent information in background documents, project files, and the borrower’s routine reporting systems. Moreover, some of the factors that will influence the evaluability of a PBL operation are not known until the time of its evaluation.\(^{15}\)

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\(^{15}\)The evaluability of a PBL operation hinges on the degree to which evaluators have access to and can benefit from the full cooperation and candor of key officials involved in its formulation and implementation. This cannot be guaranteed.
3. Evaluating Quality of Policy-Based Lending Design

59. Although the quality of design is central to the ultimate success of PBL, it tends not to be evaluated in a uniform and systematic manner at completion or beyond. Most PBLs are evaluated in terms of their internal design logic, and not in terms of whether or not the design was a superior way of achieving desired development outcomes. In a typical PBL evaluation, the question of whether or not the design was sufficient, both to be implemented and to achieve the desired objectives, is typically subsumed under performance assessments of relevance. Since most sectors have abundant problems and constraints, most PBL evaluations conclude...
that the design was relevant. More systematic approaches are needed to assess whether or not the best design was selected to address the development challenges facing the borrower.

60. **Was the Best Option Selected?** One way of evaluating whether a PBL design was the best option is to ask if the reform approach was an appropriate means of addressing known development constraints, in light of other feasible options and in the light of international experience. Evaluators have used this approach to assess both the internal logic of a reform program, and its coherence with concurrent PBLs (Box 5). The same approach can also be used, in a more narrow context, to examine the relevance of alternative design options, taking the goals and objectives of a PBL operation as given (Box 6). More broadly, there is little attention given in evaluations to whether a PBL operation was the most appropriate modality to use to address the objectives and conditions or if the operation included an appropriate set of components.

**Box 5: Rethinking Design Logic: Evaluating Program Design Logic for an Algeria PBL Operation**

The 1996 World Bank Structural Adjustment Loan to the Democratic and Popular Republic of Algeria was designed to advance reforms initiated in the prior Economic Rehabilitation Support Loan and to complement the 3 year IMF Extended Fund Facility. It was a wide-ranging operation, aimed at stimulating private sector growth, protecting the poor during the transition to a market economy, and enhancing the country’s ability to mobilize external resources. The CR found that the loan was marginally satisfactory in meeting its major objectives and was expected partly to achieve its development results. But the CR also questioned the relevance of the design, and the design of complementary PBLs in the context of Algeria’s development constraints. Rethinking the PBL operation’s diagnosis, the main assumptions underpinning the design, and its relationship with other PBLs enabled the evaluator to identify design flaws and design alternatives that would have made the operation more relevant to Algeria’s transition challenge.

The CR concluded that excessive attention had been accorded to macroeconomic stabilization, diverting attention from structural reforms. Rationing access to imports and forcing the BOP to sustain a surplus for several years in a row did contribute to macroeconomic stabilization, but this came at the expense of a collapse of the manufacturing sector. Price stability, the CR concluded, was achieved thanks to depressed demand conditions. This was the unintended consequence of the way in which structural reforms were sequenced. Sequencing trade and foreign exchange liberalization before privatization triggered deindustrialization, which, in turn, threatened political support for reforms aimed at fostering outward-oriented development. The CR also noted that the private sector supply response to a more competitive incentives environment was largely confined to small and informal sector enterprises. A broader and more powerful supply response including Algeria’s many medium-scale and larger firms would be necessary to revive economic activity. This would call for a number of additional measures, beyond those supported in the structural adjustment loan, to boost private initiative. The CR concluded that a major flaw in PBL design was the neglect of political economy issues—given the already high level of unemployment prevailing at the start of the adjustment process, it was well known that reforms that would add to unemployment would be politically unacceptable.

Source: World Bank data, Algeria Structural Adjustment Loan (Loan 4005-AL).

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16 Evaluation of design is not emphasized under the relevance criteria or efficacy in the GPS, but is one of the basic elements in assessing both.
What Does Past Experience Say Is Good PBL Design? Several special evaluations of PBLs have been undertaken by the MDBs. These have identified both a number of good design practices (suitable for replication) and design practices best avoided. Appendix 6 is a meta-review of the results of these special PBL evaluations. The distilled findings, taken collectively, constitute a generic checklist of factors relevant to PBL performance that could be included in an examination of PBL design and implementation arrangements. Some of the most important design factors influencing high-performance PBLs include the following:

(i) a national development agenda underpinning reform;
(ii) ownership and favorable political economy of decision making (see below);
(iii) adequate country knowledge and analysis;
(iv) institutional capacity to manage the reform process and to implement agreed upon reforms assessed and factored into the design;
(v) program logic includes an identification of the goals to be achieved; the specific purpose of the operation; reform measures; their expected outputs, outcomes, and development results; together with the key assumptions and risks to performance and an explanation of the design alternatives considered;
(vi) appropriate reform instruments selected and properly sequenced to reach policy targets; internally consistent, relevant, precise, not overly complex or detailed,

Box 6: Assessing Design Logic: The Validity of Key Underlying Assumptions

In Georgia, as in other transition states, privatization of loss incurring utilities was encouraged to foster a more market-oriented power sector. The Implementation Completion Report for the World Bank-assisted Georgia Energy Sector Adjustment Credit questions this design logic.

“Energy sectors in former Soviet Union countries (particularly those which are poor in primary energy like Georgia) carry an enormous macroeconomic burden, probably not experienced anywhere else in the world on such scale, as the combination of such energy-intensive economies, fragile states, near-universal connection to network energy, and cold winters is unique to this region. Low collections, high commercial losses, and low tariffs—resulting from combined effects of mismanagement at the sector and enterprise levels, corruption, inappropriate tariff policies (often justified by social concerns), tolerance of non-payments (typically ordered by politicians), and low affordability—produce significant quasi-fiscal deficits which the sector is forced to carry. The key issue—often not recognized or addressed explicitly by the governments or international financing institutions—is how to manage and eventually eliminate this deficit. The Georgian case illustrates the difficulties of a strategy which deals with the problem through privatization, where the private sector is being asked to take over bankrupt companies with large upfront investment and working capital needs, with limited government support and with expectations that tariff increases will be within the ‘affordability range’ (p.23).”

In Tanzania, the AfDB assisted the Government of Tanzania with a Sector Rehabilitation Program Loan (SRL). Launched in 1987, the SRL was formulated to provide support to the coffee, cotton, sisal, and livestock subsectors as well as to food crop storage; to provide additional trucking capacity; and contribute to a multiagency rehabilitation program for the Tanzania Railways Corporation. The AfDB postevaluation reports:

“The most critical weaknesses were caused by the lack of sectoral and feasibility studies underpinning each of SRL’s components…..the [AfDB] had no experience working on the sectors covered under SRL and this affected the quality at entry significantly. …If proper projections had been done, SRL would have recognized, from the outset, the cyclical decline in the international price of coffee, and its impact on foreign exchange revenue and farmer income from coffee. Despite improvements in the coffee supply, farmer income did not rise sufficiently for farmers to settle their debts…..The single most constraining factor of SRL was the fact that a credible credit delivery system was not worked out, and that an inappropriate intervention instrument was chosen (p.7).”

and manageable in number; and aimed at substantial reductions in major distortions and early success in delivering results;

(vii) economic, social, institutional, and environmental impacts analyzed, and mitigation measures incorporated where necessary;

(viii) performance risks (both internal and external) clearly identified, and risk management strategies agreed upon;

(ix) adequate external financing provided to encourage the country to implement reforms; financing rationale established and impacts (debt sustainability, efficiency of marginal public spending, impact on reform pace) assessed; and

(x) reporting, monitoring, and evaluation indicators identified, and responsibilities assigned and funded.

62. Moreover, experience suggests that PBL design should be treated as part of a long-term reform process (rather than a one-off blueprint) that is best reinforced by implementation practices in which

(i) supervision is used as an opportunity for learning and sharing lessons,

(ii) supervision focuses on achieving desired outcomes,

(iii) participation is fostered,

(iv) problems identified during implementation are expeditiously assessed and resolved, and

(v) the reform agenda builds a constituency for the next generation of reforms.

4. Assessing Ownership

63. Ownership is the extent to which a government is fully committed to, directly involved in, in control of, and accountable for a program of policy reforms. It is an important determinant of PBL performance. A part of this is the degree to which executing agencies provide consistent support for reform programs, when loan resources flow not to them but to the general budget. While few question the importance of “ownership” to PBL success, the evaluation challenge is to introduce a systemic and robust set of tools for assessing credible commitment to reform, and to relate this to the design and implementation of PBLs.

64. Various tools for assessing PBL ownership have been proposed by Branson and Hanna (2002), Ellerman (2002), Hellman and Kaufmann (2000), Molund (2000), and USAID (2000a and 2000b). They include leadership analysis, stakeholder analysis, and reform readiness analysis. Such tools can be used to identify ways for MDBs and governments to build productive partnership for policy reform. They can also be used, in postevaluations, to examine the link between PBL performance and country commitment. Elements of these approaches have been applied in a number of recent PBL evaluations (Box 7).

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17 Leadership analysis assesses the locus of initiative in formulating reform, intellectual conviction among key policy makers, political will among top leaders, and efforts to build consensus among constituencies. It identifies reform champions and assesses the degree of support that they may require to sway political support in favor of one set of reforms or another.

18 Stakeholder analysis identifies those who will likely win and lose from reform, as well as groups that will likely be indifferent to reform. Strategies for organizing probable winners into coalitions in support of reform, compensating losers, and winning over neutral parties to support reform are explored.

19 Reform readiness analysis assesses the rationale that MDBs, the government, and other parties have for reform, and examines the institutional arrangements that affect the ability of different actors to influence policy decisions or implementation.
Box 7: Ownership and PBL Evaluation

Evaluation of the links between PBLs and country ownership has become more sophisticated and more candid. More attention is now focused on the country-specific factors that determine PBL ownership and on the role that the MDBs can play in fostering greater country commitment to the reform process.

The AfDB evaluation of PBL between 1986 and 1997 found that weak and narrow ownership is a major problem in PBL efforts. That review reports:

“It is generally admitted now that the record of structural adjustment to date in Africa has been below expectations (this is general and is not limited to those programmes in which the AfDB participated) in that the results in Africa have been less dramatic than in other parts of the world. This may in part reflect the severity of the initial conditions of the African economies on the eve of the adjustment process. It may also be due to the sheer number and complexity (in the form of extensive conditionalities) of reforms to be undertaken in the face of limited institutional and implementation capacities. Lack of programme ownership by the country poses perhaps the most difficult problem in implementation. In the best of circumstances only a thin strata of politicians and senior officials in the Government are aware of and committed to the reform programmes. To be successful and sustainable, the programmes need to be acceptable to large sections of civil society organizations and strong opposition especially from those who are likely to be affected, needs to be openly faced and weakened. Hitherto, reforms have too often been brought about through coercion rather than persuasion, and no broad-based support has been sought for the programmes. Popular acceptability would be enhanced through the promotion of indigenous thinking and fostering consensus building. The probability of successful implementation will also be enhanced when the views of the Government are taken into account (p.7).”

Ownership patterns become engrained as institutional practice after several episodes of PBL. The IADB comments on this in the case of Honduras:

“With the possibility of a short period in the early 1990s, Honduras’s attitude to reform has been mostly one of resignation—do whatever it takes to get the funding. By most accounts, its input into program design has been minimal and even some product managers do not fully grasp—or fully share—“the concept.” Here is an area where deeper and more sustained policy dialogue might help both to improve program design and enhance the buy-in to the reforms, through a mutual learning process. Beyond the initial effort of putting the program together, there seems to have been scope for greater IADB involvement in helping [Government of Honduras] explain and “sell” the programs (p.37).”


65. Some of the other indicators of ownership-fostering PBLs that are used in MDB evaluations include the extent to which participatory processes, involving widespread stakeholder consultation, contributed to program formulation and the degree to which the rationale for and likely impacts of reform were explained to and accepted by the general public. The AsDB has compiled a checklist of different dimensions of PBL ownership related to PBL conditionality, and the World Bank has applied an “ownership index” in several of its PBL evaluations (Box 8). Use of simple ownership-checklists and indexes to assess the breadth, intensity, and determinants of ownership in different contexts could help to provide a more systematic approach for assessing credible commitment to reform.
Even when formal ownership assessment tools are not used, high-quality PBL evaluations tend to address issues related to the leadership of the reform effort, the breadth of reform support in government, the breadth of support in civil society, and the extent to which PBL design reinforced national ownership. The sorts of questions that such evaluations address include the following:

(i) Were there reform champions in the government, and did they have high-level political support during the entire PBL preparation and execution process?
(ii) Did the executing agencies and the agencies responsible for implementation support the agreed upon reforms during the entire PBL preparation and execution process?
(iii) Were the purpose, objectives, and likely effects of reforms adequately communicated to key interest groups and the public?
(iv) Was the PBL rooted in a national vision and strategy?
(v) Did the government actively participate in reform design?
(vi) Was conditionality designed to reinforce national ownership?
5. Assessing Political Economy of Decision Making

Research on development effectiveness shows that PBLs perform best when political conditions are favorable to reform, and that conducive political conditions are the single most important determinant of effective PBLs (Box 9). It is now generally agreed that there is little merit to reform programs that are best in theory, but cannot be politically accepted or implemented. A relatively small set of political economy factors in borrower countries appears to explain the success or failure of a PBL operation. This includes commitment to reform shared by influential people at both the political and bureaucratic levels, social cohesion, timing, accountability, length of tenure, and whether or not a crisis precipitated reform. Timing PBL at a point when serious problems demand policy change and ensuring that adequate political support has been mobilized to secure and sustain reform, that society is cohesive enough to back the program, and that politicians will be in office long enough to see the benefits of reform are some of the political characteristics associated with effective PBLs. While MDB evaluations of PBLs do provide some attention to such factors (Box 10), this is an area in which the findings of development effectiveness research, as well as the development of evaluative tools (stakeholder assessment, institutional assessment, political expert interview techniques) can better inform the scope, focus, and even the staffing requirements of PBL evaluations.

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20 See Stuart S. Nagel. 2002. Handbook of Public Policy Evaluation, for a discussion of super-optimizing techniques and win-win policy evaluation approaches that involve the identification of policy choices that bring some net benefits to all parties to the policy change. Super-optimizing techniques involve the search for reform options that convey maximum benefits that are better than conventional experience would suggest, subject to the constraint that costs arising from implementation should be minimized. The objective of win-win evaluation is to identify policies that will convey large benefits without undesirable costs. For example, pollution control policies might range from conservative approaches that emphasize the role of markets in regulating business from antisocial activity to interventionist approaches that require governments to ban polluting practices. A compromise policy might involve the provision of subsidies to businesses to adopt antipollution devices. A win-win policy option, by comparison, might involve provision of funding to research institutes to develop cost-effective nonpolluting technologies that could substantially prevent the pollution in the first place. While many win-win evaluation techniques are for ex-ante policy identification, the concepts can also be applied ex-post.
Box 9: Development Effectiveness and the Political Economy of Reform

Recent research on development effectiveness has concluded that political support for reform is a prime determinant of PBL performance. PBLs must take into consideration the political context, and either be selective about the settings in which they are mounted or take steps, in both design and implementation, to secure adequate political backing. In What explains the success or failure of structural adjustment programs?, it is reported that a small number of political economy variables can predict the success or failure of adjustment programs 75% of the time. Successful adjustment loans are associated with governments that were democratically elected, do not have political crises, have a low degree of ethnic fractionalization, and were recently elected (recently elected governments had a 95% success rate in World Bank adjustment programs). It was proposed that the World Bank should identify promising reformers as a prerequisite to success in adjustment lending. This hinges on the World Bank becoming more selective and understanding better what are promising environments for reform and which are not. In What determines the implementation of IMF-supported programs?, it is concluded that the main contributor to successful program implementation is a favorable political economy, measured as a stable polity (based on relative absence of internal conflict using a point risk factor scale), with a good quality bureaucracy (based on a four-criteria scale), lack of large special interests represented in parliament, and no ethnic divisions in society. Conversely, programs were unlikely to be implemented in adverse political settings marked by strong vested interests in parliament (defined as number of seats in parliament held by a special interest group), lack of political cohesion (same party not in control of executive and legislature), poor quality of bureaucracy, and ethnic division.

Different political science tools can be used to evaluate the political feasibility and sustainability of reform. Wimmer, De Soysa, and Wagner (2002) apply three such tools to the case of IMF-supported policy reform in Pakistan. The political science tools that were used include the following:

Stakeholder political analysis is a method used to assess the power and influence of the major stakeholders and estimates how this balance will develop in the future. It identifies those groups that have a stake in economic reform, analyzes the importance that each attaches to program measures, and the interests that they have in implementing, modifying, or blocking reform. It also assesses the relative chances that they may influence the course of the reform process. A stakeholder political analysis is used to estimate how the power base of the government, the bureaucrats, and politicians, and “ownership” of the reform program, will evolve, first by extrapolating current trends, second by assessing how these factors will change due to effective implementation of PBL, and finally by introducing different political scenarios.

Institutional analysis includes various ways of assessing the influence of institutions on reform. Institutional mapping describes the network of institutions involved in decision making and reform implementation, including the incentives that influence institutional behavior. Veto power analysis assesses the relative power and independence of those parts of the bureaucracy that are able and committed to implement reforms. Institutional capacity assessment examines the professionalism, recruitment processes, educational background, and motivation of those in government expected to design and implement policy reform. As in the case of stakeholder analysis, a comparison is made among the trends in institutional performance (and how existing trends may influence reform implementation), the institutional consequences of a PBL operation (on capacity and willingness to reform), and the application of different scenarios of institutional change to examine how this might influence reform prospects.

Delphi studies are one of the tools for qualitative assessment of expert opinions. They consist of at least three rounds of expert surveys, in which the same group of experts are informed after each round about the mean answers to the previous round. To assess the consequences of reform, experts from think tanks, universities, media, advisory bodies, and others are asked to assess (i) the prospects for the reforms being implemented, given current political trends; (ii) the political impact of the reform and how this may affect the possibility of sustained reform; and (iii) the probability of different midterm political scenarios and the prospects for sustaining reform under these scenarios. Delphi studies can be used to quickly assess the range of opinions with regard to specific policy options and to assign probabilities to different future political risks.

Box 10: Applying Political Economy of Decision Making Analysis in PBL Evaluation

Early PBL evaluations focused on the role that leadership and political support play in program implementation. More recent PBL evaluations have assessed the role that differences in political and social starting points, institutional incentives, the distribution of policy impacts, stakeholder interests, and political decision-making processes have on the reform process.

Mozambique. Who Gains Matters. An internal postevaluation report that examined a series of six adjustment credits and two supporting TAs concluded that the structural adjustment program was developed without full appreciation of relevant factors. While enterprise privatization was well intentioned and designed to include substantial indigenous ownership, it did not estimate correctly local private sector capacity or resources. The visible success of foreign owners juxtaposed with the failure of domestic owners has created resentment, especially when the foreign owners were colonial rulers only 25 years ago. Disgruntled local entrepreneurs, backed by trade union support based on workers made redundant by privatization, make a strong lobby against reforms. The review concluded that the only obvious way for locals to participate in the country’s externally driven growth is by extracting rents, which delays further reforms. Few democratic governments can withstand for long the resentment of large organized groups of people who feel excluded from their country’s development.

Haiti. Getting Politicians on Board. A country program evaluation of the IADB’s assistance to Haiti found that securing Parliament’s support was central to fostering reform progress.

“A careful reading of this document reveals the crucial role that Parliament played in some operations. In some, its refusal to ratify them caused delays or outright stalls in program delivery. In others, it demanded, and obtained, modifications in the loan administration, that may have contributed to their poor performance…First, there is a clear need to talk to Parliament early, during the design of an operation, much as is done with the executive, both to try to understand its views, when this seems adequate, or to explain the [IADB’s] position…Second, there is the need to stand firm on the design of a project, when the [IADB’s] experience, and lessons learned elsewhere, show that it would be unwise to accept changes simply to accommodate Parliament (this can also apply to the executive) (p.III).”

Thailand. Redistributive Effects Matter. The AsDB Agriculture Sector Program Loan to Thailand, post-crisis in 1999, triggered demonstrations, drawing attention to perceived inequity in the use of the loan proceeds and the social costs of the policy reforms. While the loan proceeds ($300 million loan plus $300 million in cofinancing by Japan) were used for fiscal support (including bank bailouts), policy reforms related to land-use rights, forestry demarcation, and water user fees were expected to boost short-run costs and restrict resource-use access for small farmers.


68. Understanding the institutions and stakeholders involved in a particular policy setting and the incentives affecting decision making is central to determining what policy choices were feasible in any given context. Focusing on the institutional dimension of policy decision making also underscores the process nature of policy and institutional change, with reform seen as being less amenable to detailed ex-ante specification, and more of an unfolding process of evolving incentives, rules, actions, proposals, and moments conducive to change. This perspective emphasizes the role that PBLs play in establishing a partnership built around mutual interests, the centrality of reform leadership, and the need for institutional capacity to assess and advise on reform options throughout program implementation. It also underscores the need to evaluate who is affected and in what way effects will influence support for reform in the future.
C. Evaluating Outputs

69. Many PBL evaluations continue to focus on the delivery of inputs, or conditionality compliance, rather than assessing outputs or outcomes. Outputs, in this context, refer to the actual implementation of agreed upon reforms and the utilization of PBL funds.

70. Sometimes it is difficult to identify what the intended outputs of PBL were. This is an all-too-common evaluability deficiency, and is best addressed by noting that objectives-at-appraisal were poorly defined and need to be rephrased for evaluation purposes. In practice, more systematic effort is needed to assess whether or not PBL outputs were actually achieved. Not all conditions required to make outputs and outcomes come about are reflected in policy matrices or specified as tranche conditions. Complementary changes must be made, in legislation, regulation, public awareness, and financial and institutional arrangements, if changes in public policy are to be put into effect.

71. In assessing PBL outputs, evaluators need to assess not only the extent to which inputs were delivered (i.e., agreed upon reforms took place) but also the degree to which measures complementary to the PBL operation (or measures necessary for its implementation) actually occurred. A review of performance indicators, activity surveys, and structured interviews with key stakeholders can be used to assess whether or not the implementation of PBL-supported measures actually gave rise to the outputs and outcomes expected of them. An example drawn from the Banking and Enterprise Sector Adjustment Credit in Mongolia illustrates why policy conditionality compliance cannot always be relied on as a proxy for delivery of agreed upon outputs and outcomes (Box 11).

D. Evaluating Outcomes

72. **Benchmarking.** Outcomes refer to the changes in the enabling environment for economic and social activity that occur as a result of the implementation of agreed upon reforms and the utilization of PBL proceeds. Comparing progress actually achieved in terms of outcomes with various benchmarks of a good enabling environment in a particular sector can be used to assess the degree to which a PBL operation has made a “minor,” “moderate,” or “major” contribution towards achieving desirable results. The European Bank for Reconstruction and Development (EBRD) benchmarked country-specific progress in transition to ideal standards to evaluate the organization’s contribution to transition in the former Soviet Union and in Eastern Europe (Box 12). In practice, many evaluations assess the degree to which PBL-generated
outputs and outcomes are significant by comparing these to regional reference values or other international benchmarks.

**Box 12: Benchmarking Performance: The 2001 EBRD Transition Impact Retrospective (TIR) Evaluation**

The process of moving from a centrally planned to a market economy requires deep policy, legal, and institutional change. To evaluate the contribution of EBRD activities at the sector level, the EBRD needed to (i) compare country performance to good performance norms, and (ii) assess the contribution of EBRD activities to those achievements. For the sector mapping, the TIR defined 12 sectors—based on the main areas of activity of the EBRD—and for each sector established a transition event line, i.e., a stylized sequence of changes as sectors move from their centrally planned past to a functioning market model. These event lines represent benchmarks for success. The EBRD’s project choice and design were then related to appropriate points on the event lines. A qualitative judgment was made, by EBRD evaluators, staff, and country officials, on whether the EBRD had succeeded in meeting its transition objectives at the project level, and whether the change achieved through the set of EBRD projects in a sector had caused change along the transition event line for the sector as a whole. Transition impact in each country was classified as none, minimal, moderate, significant, or very significant.

The EBRD’s contribution to transition was rated as minimal in cases in which there were (i) no operations approved, signed, or at an advanced pipeline stage; (ii) successful operations but transition impact did not go beyond the company itself; or (iii) operations with good transition impact potential but it had yet to be fulfilled because the project cycle was at an early stage (e.g., predisbursement). The EBRD’s contribution to transition was rated as very significant in cases in which all of the following were evident: (i) the EBRD had successfully tackled at least two pressing transition challenges in the sector (event line); (ii) the EBRD had substantial presence in the sector; and (iii) the EBRD had a proactive approach, i.e., Bank took the lead.

An example of a transition event line that was used to evaluate the EBRD’s contribution to transition in the financial sector is as follows:

(i) establishment of a two-tier banking system;
(ii) liberalization of interest rates and credit allocation;
(iii) reform of prudential regulations and introduction of effective bank supervision; eventual full convergence of banking laws and regulations with Bank for International Settlements standards;
(iv) development of the legal framework for private sector lending (e.g., adoption of a collateral law and setting up of a pledge registry);
(v) liberalization of entry and exit of private banks; promotion of competition through new entry, with a supportive legal framework;
(vi) recapitalization and successive privatization of state-owned banks within a competitive industry structure;
(vii) development of business practices and corporate governance in line with modern market economies; and
(viii) deepening of financial intermediation, broadening of services—including retail products—and stabilization and diversification of funding sources.


**73. Isolating and Assessing Outcomes.** Changes in public policy can have wide-ranging effects, both desired and perverse. These take place with lags. Many factors besides the PBL may influence outcomes and impacts. Shocks, macroeconomic developments, other policy reforms, and changing market conditions can influence the same set of performance variables as PBL. In many evaluations, it is assumed that the only factor influencing outcomes is the change in the policy regime. Before-and-after comparisons, using descriptive statistics and ad-hoc calculations, are used to assess outcomes and impacts. This involves comparing base values of policy targets with values achieved at completion and postevaluation. The AIDB, in its PBL postevaluations, compares PBL target variables a few years prior to an operation with those at closing and postevaluation (Box 13).
Box 13: The AfDB Approach to Assessing the Impacts of PBL Reform:

The "Before-and-After" Method

The most straightforward approach in evaluating PBLs is the "before-and-after" method. One application of this method is to measure indicators of the key development objectives and goals of the operation over a period of 3-4 years before the start of the operation, and for a similar period beginning near or at the end of the operation. In the case of a typical industrial sector adjustment loan (SECAL), these indicators might include:

- growth of GDP
- growth of industrial or manufacturing value-added
- share of industrial value-added in GDP
- share of manufactured exports in total country exports
- share of country manufactured exports in all manufactured exports from developing countries
- ratio of investment (public and private) to GDP
- real exchange rate and real rate of interest

Some SECALs (e.g., in their logical framework matrices) have also included:

- growth of industrial employment
- reduction in balance of payments trade account deficit
- indicators of growth in efficiency or productivity
- changes in rate of industrial capacity utilization

A Modified Before-and-After Approach

The "before-and-after" approach by itself cannot separate out the effects of other factors that influence such indicators. These can include the following:

- changes in world markets that affect the prices of major imports or exports beyond the control of the country
- drought or other serious weather-induced impacts on agricultural production and markets
- civil disturbances in countries that interfere with important trading relationships or stimulate large inflows of refugee populations

A careful analysis of trends and sequences in economic, social, and political factors likely to influence SECAL objective and goal indicators is important, as is a critical assessment of the validity of the assumptions of the logical framework.

Advantage should also be taken of previous evaluations and research, including comparative studies of experiences with structural adjustment. They can suggest factors that have been associated with successful adjustment.

Finally, the insights obtained from other sources of information, including key informant and group interviews and minisurveys, can shed further light on attribution issues. Ideally, there should be opportunity for iteration between methods of data collection. For example, review of secondary data and key informant interview results may suggest important questions to be asked in minisurveys and group interviews.


74. Drawing on descriptive statistics and ad-hoc calculations to compare the situation prior to and after a PBL operation has merit in cases in which the counterfactual (i.e., what would have happened without reform) is that the policy context remain much as it is, response lags are short (i.e., less than 2 years after completion), and exogenous conditions prior to and after reform are approximately the same. This has the advantage of comparing "real" results with "real" prior conditions (Box 14). The problem, however, is that the assumptions underpinning the validity of these comparisons may not hold.
More rigorous analytical approaches are available to isolate PBL outcomes, and to compare performance with a counterfactual scenario. Some PBL evaluations have employed simple growth decomposition methods to isolate the effects of policy change from major shocks and changes in the terms of trade. Others have used cross-country regression models to distinguish the effects of policy change from starting points and structural characteristics of borrowers.

Comparing to the Counter-Factual Case. A comparison with what would have resulted had there been no PBL operation—to a counterfactual—is the appropriate way to evaluate outcomes and impacts. This is a more analytically demanding and contentious task than “before-and-after” comparisons. The main problem is that the counterfactual is unobservable, and different stakeholders may have diverging views on what would have happened in the absence of any operation. Serious construction of counterfactuals is relatively rare in MDB evaluations. There are cases, however, in which a consensus of informed experts can be used to define a suitable counterfactual (Box 15). In some cases, PBL appraisal reports have included a “without reform” scenario for certain key outcome and impact variables. It may also be possible to use performance of policy and impact variables in “similar” countries that did not undertake PBL-supported reform as a baseline comparator.

Box 14: Simple Comparisons and PBL Impacts

A special study by the AsDB on its experience with PBLs reported the following examples:

- The AsDB Hydrocarbon Sector Program Loan to India was expected to result in a 20% increase in crude oil production. Actual crude production in 1996 was 8% lower.
- The AsDB 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. Wheat production has declined by almost 50%.
- The AsDB Education Sector Loan to Mongolia was aimed at reversing an alarming rise in school dropouts and a deterioration in education quality. Dropout rates fell sharply after the program loan, education participation rates improved, and test scores and other measures of improved quality registered steady gains.


Box 15: Counterfactuals for Assessing Impacts: Privatization Approaches in Transition

Nellis (2002) discusses possible counterfactuals to World Bank assistance for privatization in Poland, Czechoslovakia, now called the Czech Republic, and Russia. He reports:

“One can make a case that the likely alternative to mass and rapid privatization to insiders in Russia was not some close approximation of the Polish or Hungarian approaches, but rather what one sees in Ukraine: very slow privatization of larger firms, rampant and rapacious bureaucratic interference in firms, and, in the absence of a powerful set of insider-owners, political stagnation as the various factions fight over the still initial division of the spoils (p.42).”

77. A simple comparison between what was anticipated and what actually transpired is sometimes sufficient to illustrate the order of magnitude of the likely PBL impacts. For example, in cases in which the counterfactual was an unsustainable situation (e.g., inflation out of control, imminent debt default, systemic collapse of the banking system), a comparison of the main performance indicators with the "untenable" counterfactual is sufficient to assess the effectiveness of a PBL operation.

E. Evaluating Impacts

1. Choice of Method

78. In other cases, more sophisticated economic analysis tools may be needed to untangle the direct and indirect effects that a PBL operation has on economic performance. Various quantitative modeling approaches can be used, ranging from partial equilibrium analysis to representative household models, simulation models, and applied general equilibrium models. The main advantage of employing such models in the evaluation process is their theoretical rigor. The main disadvantages are that they are demanding in terms of data requirements, time, and skills necessary for the evaluation. While the use of model-based evaluations is common in research-oriented exercises, in only a small number of cases have mandatory MDB evaluations employed formal economic models to assess PBL outcomes and impacts (Box 16).

Box 16: Using Quantitative Analysis to Assess PBL Impact

The World Bank’s special study evaluation of higher impact adjustment lending (HIAL) in Sub-Saharan Africa assessed the impact of HIAL on macroeconomic variables by (i) comparing outcomes before and after the program; (ii) comparing outcomes over time with outcomes in a comparator group of countries; and (iii) econometrically estimating the determinants of growth to assess the significance of different aspects of HIAL-supported policy reform. While descriptive statistics were used for the first two components, econometric modeling was used to assess the contribution of PBL-assisted reform to per capita growth.

The HIAL evaluation used structural growth determinant models to quantify HIAL impact. Cross-country regression analysis related average per capita growth rates for the HIAL period (1996-1998) to two sets of variables. The first included the investment/GDP ratio in the same period, and the changes in macropolicy variables (i.e., change in the ratio of the primary fiscal balance to GDP, change in the real effective exchange rate) from the pre-HIAL period to the HIAL period. The second set of regressions included variables that measured the policy performance ratings that the World Bank had assigned to each country (i.e. the country performance rating, and the country performance and institutional assessment [CPIA] rating). The CPIA measure is a composite of indexes of policy performance in macroeconomic management, policies for sustainable and equitable growth, policies for reducing inequalities, public sector management, and portfolio quality. These variables, together with governance measures (e.g., indices of civil liberties, press freedom) and the role of external assistance (e.g., net disbursement as a percentage of GDP and net transfers as a percentage of GDP) were included in the growth regressions to capture the effects of a broader set of structural, institutional, and external effects on growth.

The cross-country regression analysis showed that growth in the HIAL countries was closely associated with the investment/GDP ratio and improved fiscal performance. Indicators of good policy performance were positive in all of the regressions, and significant half of the time.


21 Khan (1998) reports that efforts to define the effectiveness of a IMF-supported adjustment operation is complicated by the fact that the theory underlying the dynamic linkages between complex packages of policy measures and economic outcomes is not well-defined, and because a PBL operation is generally only one of the many macroeconomic “shocks” to a country with a program.
2. Shocks

79. Evaluating a PBL during a shock-affected period poses special challenges. Faced with a severe shock, evaluators must first assess whether or not the shock could have been anticipated and adequately mitigated. In some circumstances—e.g., in open economies with narrow export bases—the PBL could be found deficient if it did not plan for volatile economic circumstances. In other cases, shocks cannot be anticipated or the risks fully mitigated. It is unrealistic to imagine that severe climatic shocks, civil unrest, sharp changes in global market sentiment, or changes in government can be adequately predicted.

80. The effects of a shock may be so large that they mask the effects of any PBL. Both quantitative and qualitative techniques exist for isolating the effects of shocks on economic and social performance. Growth decomposition techniques can provide evaluators with an approximate guide to the share of the change in a target variable that can be statistically attributed to policy change, versus that resulting from a shock. Qualitative techniques can also be used to distinguish the effects of a shock from the effects of PBL. In a qualitative approach, evaluators draw on local knowledge and expertise to reach a judgment about the significance of the shock on the key outputs, outcomes, and impacts that a PBL operation aimed to achieve. A judgment is also reached on the degree to which those key results are likely to be achieved in the future, once the effects of the shock have passed (Box 17).
Box 17: Isolating PBL Effects from Shocks

Growth decomposition models can be used to distinguish the effects of policy change from macroshocks, terms-of-trade movements, and other exogenous effects. This approach has been applied in an MDB research setting, to compare the contribution that policy reform made to economic growth in Latin America with that of the effects of cyclical, shock, terms-of-trade effects (Loayza et al. 2002).

Simple growth decomposition models have also been used to distinguish the impacts of policy change from other effects in MDB evaluations of PBLs. An example is the postevaluation of the Western Samoa agriculture sector loan undertaken by the AsDB in 1995, a comprehensive sector reform program aimed primarily at improving the incentives environment for agriculture in what was largely an agrarian economy. The reform program was implemented during a period in which Western Samoa was struck by a series of severe typhoons and in which the terms of trade for its major exports oscillated wildly. A growth decomposition analysis was used to distinguish the effects of shocks and trade changes from policy reform effects, to assess the extent to which the program loan improved the incentives environment. The findings of that analysis were reported in the evaluation, under a discussion of PBL results, as follows:

“…program-supported policy changes did not improve the incentives environment for agriculture...The net barter terms of trade deteriorated between agriculture and the nonagricultural sectors despite a significant (42 percent) improvement in the external terms of trade. Thus, the benefits of the recovery in global commodity markets for agricultural products were not transmitted to domestic producers. During a period of adverse climatic and trade shocks, the Government relied on growth in external financing to stimulate domestic demand, instead of adjusting economic policies to stimulate economic diversification and export expansion. The main factors that turned the terms of trade against agriculture include the strengthening of the real exchange rate, the increase in the minimum wage, and the removal of price supports for copra (p.18).”

An example of a qualitative assessment of an unanticipated shock is provided in the discussion of a public finance reform program, supported by the AfDB, in the late 1990s in Niger:

“The implementation of the new programme, which received AfDB Group support in October 1998, was interrupted in the wake of the April 1999 political events (assassination of the President of the Republic, followed by the suspension of the Republican Institutions), which questioned in part the progress made since 1996. The economic consequences of this instability were further aggravated by the withdrawal of nearly all the external financial support to Niger during the transition period that followed. In addition, Niger was no longer able to honour its commitments to the AfDB Group—a fact that led to the suspension of disbursements on all ongoing projects, starting from 1st August 1999. All these difficulties led to the derailment of the programme and the cancellation, in March 2001, of the second tranche of the ADF loan... The principal lesson to be drawn from the implementation of the programme is the vital importance of political stability... Of the 55 measures, 44, i.e. 80%, have been implemented (37 within the programme schedule and 7 behind schedule), and 11 measures have not. The 11 remaining measures that appear in the new 2001-2003 reform programme would probably have been implemented if the President of the Republic had not been assassinated; the consequence of which is the freezing of donors’ aid... in spite of the political instability, which compromised the success of the programme, the Authorities continue to show a real determination to carry the reform programme to a successful end (p.4 and 5).”

3. Completeness of the Reform Effort

81. A variety of qualitative techniques can also be used to assess PBL results. The most simple technique is to interview leaders of different categories of stakeholders to assess their perspectives on the impacts of reform. Beneficiary satisfaction with the results of policy change can be scored using small surveys or beneficiary scorecards. Comparing progress made in a given PBL with various benchmarks of good policy in a particular sector can be used to assess the impact that a given set of MDB-supported reforms has had on the enabling policy and institutional environment.

82. Growth, employment generation, and private sector development, including the stimulation of small enterprise, are often the main goals of PBLs. Unless economies respond positively to improved policy and institutional regimes, the returns to PBLs will be insufficient to repay PBL debt. While PBL evaluations often discuss key aspects of economic performance, seldom do they assess whether or not PBLs (either individually or as a group) focus on measures that are necessary and sufficient to achieve desired growth, employment, and private sector development objectives.

83. A more uniform qualitative or quantitative assessment of the “completeness” of a PBL operation, including an assessment of the program logic linking PBL reforms and growth, employment generation, and private sector development, could provide a better guide to the likelihood that the economic and social returns to PBL-supported reforms will or will not exceed the costs incurred. In many instances, a qualitative assessment of the linkages between the PBL design and the desired development goals and objectives is sufficient to identify what elements are missing, or could be better designed, so as to improve the probability of eventually achieving desired gains in economic performance. With the benefit of ex-post information, simulation, cost-benefit, cost-effectiveness, and other quantitative techniques can also be used to make such judgments. While falling short of a full-scale cost-benefit analysis, a comparison of the main outcomes and impacts with what was initially expected can serve as a good proxy to assess the efficiency of a PBL (Box 18).

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4. Social and Poverty Effects

Assessing the social outcomes and impacts of policy reform is a routine part of MDB PBL evaluations. It is complicated by the fact that policy change may have a mix of both positive and negative effects. In most instances, evaluation of PBL poverty impacts includes an assessment of changes in aggregate poverty conditions, assessment of changes in living standards of groups directly affected by PBL-supported reform, and review of the implementation and effectiveness of mitigation measures designed to serve as “safety nets.” In some cases, the total incidence of PBL reforms on the poor and vulnerable is assessed, by tracing through the various transmission measures by which policy reform impacts on the welfare of different social groups, and by comparing ex-ante assessments of likely poverty impacts with actual achievements (Box 19). In recent years, a number of separate evaluations of the poverty and social impact of PBLs have been mounted (Box 20). These have generated findings useful in both the design and evaluation of PBLs. MDB support for strengthening poverty monitoring efforts, including purposeful surveys aimed at assessing changes in living standards, have also enriched the understanding of changes in poverty conditions, and have facilitated more complete evaluations of the welfare effects of PBL-supported policy change.
Simple tools that are used in ex-ante assessment of poverty impacts can also be used for ex-post evaluation, an example of which is provided in the table drawn from an IMF Poverty Reduction Growth Facility Loan for Sri Lanka. This table contains a preliminary and qualitative evaluation of the likely impact of some of the reforms supported by the PRGF-EFF supported program.

<table>
<thead>
<tr>
<th>Policy Reform</th>
<th>Implication</th>
<th>Impact on Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal consolidation</td>
<td>Macroeconomic stability; lower spending on interest; increase in priority spending; lower inflation</td>
<td>Positive, through growth and higher spending that benefits the poor, and by avoiding high inflation, which disproportionately affects the poor.</td>
</tr>
<tr>
<td>Raise fiscal revenues through simplifying tax regime, rationalizing tax exemptions, and improving tax administration</td>
<td>Increases equity and efficiency of the tax system; allows for lower tax rates on a wider tax base</td>
<td>Possible negative effects of the eventual removal of value-added tax (VAT) exemptions, for instance in some food items and in retail sector (not planned for 2003); however, the poor tend to transact with enterprises that are below the threshold for VAT</td>
</tr>
<tr>
<td>Rationalization and reorientation of government spending</td>
<td>Contain/reduce wage bill; increase priority spending.</td>
<td>Possible negative effects on workers made redundant; the government, however, intends to make use of attrition and voluntary retirement schemes to the extent possible; positive, through spending on rural infrastructure and other priorities</td>
</tr>
<tr>
<td>Welfare reform—implement the new Welfare Act</td>
<td>Target beneficiaries through means testing; reduce politicization</td>
<td>Positive, because of lower exclusion of deserving beneficiaries and room for a higher level of benefits</td>
</tr>
<tr>
<td>Labor reform</td>
<td>More flexible labor markets, lower procedural and pecuniary firing costs.</td>
<td>Positive, through better incentives for job creation; negative, owing to more job destruction; mandatory redundancy payments, however, remain generous and an unemployment insurance scheme is being put in place</td>
</tr>
<tr>
<td>Public enterprise reform, privatization, and liberalization</td>
<td>Increased efficiency and private sector participation in electricity, petroleum, and telecom sectors; lower quasifiscal costs</td>
<td>Positive, through growth; short-term costs of restructuring ameliorated by the use of voluntary retirements schemes; Employment policies are made part of the bids by potential buyers</td>
</tr>
<tr>
<td>State-bank reform</td>
<td>Increased efficiency of banking system; lower quasifiscal costs</td>
<td>Positive, through elimination of a large contingent liability that, if unchecked, would have eventually crowded out priority spending; short-term costs of restructuring ameliorated by the use of voluntary retirement scheme and separation payments</td>
</tr>
<tr>
<td>Strengthen bank supervision</td>
<td>Prevents banking crisis and limits banking system risks.</td>
<td>Positive, as it promotes sustainable growth and protects the savings of the population.</td>
</tr>
</tbody>
</table>


The World Bank, Department for International Development of the United Kingdom, and other development partners, have encouraged the use of poverty and social impact analysis (PSIA) to analyze the distributional impact of policy reforms, with particular focus on the poor and vulnerable. PSIAs also are used to consider trade-offs among reforms on the basis of their distributional impacts. A typical PSIA starts with the ex-ante analysis of expected poverty and social impacts of policy reforms, with a view to helping to design the reforms. PSIA then advocates monitoring results during implementation. The PSIA follows a ten-step process that includes asking the right question, analyzing stakeholders, understanding transmission channels, assessing institutions, gathering data and information, analyzing impacts, contemplating enhancement and compensation measures, assessing risks, monitoring and evaluating impacts, and fostering policy debate and feeding back into policy choice. A mix of both qualitative and quantitative approaches is used in a PSIA, including social tools (social impact assessment, participatory poverty assessment, beneficiary assessment, and social capital assessment), direct impact analysis tools (average and marginal incidence analysis, poverty mapping, and tools to assess public service delivery), behavioral models (supply and demand analysis, behavioral incidence analysis, and household models), partial equilibrium analysis (multimarket models or reduced-form techniques), general equilibrium models (social accounting matrices and computable general equilibrium models), and tools linking microeconomic behavior or distribution with macroeconomic frameworks or models. Although PSIAs are intended to be an ex-ante tool for policy choice, they have generally been implemented well after the main policy choices have been made. As a result, the PSIA data bases, analysis, and consultations have proven more useful for PBL monitoring and evaluation than ex-ante assessment.

IADB social impact analysis draws heavily on the monitoring and analysis of poverty and social conditions undertaken by its borrowers. Social impact analysis is used in IADB PBLs to establish baseline conditions and to identify the likely impacts of an IADB-supported reform effort on the welfare of the poor and vulnerable. In addition to its own social impact analysis, IADB PBLs also build on the poverty status reports and poverty impact assessments that are routinely prepared by its borrowers, often with institutional capacity-development support from IADB. Many IADB borrowers have well-established social assistance programs, and the operation of these programs generally involves routine monitoring of the poor and of key social programs. An example of this is the Argentine Social Program Information, Evaluation and Monitoring System, which systematically tracks social programs, and Argentina’s Consolidated Beneficiary Household Identification and Registry System, which conducts a census of poor families on a regular basis. IADB also supports the Program for Improvement of Surveys and Measurement of Living Conditions in Latin America and the Caribbean. The program provides support to IADB member states to conduct household surveys, living standard surveys, and other surveys to assess access and usage of public services by different social strata. At IADB, procedures have been developed to convert the survey data collected by different countries into comparable time series, so that trends in the impact on the poor of policy change can be assessed.

The AsDB has developed a poverty impact assessment technique that is based on a matrix that traces through the probable market, factor market, pricing, and expenditure effects of PBL reforms on the poor in both the short and medium term. The matrix is disaggregated by type of reform. A poverty impact assessment analysis can be used to disaggregate the incidence of PBL costs and benefits and assess the proportion of these, valued at economic prices, that are incurred by the poor. The use of a matrix to document the flow of poverty reduction effects, and a PIA analysis to assess incidence, can be used to foster program designs that are mindful of poverty reduction effects and that aim to maximize the spread of project net benefits to the poor.

5. Attribution or the Additional Role Played by the Policy-Based Lending Operation

In PBL evaluations (and development effectiveness research), considerable effort is expended trying to apportion credit for success or failure to a given PBL operation. In practice, trying to attribute policy change to a particular PBL operation is unlikely to yield meaningful evaluative results since many stakeholders are involved in the policy change process. Only in exceptional cases can it be demonstrated that MDB advice and support were indispensable to a particular measure being adopted. Increasingly, the use of formal quantitative attribution (i.e., X% of policy change is due to this loan) in performance evaluation has been replaced by a qualitative assessment of the “additionality,” over and beyond funding, that a PBL operation has brought to the policy reform process. Whether or not a PBL-accelerated reform strengthened the hand and credibility of reformers, raised the perceived political returns to reform (in terms of easing budget constraints and positive reputation effects), fostered policy learning, built domestic capacity to design policy, provided an “imported template” for crisis management, or spurred debate and dialogue about new approaches to meeting development objectives are among the issues that are assessed in evaluations of the “additionality” of a PBL operation. Such an assessment can help infer whether MDB support was likely to have increased the probability of sound policy decisions, and full and sustained policy implementation. A key consideration is the extent to which the MDB contributed to the "internalization" of the policy reform process and program in the borrower (Box 21).

Box 21: Clarifying the “Additional” Value of PBL to the Reform Process

Would the same policy reform have taken place in the absence of a PBL operation? How did the PBL affect the scope, pace, and process of policy reform? Precisely attributing the contribution of any single PBL to change in public policy is nearly impossible when many stakeholders have a hand in policy change, but evaluators can assess what additional value the PBL had to the policy change process, beyond the provision of financial support. This can be both positive and negative.

**Bosnia-Herzegovina Social Sector Adjustment Credit (SOSAC).** The [World] Bank worked intensively with other elements of the international community—most notably Organization of Humanitarian Relief and the International Labour Organization—as well as governments at all levels, and other stakeholders (employers’ federations, unions) to forge a consensus on SOSAC reforms. This was a noteworthy achievement, as the issues were highly contentious and the interest groups were fractious.

**Jordan Water Sector Adjustment Credit.** “Analytical and advisory services were key to creating awareness and partnership to the successful reform agenda….Development partners all acknowledge the value of the [World] Bank as a facilitator that brings global knowledge to bear on local problems (p.33).”

**India Hydrocarbon Program Loan.** “The Government had initiated the market-oriented reforms before [Hydrocarbon Sector Program] began. One can argue that, even without the Program, the Government would still have carried out the reforms and, therefore, that the real added value of the Program was limited. However, the issue can be viewed from a different angle: if the reforms were purely [the AsDB’s] initiative, the chances of their success would have been even smaller…..This does not mean that [the AsDB] can play only a passive role in financing the costs of the reforms, which is very important, but can assist the Government in a variety of ways—including providing TA, preparing reform packages, offering policy dialogues, and financing follow-up investment needs.”

F. Evaluating the Policy-Based Lending Process

86. Other aspects of PBL performance require evaluation, including the transaction costs of PBL, the timelines of disbursing resources to the budget, the development of institutional capacity, and the extent to which alternative views and understanding about the results of reform were reflected.

1. Transaction Costs

87. The transaction costs of the PBL are important because resources released from high-cost lending may be deployed more effectively in other development support activities. From the borrower's perspective, lower transaction costs may reduce the burden on overstretched public administrations. The World Bank practice of comparing the costs and time-duration of preparation and supervision of a PBL operation up until disbursement is one way of allowing for transaction costs. Extending this definition to take into consideration the proportion of the time allocated by senior policy makers to PBL dialogue, design, and implementation could be a useful proxy for the transaction burden on the borrower.

2. Timeliness

88. PBLs are planned, in part, to contribute to the resolution of BOP and fiscal difficulties. The extent to which this objective is achieved is a function of the timeliness of disbursements. From the vantage point of fostering structural reform, it may be quite appropriate that a PBL disburses later than was planned. But from the vantage point of contributing resources to help the authorities address BOP or fiscal imbalances, later-than-planned disbursements can be problematic. Comparing the actual with the planned disbursement profile, and comparing actual disbursements with measures of fiscal or BOP requirements, can be useful in assessing the timeliness of the PBL operation to closing the resource gap (Box 22).

3. Earmarking Resources to Meet Adjustment Costs

89. Some PBLs earmark specific portions of the loan proceeds to offset the adjustment costs arising from particular reforms. Other PBLs include a conditionality that establishes the government’s financial responsibility to meet certain adjustment costs. Since financial resources are fungible, the evaluation should assess both the extent to which adjustment costs did materialize and if public expenditures (including the use of PBL-provided resources) were sufficient to meet these obligations.

**Box 22: PBL Efficiency Proxies: Cost-Effectiveness and Timeliness**

PBLs have played a major role in the IADB's assistance to Colombia. The IADB Country Program Evaluation: Colombia 1990-2002 employs two proxy measures of the efficiency of IADB’s external assistance:

- timeliness measured as (i) the time taken from declared intent to first disbursement, and (ii) actual compared with planned disbursements;
- cost-effectiveness measured as (i) ratio of preparation to approval cost (total loan size), and (ii) project extended institutional support as a percentage of total lending.

4. Developing Institutional Capacity

90. The contribution of PBLs to improving institutional capacity is generally covered in performance evaluations. The standard evaluation procedure is to assess the extent to which implementation of a PBL operation has fostered the acquisition of new capacities or competencies in specified public, private, or civil society organizations. The extent to which associated TA has contributed to building institutional capacity is also generally evaluated, largely in terms of whether the recommendations and advice provided under the TA have been adopted, or if new skills, procedures, or institutional mechanisms were put into place as a result of training or TA inputs. In some instances, performance in fostering institutional capacity is also extended to examine the extent to which PBLs contribute to building national capacity to plan, manage, and execute well-conceived policy reform (Box 23).

**Box 23: Assessing Institutional Development Impact**

Different approaches and perspectives are used to assess institutional development in PBL evaluations.

**A Latin American Country.** Sometimes PBLs overwhelm fragile government institutional capacity. An IADB country program evaluation concludes that

"program design must also be mindful of the country’s capacity to implement reforms. In country X, which is conservative by nature, lacks a technocratic elite and suffers from institutional weaknesses (both public and private), the appropriateness of an all-encompassing approach to reform and conditionality is subject to question. The problem of conditionality overload seems to have been compounded by inappropriate sequencing between policy reforms and institutional strengthening. In addition, there appear to have been misalignments in the built-in incentive structure of the programs, whereby the costs of the policy decisions were borne by the reforming sectors while most of the rewards accrued to Finance (p. 19)."

**Philippines.** Institutional impacts may result from PBL-inspired learning processes. For example, the post-evaluation report for the AsDB-assisted Philippines Fisheries Sector Program finds that

"the decentralization of authority over municipal waters allowed local governments to enact municipal ordinances, and enforce fisheries laws within their own jurisdictions……The Program served as an important learning experience for all of the organizations/institutions that participated in its implementation. As a massive pioneering effort, it mobilized almost all offices of the Department of Agriculture, Local Government, the major research institutes, and [nongovernment organizations] in carrying out various project activities. …..Many NGOs have gained experience in the implementation of community-based coastal resource management, an area previously unknown or alien to them (p.11)."

**Nigeria.** Sometimes institutional improvements in one area reveal weaknesses elsewhere. The AfDB post-evaluation report on the Nigeria Export Stimulation Programme (ESP [Nigeria Export Stimulation Programme]) found that it

"has been beneficial to Nigerian Import-Export Bank (NEXIM), the executing agency.……It now has in place a core of highly trained professional staff. Its activities are currently being widened to go beyond ESP-type activity to include trade financing. But ESP has also exposed the inherent weakness in Nigeria’s financial system. It has brought to the fore the need for prudential regulation and control if major financial disasters are to be averted. Today, many financial institutions are in distress largely as a result of the absence of these regulations and or haphazard implementation of existing regulations (p.2)."


G. Reflecting Multiple Evaluation Realities

91. PBLs evaluated by research institutes, government agencies, bilateral aid agencies, NGOs, and others, may generate findings different from those reached by MDB evaluators. Alternative evaluation findings are sometimes reflected in the media. Alternative evaluations
may reflect differences in approach and methodology, in the information drawn upon, or in the degree of importance attached to one set of objectives or another. Only rarely do PBL evaluations report and reflect on the findings of PBL evaluations undertaken by other groups. Capturing and reflecting PBL assessments of other groups helps explain why the performance of a PBL operation may be perceived differently by other development partners. Reflecting these in the context of a PBL evaluation may help to frame hypotheses that merit further examination. There is a large and growing volume of PBL evaluations conducted by academic and civil society groups that can be drawn upon, and examples exist of good practices for reflecting these in MDB assessments (Box 24).

Box 24: Capturing Alternative Evaluation Findings

With World Bank support, the Structural Adjustment Participatory Research Interview (SAPRI) was launched in 1997 as a tripartite exercise to bring together organizations of civil society, their governments, and the World Bank in a joint review of structural adjustment programs. Academic and civil society organizations in Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mali, Uganda, and Zimbabwe were involved in the first round of evaluations. A parallel initiative, known as the Citizen’s Assessment of Structural Adjustment, has adopted participatory approaches to evaluate reform policies in Mexico and the Philippines. More recent exercises have taken place in Argentina and Central America. A network of NGOs has undertaken a similar process of policy evaluation in Argentina and Central America. SAPRI’s evaluation findings have been critical of adjustment operations, citing numerous examples of PBL-supported reform leading to increased inequity; poverty; and diminished prospects for farmers, workers, small enterprises, and nascent industries. SAPRI’s evaluations have questioned the role of the state pursued in World Bank-supported adjustment operations, and the degree to which civil society has been involved in policy reform decision making. The many background papers, sector studies, and country evaluations conducted under the auspices of the SAPRI initiative and later coordinated under the umbrella of the Structural Adjustment Participatory Review International Network are available on the internet under www.saprin.org.

Different stakeholders may assess PBLs and the broader thrust of economic reform quite differently. Although a World Bank Country Assistance Evaluation concluded that the main thrust of its policy support for Mexico was broadly correct, it recognized that there were other views. It included a text box on Alternative Views of Mexico’s Economic Reforms, which is as follows (p.6):

"...A group of Mexican NGOs prepared their own critique of the structural reform policies supported by the [World] Bank in Mexico. This group argues that the shift from import substitution to trade liberalization was designed primarily to ensure repayment of the external debt contracted in the 1970s. By exposing small and medium enterprises and farmers to competition from abroad and orienting domestic firms to the external market, these policies, they say, have permanently marginalized much of Mexican society and increased social polarization. Furthermore, Mexico has remained excessively dependent on external capital flows and has pursued fiscal discipline primarily at the expense of social programs, while inequality of incomes has worsened."


V. RATING POLICY-BASED LENDING OPERATIONS

A. Ratings

92. Currently, the AfDB, the AsDB, and the World Bank rate individual PBLs at the CR and performance report stages. Until recently, the AfDB and the AsDB rated all their PBLs at both stages. The World Bank maintains a 25% proportion for performance reports for PBLs and for its investment operations. There are differences in the success rates for PBLs in these institutions substantial enough to indicate different uses of the same criteria.
There are four main concerns about the way in which PBLs (at both the self- and independent evaluation stages) are rated: First, MDB evaluation ratings report that the vast majority of PBLs were partly or fully satisfactory, while many development policy research studies conclude that economic and policy regime performance in the PBL-recipient nations was far from satisfactory. Second, the ratings of cofinanced PBLs differ substantially across institutions, suggesting that differences in rating approaches may generate quite different findings. Third, the way the same PBL operation is rated tends to differ depending on whether it is the subject of a performance review, sector review, or country assistance evaluation. Fourth, institutional incentives appear to encourage overoptimistic rating, particularly in self-evaluation that is subject to limited independent attestation. In addition to adopting performance subcriteria that are more relevant to PBLs, three changes in rating procedures may help to generate more credible and comparable ratings.

B. Criteria and Subcriteria

PBLs can be assessed and rated according to six criteria: relevance, efficacy, efficiency, sustainability, institutional development, and impact. In addition to these six criteria, it is useful to assess PBLs with respect to two additional criteria—the performance of the MDB and the performance of the borrower.

Most PBLs are rated as being highly relevant, largely because they typically focus on policy or institutional problems of national importance. Relevance, however, should be assessed in terms of the importance of the policy problems, the appropriateness of the choice of PBL (versus TA or dialogue) to the resolution of those problems, and the degree to which the design of the PBL operation was relevant to the resolution of the identified policy and institutional deficiencies.

In some instances, it may not be possible to obtain an accurate estimate of the efficiency of a PBL operation, at least in comparing all costs and returns of reform. Where adequate information on costs and returns is available, the efficiency of PBLs, or of major reforms, should be assessed. Even when a comprehensive assessment of efficiency is not possible, evaluations should assess and evaluate transaction costs and disbursement timing as proxies for the efficiency of utilizing limited aid resources and meeting time-sensitive macroeconomic funding requirements.

PBLs are designed to have major impacts within a short period of time, either at a sector or an economy-wide level. A PBL operation may have a large positive or negative impact (or institutional effect) whose economic and social importance overrides all other factors under consideration. Moreover, it is the impact of a PBL operation that is the main measure by which national stakeholders assess the performance of this type of assistance. An example of an instance in which the weight accorded to the “impact” of a PBL operation was used to override the assessment of other criteria is included in Box 25. Both the actual and expected impact of a PBL operation should be included in an assessment.

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23 No direct comparison can be made between samples of the same operations due to lack of available data. However, from 1993-2001, the AfDB rated 89% of its postevaluated adjustment operations as successful. From 1993 to 2003, the World Bank rated 59% percent of its Africa adjustment operations as successful. All of the AfDB operations were cofinanced with the World Bank.
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Box 25: Sometimes Impact Overrides All Else: Rating Agriculture Reform in Sri Lanka

Sometimes the impact of just one set of PBL-supported policy reforms is so large that its importance dominates all of the other factors that go into rating an operation. The AsDB Sri Lanka Second Agriculture Reform Program, initiated in 1989, was a comprehensive sector reform program aimed at eliminating agricultural export taxes; rationalizing price-setting arrangements in the fertilizer, sugar, and dairy sectors; privatizing state-owned enterprises in the sugar, livestock, and fertilizer sectors; restructuring state-plantations in preparation for privatization; streamlining state involvement in the seed sector; and rationalizing public extension services. During implementation, it transpired that many second-tranche conditionality measures could not be met. The loan closing date was extended three times, and finally the second tranche was cancelled.

Traditionally, PBLs in which many of the core conditionality conditions are not complied with, and tranches are cancelled, are rated as unsatisfactory. In this case, the AsDB evaluation rated the loan as partly satisfactory. Government representatives, commenting on the evaluation, argued that it was a highly satisfactory operation, if not one of the most successful ever undertaken in Sri Lanka:

“The Government reversed the losses in the plantations sector (some $62.4 million in the year prior to reform) and mobilized nearly $154.7 million between 1993 and 1999 from the divestiture of firms under [the Program], of which $131.8 million was realized from the sale of state plantations.”

The main reason for this positive assessment was the large impact that program loan-supported measures had on the rationalization of the government plantation crops sector. TA under the PBL operation was instrumental in assisting the government to define a novel, phased privatization program for the state plantation companies—a plan that later proved acceptable to unions, the domestic private sector, the aid community, and foreign investors. Evaluators report that implementation of these measures gave the plantations a new lease on life, boosted exports, and had large and positive fiscal impacts.


98. Evaluators find it frustrating to apply the same evaluative subcriteria to PBLs as to investment operations. Most evaluators agree that PBLs must be relevant, efficacious, efficient, and sustainable; should generate positive impacts; should contribute to institutional capacity development; and should evidence suitable MDB and borrower performance. The issue, however, is to define subcriteria that reflect what these mean in the context of PBLs.

99. Applying the same subcriteria for investment operations and for PBLs is problematic because of differences in the nature of the assistance instrument and in determinants of performance. Defining subcriteria in a way that is applicable to PBLs may help to provide an evaluative framework for more uniform, systematic, and comparable assessment. MDB evaluators have drawn on good practice in policy research and field experience to evolve a set of evaluative subcriteria suitable for assessing PBLs. A list of PBL-specific subcriteria for each of the eight criteria indicated above is provided in Appendix 7. This list is not meant to be either exhaustive or minimal; it reflects many of the factors found to be important determinants of performance, a subset of which is likely to be suitable in varied settings. An evaluative judgment is required to assess the degree to which chosen subcriteria have been achieved in a particular evaluation.

C. Aggregation and Weighting

100. The GPS recommends that four criteria be treated as “core” criteria: relevance, efficacy, efficiency, and sustainability. It further recommends that institutional development and impact be treated as additional noncore criteria. Because PBLs have major effects on institutional development, and because impacts of a PBL operation may override all other factors under
consideration, it is recommended that impact and institutional development be treated as “core”
criteria for PBLs also. This implies that it is preferable to rate PBLs according to an index that
aggregates over six criteria, rather than the four core criteria identified in the GPS.

101. Comparability across PBLs can be enhanced if operations make use of similar criteria.
Given that some criteria are more readily assessed in some PBLs than in others, it is
recommended that the assignment of weights be left to the evaluator, and an explanation for the
weights used to derive an aggregate rating be provided at the time the issues to be evaluated
are identified. For those PBLs where efficiency can be measured only at a high cost, the weight
for this criterion could be reduced. In all cases, the relative importance of all effects should be
made in a fully transparent manner, with a clear justification for the final judgment.

102. It is recommended that rating systems specify minimum performance thresholds for the
core criteria for any PBL operation to be rated as partly or fully satisfactory. Failure to achieve a
minimum assessment under any of the six core criteria implies that a PBL operation is unlikely
to achieve or sustain benefits.

103. There is a greater degree of interdependence among the rating criteria for PBLs than for
investment operations. Rating systems should therefore recognize that failure to achieve a
minimum assessment under any of the core performance criteria can imply that the PBL
operation is unlikely to achieve durable results. If implementation did not achieve the desired
outputs, then implementation remains incomplete. If the policy reform progress is deemed
unsustainable or highly vulnerable to future risks, then there is little reason to believe that
benefit streams will continue into the future. If the PBL was not relevant in the first place, then
staying the course in reform is unlikely to contribute to future benefits. If the PBL was not an
efficient use of resources, then positive effects arising from reform will be offset by negative
effects associated with an increase in public sector debt.

VI. MANAGEMENT OF THE POLICY-BASED LENDING EVALUATION PROCESS

104. Although the evaluation governance principles are the same, the way in which the PBL
evaluation process is managed may need to be somewhat different than for investment
operations. Certain aspects of coverage, timing, usage, accountability, and disclosure are
specific to the evaluation of PBLs.

A. Coverage and Timing

105. A key coverage issue is whether all PBLs should be individually evaluated or only a
sample. Given the comparatively small number of PBLs (vis-à-vis investment operations), their
growing importance in the MDB assistance toolkit, and their role as preconditions to success for
other forms of assistance, there is merit in individually evaluating a large proportion of PBLs.
The reasons for this are that (i) PBLs have high risk but potentially high return—to know if a PBL
operation did pay off, it needs to be evaluated after the CR stage; (ii) successful PBLs are
prerequisites to high-performing investment operations, especially in low- and low-to-mid
income countries; (iii) PBLs continue to generate considerable public and professional
controversy due largely to the lack of credible evaluation; (iv) PBL evaluations can
disproportionately contribute to useful knowledge for country strategy development; and (v) the
methods used to evaluate PBL performance are still evolving; the practice needs to be
developed.
A second coverage issue is whether PBLs should be evaluated individually or as parts of clusters of related operations. The main advantage of evaluating PBLs as individual operations is that this allows the evaluator to focus in-depth on the lessons of a given operation and to provide a well-reasoned performance rating. By comparison, there are cases in which an evaluation of clusters of related PBLs could provide a better measure of the policy reform assistance effort and provide a better frame of reference for assessing impact, consistency, and coherence (Box 26). Evaluating several PBLs simultaneously can provide a useful historical perspective on the evolution of policy reform processes that is particularly valuable for broader country assistance evaluations. There is a tradeoff, however, between the number of PBLs that can be separately evaluated and rated in a cluster, and the breadth and depth of coverage of any individual operation. Experienced MDB evaluators report that cluster evaluations should be limited to a maximum of four PBLs (including related TA), beyond which it proves impractical to assess, rate, and report on performance within the confines of a relatively short independent evaluation mission and report.

**Box 26: Purposeful Clustering of PBL Evaluations**

PBL evaluations are sometimes clustered in an intertemporal manner, with a sample of PBLs addressing similar objectives over a period of time collectively evaluated. This enables the evaluator to examine performance over a longer time period, in which impacts may be more visible, and to examine issues related to learning, sequencing, and intervention timing.

The AfDB evaluation of the Mozambique Rehabilitation Programs I and II is a good example of purposeful clustering to derive lessons from a series of similar PBLs. The 1988 and 1994 rehabilitation programs aimed at reversing Mozambique’s economic decline and boosting living standards. Both were fairly comprehensive attempts to dismantle a socialist economy and to rehabilitate a conflict-affected economy. These two PBLs were implemented over nearly a decade, a period sufficient to assess the interactions among changing polities, world market conditions, and the response to reform in an economy facing policy and other constraints. Focusing the evaluation on a decade-long effort allowed progress to be traced through various periods of reconstruction and political consolidation. Reforms that did not appear to pay off initially were found to be important 5-10 years after the fact. This longer time perspective allowed the evaluators to assess the extent to which MDB assistance was appropriately timed and sequenced, in light of what was understood through the passage of time about the consequences of policy reform in Mozambique.


A third coverage issue is whether TA associated with a PBL operation should be evaluated and rated individually or as part of an overall PBL evaluation. Practice varies among the MDBs. Numerous PBL evaluations point to weaknesses in institutional capacity as one of the key determinants of poor PBL performance, even when considerable TA has been explicitly dedicated to overcoming such weaknesses (Box 27). Given the close link between institutional capacity and PBL performance, there are strong arguments for evaluating and rating it as an integral part of the PBL operation.
Box 27: Evaluating Related TA Together with a PBL Operation: The Pakistan Capital Markets Case

In November 1997, the AsDB approved the Capital Market Development Program Loan, together with a Capital Market Technical Assistance Loan, for the Government of Pakistan. The Program included 58 policy reforms aimed at enhancing competition; strengthening governance, regulation, and supervision of the securities market; improving securities market infrastructure; developing a corporate debt market; introducing mutual fund reforms; developing the leasing industry; and promoting contractual savings through insurance, pension, and provident fund reforms.

The TA loan was designed to complement policy reform by developing a new regulatory body, automating the stock exchange, and establishing a centralized clearing and settlement system and a depository system. A 2002 CR found that

"the institutional capacity building of the SEC and support for developing the [National Clearing and Settlement System] provided support critical to program implementation. The regulatory framework, assisted by the regulations expert, gave the SEC a solid basis for formulating comprehensive rules and regulations…Overall, the consultants possessed the capacity to provide solid technical advice as well as flexibility to meet the client’s needs (p.10 and 11)."

Although the self-evaluation gave high marks to the improvements in institutional capacity fostered as a result of the TA credit, it noted that weaknesses in other aspects of institutional development, most notably corporate governance, could undermine achievement of program objectives:


108. A fourth coverage issue relates to the criteria that should be used to select PBLs to be evaluated. The World Bank’s sampling provides an example of how this can be done. It uses a purposeful sampling approach that includes as sampling criteria the purpose of and mandate for the evaluation, the extent to which higher level evaluations are scheduled that would benefit from PBL evaluations as inputs, the relative importance of the borrower, the size and scope of the PBL operation, the degree to which the operation is likely to reveal lessons for avoidance or replication, the availability of self-evaluations (i.e., CRs), and the need to maintain an adequate coverage for geographical comparisons and accountability purposes. Evaluations should also be forward looking, in the sense of focusing on critical areas in which lessons need to be learned. In deciding which PBLs to evaluate, it would therefore be important to look ahead to (i) pending country assistance evaluations, (ii) the pipeline of future projects and PBLs, and (iii) institutional policies that may need to be revised.

109. PBL evaluators feel that limited attention within their institutions is paid to the results of their evaluations and that this is largely because those who were responsible for good or bad performance are generally not held accountable. In several MDBs, Board members claim that they hardly have time to read PBL evaluations. Operational staff and managers report that lessons identified in PBL evaluations are often too dated to be of much relevance for future operations. Evaluators report that only scant attention is paid to PBL evaluations in the borrowing countries.

110. Considerable effort is expended within the MDB independent evaluation offices to enhance the usefulness of PBL evaluation products. The trend towards independent evaluation of PBLs as a component of evaluations with broader scope—i.e., special studies, sector studies, instrument evaluations, and country assistance assessments—is largely in response to the perceived demand of MDB managers and board members for these sorts of evaluation products. Making evaluation reports shorter and more readable, disclosing them to the public,
involving MDB Boards and Management in the selection of evaluation topics, preparing evaluation summaries for public dissemination, presenting evaluation products verbally to Boards and other key users, summarizing findings and lessons learned from evaluations on in-house data bases, preparing press releases and briefings on evaluation products, summarizing evaluation findings in annual evaluation reports, hosting conferences and training sessions on evaluation findings and methodologies, and encouraging public consultation on evaluation methods and findings are some of the ways that MDB evaluation offices have attempted to stimulate utilization of evaluation findings.

C. Disclosure

111. The GPS call for the MDBs to move towards full disclosure of evaluation products. With respect to PBL evaluation, while it is generally agreed that transparency does help foster accountability, build social consensus, and foster participation, it is also understood that policy reform is a political process, and that there may be a need to maintain a certain level of confidentiality to sustain policy dialogue between the MDBs and the national authorities. How to balance transparency and confidentiality, in the context of PBL evaluations, is an important concern.

112. In the case of the AsDB, all PBL evaluations (including CRs) undertaken since 1995 have been posted on the Internet. The AfDB has the authority to post all evaluations on the Internet and plans to do so. The World Bank has released summaries of PBL evaluations, and starting in 2002, has disclosed (with borrower concurrence) PBL completion reports and PBL project performance audit reports. Summaries of IADB PBL evaluations and country program evaluations are released on the Internet. IMF external evaluations and the evaluation products of its Independent Evaluation Office are released on the Internet, in country/regional seminars, and in press briefings. Experience to date with full disclosure of PBL evaluations suggests that the risks of transparency undermining confidentiality and the integrity of policy dialogue are small, according to MDB operational staff and evaluators. Advance notification that PBL evaluations are to be released to the general public after rigorous internal and external review has provided sufficient comfort, in most instances, to the concerned authorities. In some regions, however, borrowers do object to disclosure of politically sensitive evaluation reports. In these instances, governments have not objected to the release of executive summaries of evaluation products in the case of IADB special evaluations of PBLs. Moreover, disclosure of an evaluation summary, in addition to disclosure of the evaluation document, has proven helpful in facilitating broader usage of PBL evaluations (Box 28).

Disclosure at an earlier stage helps foster wider participation in the evaluation process. Several of the MDBs post a description of their evaluation work programs, including special evaluations of PBLs, on the Internet. The Independent Evaluation Office of the IMF posts background papers, terms of reference, and the dates of country consultations for its PBL evaluations on the Internet for comment and critique. In addition to soliciting useful feedback, disclosure of the evaluation methodology helps to build trust in the evaluation process.

VII. CONCLUSIONS

Over a span of two decades, PBLs have evolved from a focus on macroeconomic performance to development policy. This has resulted in operations that are more complex in both design and implementation. Policy and institutional reform, as now supported under PBLs, is generally understood to be an ongoing, evolving process, sensitive to factors such as ownership, political economy of decision making, participation, and the quality of PBL design. While MDB evaluation practices differ, the conceptual framework for assessing PBLs (and other
A PBL is assessed as an external assistance instrument in which agreed upon inputs contribute to outputs, which give rise to outcomes, which in turn, contribute to impacts. Assessment of PBL performance, from the various levels of inputs to impacts, is used to provide accountability and distill lessons. Standard criteria, such as relevance, efficacy, efficiency, sustainability, institutional development impact, other impact, borrower performance and MDB performance, are applied to assess overall performance, and, in some MDBs, to rate PBLs.

There are several areas in which the definitions and approaches set forth in the GPS require interpretation, modification, and elaboration when applied to the evaluation of PBLs. Having a set of good practices that are applicable to evaluating PBL is especially important if the GPS is to be used to foster harmonization in evaluation practices across the MDBs.

PBLs generate outputs and outcomes that become apparent only sometime after a program is completed. Impacts may take even longer to be realized. Self-evaluation, conducted shortly after an operation has been completed, focuses primarily on PBL implementation and its immediate outputs and outcomes. For postevaluations, the evaluation timing challenge is to ensure that sufficient time has lapsed since the PBL operation has been completed for outcomes and impacts to be realized and for the sustainability of the operation to be apparent. Where there is a series of overlapping and related PBLs, the appropriate timing of an evaluation depends on when the outcomes and impacts of a sequence of related PBLs are likely to be realized.

Evaluability can be improved by taking steps to reveal unwritten objectives, and preparing a retrospective logframe or results framework to guide the evaluation. Assessing the degree to which the PBL has made adequate arrangements for monitoring and evaluation may help to signal the need for more systematic improvement in PBL evaluability and design.

Assessment of the internal logic of a PBL operation, its consistency with other operations, and the validity of underlying assumptions are key components of an evaluation of PBL inputs. Ownership is now well recognized as an important determinant of PBL performance. PBL input evaluation may draw on methodological approaches employed in leadership analysis, stakeholder analysis, institutional assessment, and reform readiness analysis. Conducive political conditions are a most important determinant of effective PBLs. Whether or not the political economy of decision making, at design and implementation, was conducive to effective reform is a crucial part of the assessment. This implies a need to understand the process of policy decision making, the role of reform champions, the likely winners and losers of the reform process, and the nature of the institutional incentives facing those affected by reform.

Most PBL evaluations focus on the delivery of inputs, or conditionality compliance. More systematic effort is needed to assess whether or not PBL outputs and outcomes were achieved. Apart from program conditions, complementary changes may be required in legislation, regulation, public awareness, finance, and institutional arrangements. Evaluators need to assess not only the extent to which inputs were delivered (i.e., agreed upon reforms took place), but also the degree to which measures complementary to the PBL operation occurred. A review of performance indicators, activity surveys, and structured interviews with key stakeholders may be used to identify and assess PBL outputs and outcomes. Observed outputs and outcomes may be benchmarked against regional or international standards of public policy and institutional performance to assess the significance of PBL-supported reform.
120. **Evaluating Impacts.** Comparing the situation before a PBL operation with that after it is completed has emerged as the most common technique for evaluating impacts. This involves comparing real results with real prior conditions, but assumes that it is the PBL that is responsible for socioeconomic changes. A variety of other techniques may be applied to isolate policy effects from other factors that may have influenced socioeconomic activity. Comparison of actual impacts with a counterfactual is the appropriate way to evaluate impacts. PBL evaluations draw on a wide range of quantitative and qualitative techniques to assess impact. Quantitative techniques used include partial equilibrium analysis, representative household models, simulation models, and applied general equilibrium models. Common qualitative techniques used to evaluate impacts include beneficiary satisfaction surveys with the results of policy change “scored” directly by stakeholders or beneficiaries. Individuals who were intimately involved in a reform process can often identify the counterfactual. With adequate benchmarks and ex-post performance information, simulations, cost-benefit, cost-effectiveness, and other quantitative techniques can also be used. Evaluation of PBL poverty impacts draws on a variety of techniques, tools, and survey instruments to assess changes in living standards, livelihoods, benefit incidence, and the performance of safeguard measures. Increasingly, PBL evaluation is called on to assess whether or not a reform operation could have been more “pro-poor” in its design and implementation. PBL evaluations seldom assess the effect on economic growth, employment, and private sector development objectives.

121. **Evaluating the PBL Process.** Assessing the extent to which a PBL served to reduce the transaction costs of external assistance, provided sufficient resources for the budget to meet adjustment costs, and involved timely disbursement of resources reflects the efficiency of the PBL process. The extent to which a PBL operation, and its associated TA, contribute to fostering institutional development can be evaluated in terms of whether or not improved governance practices, or improved skills, procedures, incentives, structures, or institutional mechanisms, came into effect. Evaluating the contribution made by the PBL operation to building the capacity to lead and manage the policy reform process is also important.

122. **Who Is Responsible for a PBL Operation?** Increasingly, the notion of formal attribution has been replaced with an assessment of the “additionality” that a PBL operation has brought to the policy reform process. The impacts of PBLs are evaluated by research institutes, government agencies, bilateral agencies, the press, nongovernment organizations, and others. These may generate findings different from those reached by MDB evaluators.

123. **Rating PBLs.** Evaluators agree that PBLs must be assessed against the following criteria: relevance, efficacy, efficiency, sustainability, institutional development, impacts, MDB performance, and borrower performance. PBL-specific rating subcriteria have been identified. Aggregation for PBL evaluation is preferable across all of the first six criteria, including institutional capacity and impact. Given the strong interdependence across criteria for PBLs, there is merit in setting minimum performance thresholds for each core criterion before an operation is rated. For PBLs, where efficiency can be measured only at very high cost, the convention is to accord less weight to this criterion.

124. **Coverage.** For evaluation of individual PBLs, there may be merit in disproportionate coverage, since policy reform provides an enabling environment for other operations and for economic activity as a whole. The complexity of an operation, the extent to which it provides lessons for other operations, and the degree to which there are similar or overlapping operations affect whether PBLs are evaluated singly or in clusters. Since PBLs and associated TA both contribute to policy reform performance, it is generally appropriate to evaluate and rate PBLs and related TA together.
125. **Usage and Accountability.** New approaches have been introduced to stimulate PBL evaluation quality by linking staff reputation with performance appraisal. A combination of measures aimed at making evaluation products more user friendly, with measures aimed at stimulating user demand, can enhance utilization of PBL evaluation products.

126. **Disclosure.** The GPS advocate full disclosure of evaluation products. While this is generally advisable, the policy reform process may benefit from confidentiality in some circumstances. Even so, a minimum level of evaluation disclosure, in the form of executive summaries, can normally be undertaken. Early disclosure at the approach paper stage serves to enhance access to information and foster participation.
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European Bank for Reconstruction and Development: [http://www.ebrd.org](http://www.ebrd.org)
Inter-American Development Bank: [http://www.iadb.org/ove/evoeng.htm](http://www.iadb.org/ove/evoeng.htm)

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8. Selected Research-Oriented Evaluations of Adjustment Lending


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APPENDIXES

Appendix 1: Multilateral Development Bank Policy-Based Lending Operations
Appendix 2: Role of Policy-Based Lending Operations in Multilateral Development Banks
Appendix 3: Selected Characteristics of Multilateral Development Bank Policy-Based Lending Operations
Appendix 4: Examples of a Results Framework and a Retrospective Logical Framework Matrix
Appendix 5: Inter-American Development Bank Evaluability Assessment Instrument
Appendix 6: Distilling Performance Criteria from a Meta-Review of Policy-Based Lending Evaluations
Appendix 7: Subcriteria for Evaluating Policy-Based Lending Operations
Appendix 1: Multilateral Development Bank Policy-Based Lending Operations

1. Table 1 categorizes the different policy-based lending instruments of the public sector-oriented multilateral development banks according to three features: (i) the focus of the policy reforms, (ii) outcome and impact horizon, and (iii) whether or not operations are likely to stand alone or to be mounted as a series of policy-based lending operations.

A. African Development Bank (AfDB)¹

2. Starting in 1986, the AfDB Group introduced facilities for PBL designed to support policy and institutional reform. The instruments it uses are modeled on those of the World Bank. AfDB guidelines stress the importance of close collaboration with the World Bank on PBLs and with the World Bank and the United Nations Development Fund on the social dimensions of adjustment in particular. Although the AfDB tends to be a small cofinancer of World Bank-led adjustment operations, its guidelines call for the AfDB to be a full and equal partner in all aspects of the structural adjustment lending cycle. Between 1986 and 2000, the AfDB Group cofinanced (primarily with the World Bank but also with the European Union and some bilateral agencies) 104 PBLs. Of these, 71 were structural adjustment loans and 33 sector adjustment loans, the bulk in agriculture and industry. AfDB policy-based instruments include the following:

3. **Structural Adjustment Loans (SALs).** These are used to support reforms that promote growth, efficient use of resources, and sustainable balance of payments (BOP) over the medium and long term. SALs address major macroeconomic issues, as well as major structural and sector issues. Eligibility is based on agreement on a satisfactory macroeconomic framework and a set of monitorable policy actions. An AfDB SAL typically covers a subset of the issues addressed in a contemporaneous World Bank-supported SAL, and may be launched contemporaneously or subsequent to a World Bank-supported SAL. AfDB SALs have tended to focus on trade reform, public finance and monetary policy reform, and public sector management reform.

4. **Sector Adjustment Loans (SECALs).** These support policy changes and institutional reforms in a specific sector. They focus on major sector issues, especially incentives and the regulatory framework, institutional capability, and the sector expenditure framework. The AfDB’s SECALs are designed to support the removal of price distortions, to ease institutional rigidities, and to generally enhance the supply responsiveness of a particular sector. SECALs aimed at financial sector reform support policies to improve savings mobilization and the efficient deployment of savings into investments.

5. **Programmatic Structural Adjustment Loans (PSALs).** These were introduced by the AfDB in 2001. A PSAL consists of a multiyear framework of phased support for a medium-term government program of policy reforms and institution building. The PSAL involves a series of single or two-tranche adjustment loans over 3-5 years, each building on the proceeding one(s).

### Table 1: A Taxonomy of Multilateral Development Bank Policy-Based Lending Operations: An Evaluation Perspective

<table>
<thead>
<tr>
<th>PBL Instrument</th>
<th>Policy Reform Focus</th>
<th>Outcome and Impact Horizon</th>
<th>Stand-alone or Series of Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>a) Structural Adjustment Loan</td>
<td>Macroeconomic and incentive reforms</td>
<td>Series of operations</td>
</tr>
<tr>
<td></td>
<td>b) Sector Adjustment Loan</td>
<td>Sector, institutional, public</td>
<td>Medium to long-term</td>
</tr>
<tr>
<td></td>
<td>c) Programmatic Structural Adjustment Loan</td>
<td>management and governance</td>
<td>Generally stand-alone</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Macroeconomic, public management,</td>
<td>Medium- to long-term</td>
</tr>
<tr>
<td>AsDB</td>
<td>a) Program Loan</td>
<td>institutional reforms</td>
<td>Series of operations</td>
</tr>
<tr>
<td></td>
<td>b) Sector Development Program</td>
<td>Sector policy and institutions</td>
<td>Medium- to long-term</td>
</tr>
<tr>
<td></td>
<td>c) Program Cluster Approach</td>
<td>Sector policy and institutions,</td>
<td>Series of operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>governance and public management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d) Special Program Loan</td>
<td>Macroeconomic and crisis</td>
<td>Near-term</td>
</tr>
<tr>
<td>IADB</td>
<td>a) Policy-Based Loan</td>
<td>Policy-Based Loan Sector policy and</td>
<td>Generally stand-alone but de facto</td>
</tr>
<tr>
<td></td>
<td></td>
<td>institutions</td>
<td>series of logically sequenced</td>
</tr>
<tr>
<td></td>
<td>b) Emergency Loan</td>
<td>Stabilization and macroeconomic</td>
<td>Near-term</td>
</tr>
<tr>
<td>IMF</td>
<td>a) Standby Operation and others</td>
<td>Stabilization, financial stability,</td>
<td>Generally stand-alone</td>
</tr>
<tr>
<td></td>
<td></td>
<td>balance of payments, and fiscal position</td>
<td></td>
</tr>
<tr>
<td>World Bank D</td>
<td>a) Structural Adjustment Loan</td>
<td>Macroeconomic and incentive reforms,</td>
<td>Near-term</td>
</tr>
<tr>
<td></td>
<td>b) Sector Adjustment Loan</td>
<td>policy and institutional reforms in</td>
<td>Generally stand-alone</td>
</tr>
<tr>
<td></td>
<td>c) Special Structural Adjustment Loan</td>
<td>major sectors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d) Subnational Adjustment Loan</td>
<td>Macroeconomic and crisis-</td>
<td>Near-term</td>
</tr>
<tr>
<td></td>
<td>e) Programmatic Structural Adjustment Loan</td>
<td>contaminated sectors</td>
<td>Stand-alone</td>
</tr>
<tr>
<td></td>
<td>f) Poverty Reduction Support Credit</td>
<td>Budget support for phased PRSP</td>
<td>Medium- to long-term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implementation</td>
<td>Series of operations</td>
</tr>
</tbody>
</table>
B. Asian Development Bank (AsDB)²

6. Program Lending. This is the main instrument used by the AsDB to support policy reforms in its developing member countries (DMCs). Program loans were originally introduced in 1978 to finance imports of inputs for countries experiencing a foreign exchange shortfall. In 1983, the scope of program loans was widened to include sector modernization and rationalization of capacity utilization. In 1987, there was a fundamental shift towards sector policy reform, with programs aimed at medium-term, broad-based sector development by helping DMCs to strengthen their sector policy framework. The main elements of the post-1987 program loan were (i) support for policy reform, rather than for BOP, investments, or fiscal requirements; (ii) programs to be market-oriented; (iii) lending scope to include the financial, industry, energy, transport and communications, and social sectors; (iv) medium-term loan (3-5 years), with longer term reforms to be addressed by a succession of loans; (v) loan size based on the importance of the sector, scope of the program, associated adjustment costs, and resources allocated for the country; (vi) tranches normally limited to two and release conditions few in number; (vii) conditionalities based on sector policy reforms identified in a sector study or review; (viii) provision to be made for assistance for those affected and for safeguarding the environment; (ix) programs to be underpinned by a comprehensive sector study; (x) programs should take the linkage between the sector and the macro-economy into account and be formulated in consultation with the International Monetary Fund (IMF), World Bank, and important bilateral agencies; (xi) subnational program loans can be mounted where suitable and if the full concurrence of the national government has been secured. To safeguard the AsDB’s liquidity management, the ceiling for program loans was limited to 15% of commitments. In 1999, the ceiling for program loans was increased to 20% on a 3-year moving average basis. Of the 117 program loans approved during 1987-2002, 3 were single-tranche operations, 81 were two-tranche, and 33 had more than two tranches.

7. Sector Development Program (SDP).Introduced in 1996, an SDP brings together existing modalities into a package of program, project, and TA activities, particularly suited to situations where policy and investment are highly interdependent. The investment component provides an additional incentive for sector institutions to adopt sector policy reform. For SDPs, the program size should reflect the estimated adjustment costs of the policy reforms, and should be set at the smallest possible level to achieve the desired reforms. Between 1996 and 2001, the AsDB approved 16 SDPs.

8. Program Cluster Approach (PCA). In 1999, the program cluster approach was introduced to provide financial support for a series of longer term institutional, governance, and cross-cutting policy reforms planned over a 4-7 year period. A logical framework is to serve as a roadmap for reaching targeted outcomes. Implementation is broken into a series of separate subprograms, each of which includes a policy matrix. Performance monitoring at each stage of implementation of the program cluster determines whether or not to proceed with the next subprogram. A combination of policy indicators, ownership and capacity indicators, and outcome indicators is used to assess progress under PCA operations.

9. Special Program Loan (SPL). In December 1999, the AsDB introduced the SPL to help mitigate the BOP and fiscal consequences of financial crises, to address the structural causes, and to mitigate the adverse social effects of such crises. SPLs are different from routine program loans in that they are unanticipated. Only countries that are eligible for

² This section is based on AsDB. 1997. Program Lending, Bank Policies, OM Section 6, Manila: AsDB, and AsDB. 2001d. Special Evaluation Study on Program Lending. SSTL STU 2001-16, Manila: AsDB.
nonconcessional capital resources or have graduated out of regular ADB-assistance are permitted to access SPLs.

C. Inter-American Development Bank (IADB)³

10. **Sector Adjustment Loans** (now entitled policy-based loans). These provide flexible support for institutional and policy changes at the sector or subsector level through fast-disbursing funds. At the request of the borrower, a sector adjustment loan may include an investment component, in which case it becomes a hybrid loan. Since 1989, the IADB has provided support for sector adjustment loan programs, originally cofinanced with the World Bank. They have been mounted independently since 1991. The goal has been to achieve sustainable growth via policy reforms in the productive sectors, in fiscal and monetary policy, and in financial markets. Practically all IADB PBLs are comprised of fungible resources for BOP support and for debt reduction agreements, although multisector credit and investment programs have been combined in some hybrid loans. Under the the 8th Replenishment Agreement, a shift in the focus of sector adjustment loans from macroeconomic adjustment to reform of the state and rebuilding of social sector infrastructure was mandated.

11. **Emergency Loans.** Fast-disbursing emergency lending was approved in 1998, as part of an international effort to provide support for structural and social reforms to creditworthy borrowers approaching a possible crisis, or already in crisis, and with exceptional financing needs. IADB emergency loans must fit within a macroeconomic stabilization program that has been endorsed by the IMF. Their primary objective is to protect the interest of the poor and to maintain or strengthen the processes of social, institutional, and economic reform; facilitate access of small and medium enterprises to credit; or protect investment expenditure for IADB-financed projects. The ex-ante disbursement profile should be significantly shorter than traditional instruments and should be financed only from ordinary capital resources. In 1998 and 1999, nine emergency loans were approved.

D. International Monetary Fund Facilities⁴

12. IMF loans are provided under an "arrangement," which stipulates the conditions the country must meet in order to gain access to the loan. Arrangements are based on economic programs formulated by countries in consultation with the IMF, and presented to the Executive Board in a letter of intent. Loans are then released in phased installments as the program is carried out. The IMF has developed a number of loan instruments, or "facilities," which are provided at both concessional and nonconcessional rates. Low-income countries may borrow concessional resources through the Poverty Reduction and Growth Facility. Nonconcessional loans are provided through five main facilities: Stand-by arrangements (SBA), the Extended Fund Facility, Supplemental Reserve Facility (SRF), the contingent credit lines (CCLs), and the Compensatory Financing Facility.

13. **Stand-By Arrangements.** An SBA is designed to address short-term BOP problems and is the most widely used facility of the IMF. The length of an SBA is typically 12-18 months. Repayment is expected within 2.25-4 years unless an extension is approved. Surcharges apply to high levels of access.


14. **Extended Fund Facility.** This facility was established in 1974 to help countries address more protracted BOP problems with roots in the structure of the economy and is thus longer (3 years). Repayment is expected within 4.5-7 years unless an extension is approved. Surcharges apply to high levels of access.

15. **Supplemental Reserve Facility.** The SRF was introduced in 1997 to meet a need for very short-term financing on a large scale. The sudden loss of market confidence experienced by emerging market economies in the 1990s led to massive outflows of capital, which required loans on a much larger scale than anything the IMF had previously been asked to provide. Countries are expected to repay SRF loans within 2-2.5 years but may request an extension of up to 6 months.

16. **Contingent Credit Lines.** These differ from other IMF facilities in that they aim to help members prevent crises. Established in 1999, the CCL is designed for countries implementing sound economic policies but that may find themselves threatened by a crisis elsewhere in the world economy through financial contagion. It is subject to shorter repayment terms than the SRF, and carries a smaller surcharge.

17. **Compensatory Financing Facility.** This was established in the 1960s to assist countries experiencing either a sudden shortfall in export earnings or an increase in the cost of cereal imports caused by fluctuating world commodity prices. The financial terms are the same as those applying to the SBA, except that they carry no surcharge.

18. **Emergency Assistance.** The IMF provides emergency assistance to countries that have experienced a natural disaster or are emerging from conflict. Emergency loans are subject to the basic rate of charge and must be repaid within 3.25-5 years.

19. **Poverty Reduction and Growth Facility (PRGF).** The IMF for many years provided assistance to low-income countries through the Enhanced Structural Adjustment Facility (ESAF). In 1999, however, a decision was made to strengthen the focus on poverty, and the ESAF was replaced by the PRGF. Loans under the PRGF are based on a poverty reduction Strategy Paper (PRSP), which is prepared by the country in cooperation with civil society and other development partners, in particular the World Bank.

**E. World Bank**

20. World Bank adjustment loans provide quick-disbursing assistance to countries with external financing needs and support structural reforms in a sector or the economy as a whole. They are designed to support policy and institutional changes needed to create an environment conducive to sustained and equitable growth. Adjustment loans were originally designed to provide support for macroeconomic policy reforms, including reforms in trade policy and agriculture. Over time, they have evolved to focus more on structural, financial sector, and social policy reform, and on improving public sector resource management. Adjustment lending should not normally exceed 25% of World Bank lending as a whole over an averaged 3-year period, and should not, under any circumstances, exceed 30% for International Development Association lending. There are several different types of adjustment loans:

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5 This section is based on World Bank, Adjustment Lending, internet page, and World Bank. 2001b. Adjustments Lending Retrospective, Washington D.C.: IBRD.
21. **Structural Adjustment Loans.** These support reforms that promote growth, efficient use of resources, and sustainable BOP over the medium and long term. SAL address major macroeconomic issues, as well as major issues in key sectors. Eligibility is based on agreement on a satisfactory macroeconomic framework and a set of monitorable policy actions. The size of the SAL is influenced by the expected BOP gap, the size of the country lending program and the extent to which financing can be mobilized from other sources. Prior to fiscal year 2000, 46% of all World Bank adjustment operations were classified as SALs.

22. **Sector Adjustment Loans.** These support policy changes and institutional reforms in a specific sector. They focus on major sector issues, especially incentives and the regulatory framework, institutional capability, and the sector expenditure framework. Prior to fiscal year 2000, the World Bank had approved 233 SECALs, accounting for 44% of both the number and volume of adjustment operations. During the 1990s, the share of SECALs dropped to 35% of approval volume and 37% of the number of operations.

23. **Special Structural Adjustment Loans (SSALs).** These provide support for structural and social reforms to creditworthy borrowers approaching a possible crisis, or already in crisis, and with exceptional financing needs. SSALs are part of an international support package. Started in 1998, they are based on a strong policy reform program. They are part of an international support package, and mounted in countries where an IMF program is in place and where the country has a sustainable medium-term external financing plan. Since 1998, SSALs have been mounted for Argentina and Brazil. This first generation of SSALs has focused on developing appropriate structural and institutional frameworks, including prudential financial regulation and supervision, sound public sector management and corporate governance, and adequate social safety nets and programs.

24. **Subnational Adjustment Loans.** These support policy changes and institutional reforms at the subnational level (provinces and states) with a focus on the subnational incentive and regulatory framework, institutional capability, subnational expenditure programs, and mitigation of social costs. Prior to 1998, four subnational adjustment operations were issued to Brazil. Between 1998 and 2001, the World Bank issued 8 SNALs to Argentina, India, and Mexico.

25. **Programmatic Structural Adjustment Loans.** These consist of a multiyear framework of phased support for a medium-term government program of policy reforms and institution building. The PSAL involves a series of single or two-tranche adjustment loans over 3-5 years, each building on the proceeding one(s). The medium-term framework focuses on capacity and institution building in the public sector and on sustained, sequential structural and social reforms. This includes finance for time-slices of government development programs, a program of phased reforms to improve budget and public sector institutions, and a phased program of economic governance and institutional reforms. The PSAL structure allows flexibility, learning-by-doing, and the opportunity to adapt to changing circumstances.

26. **Poverty Reduction Support Credit (PRSC).** Introduced in 2001, this is a form of PSAL that supports implementation of a country's poverty reduction strategy and the associated program of social, structural, institutional, and policy reforms. A PRSC is based on an assessment of a country’s development policies and public financial accountability arrangements. PRSCs are country assistance strategy-based instruments. The program, along with results-based indicators and performance measures for monitoring the national poverty reduction strategy paper, is laid out in a medium-term policy and institutional reform matrix.
Each individual PRSC is focused on completed policy actions, and includes a letter of development policy and a multiyear matrix of policy and institutional reforms.
Appendix 2: Role of Policy-Based Lending Operations in the Multilateral Development Banks

<table>
<thead>
<tr>
<th>Operation</th>
<th>Unit</th>
<th>1986-1989</th>
<th>1990-2000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Lending Approvals</td>
<td>UA million</td>
<td>1,495</td>
<td>2,917</td>
<td>4,411</td>
</tr>
<tr>
<td>% Structural Adjustment</td>
<td>%</td>
<td>52</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>% Sector Adjustment</td>
<td>%</td>
<td>48</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td>Share of Total Lending (Approval Basis)</td>
<td>%</td>
<td>13.4</td>
<td>19.7</td>
<td>16.9</td>
</tr>
<tr>
<td>Number of Operations</td>
<td>number</td>
<td>33</td>
<td>71</td>
<td>104</td>
</tr>
<tr>
<td>Structural Adjustment</td>
<td>number</td>
<td>18</td>
<td>53</td>
<td>71</td>
</tr>
<tr>
<td>Sector Adjustment</td>
<td>number</td>
<td>15</td>
<td>18</td>
<td>33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Lending</td>
<td>$ million</td>
<td>3,757</td>
<td>14,035</td>
<td>17,792</td>
</tr>
<tr>
<td>Share of Total Lending</td>
<td>%</td>
<td>10.3</td>
<td>33.7</td>
<td>22.8</td>
</tr>
<tr>
<td>Without Crisis Loans</td>
<td>$ million</td>
<td>3,757</td>
<td>6,755</td>
<td>10,512</td>
</tr>
<tr>
<td>Number of Program Loans</td>
<td>number</td>
<td>35</td>
<td>82 (including 5 crisis loans)</td>
<td>117</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operation</th>
<th>Unit</th>
<th>1993-2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans</td>
<td>$ billion</td>
<td>56</td>
<td>7.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Share of Total Sector</td>
<td>%</td>
<td>36</td>
<td>39.7</td>
<td>22.2</td>
</tr>
<tr>
<td>Reform and Emergency Lending</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Sector and Emergency Loans Open</td>
<td></td>
<td>36 PBLs (442 investment operations)</td>
<td>32 PBLs (479 investment operations)</td>
<td>30 PBLs (470 investment operations)</td>
</tr>
<tr>
<td>Of which Emergency Loans (approval basis in 1998/1999)</td>
<td>$ billion</td>
<td>8.4</td>
<td>0</td>
<td>0.5</td>
</tr>
<tr>
<td>Cumulative Sector Loans + Emergency to Total Lending Approval Basis</td>
<td>%</td>
<td>19</td>
<td>44</td>
<td>30.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrangements Approved</td>
<td></td>
<td>131</td>
<td>171</td>
<td>302</td>
</tr>
<tr>
<td>Standby</td>
<td></td>
<td>96</td>
<td>77</td>
<td>173</td>
</tr>
<tr>
<td>EFF/SFF/PRGF</td>
<td></td>
<td>35</td>
<td>94</td>
<td>129</td>
</tr>
<tr>
<td>Amounts Committed</td>
<td>SDR Million</td>
<td>38,152</td>
<td>165,017</td>
<td>203,169</td>
</tr>
<tr>
<td>Standby</td>
<td>SDR Million</td>
<td>24,076</td>
<td>122,726</td>
<td>146,804</td>
</tr>
<tr>
<td>EFF/SFF/PRGF</td>
<td>SDR Million</td>
<td>14,078</td>
<td>42,291</td>
<td>56,369</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operation</th>
<th>Unit</th>
<th>1980-1989</th>
<th>1990-2000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment Lending Operations</td>
<td>number</td>
<td>191</td>
<td>465</td>
<td>656</td>
</tr>
<tr>
<td>Structural Adjustment</td>
<td>number</td>
<td>88</td>
<td>239</td>
<td>327</td>
</tr>
<tr>
<td>Sector Adjustment</td>
<td>number</td>
<td>103</td>
<td>159</td>
<td>262</td>
</tr>
<tr>
<td>Other</td>
<td>number</td>
<td>0</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>Adjustment Lending</td>
<td>$ million</td>
<td>27,088</td>
<td>93,303</td>
<td>120,391</td>
</tr>
<tr>
<td>Percent of Total Lending (by volume)</td>
<td>%</td>
<td>17.4</td>
<td>31.0</td>
<td>26.4</td>
</tr>
<tr>
<td>Percent of Total Lending (by number of operations)</td>
<td>%</td>
<td>8.1</td>
<td>13.8</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Appendix 3: Selected Characteristics of Multilateral Development Bank Policy-Based Lending Operations

1. In multilateral development bank (MDB) loan documents, the goals and objectives of a policy-based lending (PBL) operation are cast within a discussion of the context of a country’s political, economic, and social performance. The goals and objectives of a PBL operation are related to the MDB’s country assistance strategy and, where relevant, to past experience in previous policy-based lending operations (PBLs). Policy-based assistance supported by other development partners is also reviewed in loan documents, particularly when a stabilization operation is under way, or where other agencies are providing assistance in a sector.

2. The goals of PBLs tend to be quite broad (e.g., to raise living standards, to reduce poverty, to boost growth), reflecting the belief that policy and institutional change should have powerful effects on economic actors. PBLs often have a mix of both general and specific objectives. An example of the former might be “to restore macroeconomic stability” while an example of the latter could be “to reduce the fiscal deficit.” There is considerable variability in the number of goals and objectives that any single PBL operation pursues, depending on the nature of the operation, the characteristics of the policy problems, reform receptivity of the borrower, the degree of detail with which reforms are specified, and MDB management expectations regarding the range of objectives to be pursued in any single operation.

3. PBLs include both actual policy and institutional reform measures, as well as studies, consultations, and capacity-building activities designed to facilitate reform or to prepare the groundwork for the next steps in a reform process. In some PBL loan documents, a chronology of policy dialogue and stakeholder consultation activities leading up to the selection of the reforms is provided, and where this is not done, such information is generally available in project files.

4. The design logic for a PBL operation is often implicit in the policy matrix, description of the reform measures, or the development policy letter. In loan documents, this is supported by the results of diagnostic economic, sector, institutional, and social assessments. In some cases, the extent to which the program is owned by the authorities and civil society is discussed, often in a review of the chronology of consultation measures leading up to an operation. Political (i.e., willingness to reform) and institutional (i.e., ability to reform) factors are often discussed under PBL risks. Risk assessments identify controllable and uncontrollable risks, and the ways in which these will be managed. African Development Bank (AfDB) and the Asian Development Bank (AsDB) PBLs summarize the design logic in a logframe format. Inter-American Development Bank (IADB) PBLs use the policy matrix, and since mid-2002 most PBLs include short and medium term outcome and impact indicators. In the case of the World Bank and the International Monetary Fund (IMF), reforms and performance targets are specified in considerable detail. The results from poverty and social impact and sector-specific analyses are typically annexed to PBL loan documents. Where adverse impacts are identified, mitigation measures are discussed and included in the policy matrix.

5. The justification for the lending volume differs depending on the nature of the PBL operation. In the case of IMF arrangements, a financial program is used to derive an estimate of the financing gap and the likely resources available to close it. The World Bank makes its own macroeconomic assessment; the macroeconomic financing gap
serves as the main motivation for the loan amount. The IADB and the AfDB generally rely on IMF estimates of the financing gap (and their role in burden sharing) to justify the size of a loan. In the AsDB, estimated adjustment costs and resources required to develop a sector are estimated to justify the financing; other factors, such as the resources available for a given country, performance-based resource allocation, resources required to protect core sectors, and the perceived level of reform effort also influence the size of an operation. While the economic justification for some PBLs may include simulations of the “with” and “without” reform cases, rarely is the size of an operation justified in the form of ex-ante cost-benefit analysis.

6. Many government agencies are involved in implementing a PBL operation, often under the supervision of a high-level policy committee or task force. Implementation arrangements are specified in loan documents. This includes executing agencies, coordinating entities, task forces, departments, agencies, public enterprises, financial institutions, and others, together with the responsibilities for coordination, monitoring, and reporting.

7. PBL loan documents mandate MDB evaluation for tranche release and at completion. In the case of the IADB, borrowers are requested to prepare ex-post impact evaluations, but frequently decline. In the case of the World Bank, PBLs may include provisions for poverty and social impact assessments, beneficiary self-assessments, and evaluation within the context of poverty reduction strategy paper monitoring committees. In the case of the IMF, regular surveillance serves to assess the extent to which macroeconomic performance has improved.

8. An outline of selected characteristics of PBLs in the different MDBs is in the table that follows.
<table>
<thead>
<tr>
<th>PBL Characteristics</th>
<th>AfDB</th>
<th>AsDB</th>
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<th>World Bank</th>
<th>IMF (PRGF Example)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country and sector studies inform design</td>
<td>Rely heavily on World Bank and IMF economic and sector work to underpin design; tend to participate in multidonor appraisal.</td>
<td>Sector studies prepared as advisory TA and project preparatory TA; results drawn on but not summarized; document titles generally listed.</td>
<td>Based on a clearly presented array of sector studies, advisory TA, policy dialogue, national studies and task forces, research reports, and in some instances the economic and sector work of IMF, World Bank, and other agencies; often build on previous PBLs and the findings of TA.</td>
<td>Based on detailed WB/IMF economic and sector reviews; country PRSPs, poverty assessments, public expenditure reviews, financial accountability studies, and development policy reviews underpin recent adjustment lending; sector studies underpin selected social sector initiatives; limited identification of non-WB (including government) analysis.</td>
<td>Builds primarily on macro surveillance; recently, refers to the strategies laid out in the PRSP; special country studies, fiscal affairs department, and monetary policy department research also inform design.</td>
</tr>
<tr>
<td>Detailed discussion of macro and sector context; link to national development strategy presented in appraisal document</td>
<td>Links to PRSP, HIPC agreements, EU agreements typically presented; few links to agreements not made with other agencies (i.e., national plans).</td>
<td>Context and link to national strategy presented in general terms.</td>
<td>Context and link to national economic situation detailed; specific links to sector policies described briefly in development policy letter; government’s general strategy for meeting policy challenges described in text.</td>
<td>Detailed discussion of linkages to national economic situation and country reform strategy; recent adjustment operations cast in light of PRSP as a strategic framework; some adjustment programs identify sector reform policy documents or major pieces of legislation; reform time lines or summary of reform progress also used.</td>
<td>Discussion of national development trends and context; discussion of recent economic developments; linkages to the macro-portions of the PRSP and to the IMF/WB joint staff assessment of the PRSP reviewed.</td>
</tr>
<tr>
<td>Link to MDB strategy presented in appraisal document</td>
<td>Clear link to AfDB’s country strategy presented; extent to which strategy is linked to “best” or “good” practice in AfDB sector policies is not.</td>
<td>Link to AfDB’s country strategy presented; extent to which strategy is linked to “good” sector practices is not.</td>
<td>Links to IADB’s country strategy presented; logical link between the operation and the country strategy priorities is explained; IADB also has country papers and country programming documents, which contain a detailed discussion of the link to IADB’s country and sector strategy.</td>
<td>General linkage established between individual adjustment operation and WB’s country assistance strategy; focus is on direct and indirect links to main strategic objectives, coherence with other operations, rationale for type of adjustment operation, and coherence with other MDB and key agency initiatives.</td>
<td>No country strategy per se; macro and fiscal simulations used to test scenarios and assess fiscal sustainability.</td>
</tr>
</tbody>
</table>
## Selected Characteristics of Multilateral Development Bank Policy-Based Lending Operations

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<tr>
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</thead>
<tbody>
<tr>
<td>Other sources of external assistance presented</td>
<td>Extensive discussion of cofinanciers’ policies—typically IMF, World Bank, and EU.</td>
<td>General listing of those that provide sector support, but little coverage of agencies active in policy advice and dialogue.</td>
<td>Discuss IMF and World Bank operations; more discussion of the links to other external aid operations in TC loans, which often support implementation of reform; these links also included in country papers and country programming documents.</td>
<td>Brief review of other MDB initiatives (mainly summary of IMF and MDB activities) and arrangements for information sharing and other coordination.</td>
<td>Financing gap and other sources of agency and international capital market support identified; collaboration on structural reform with other partners described; specific review is provided of IMF/WB collaboration.</td>
</tr>
<tr>
<td>Lessons from past experience, both in sector and with PBL presented</td>
<td>Experience with past adjustment efforts is clearly discussed; past project ratings not discussed; unclear how past lessons are incorporated in current initiatives.</td>
<td>Lessons presented; some include main lessons from AsDB and other agencies’ experience; little apparent link between past lessons and current design</td>
<td>Lessons drawn from sector reviews, PBL reviews, and country experience; discussion of risk-mitigating measures in design and regional experience with application of similar loans generally included in loan document.</td>
<td>Lessons drawn from past country experience; lessons drawn from cross-country experience sometimes cited; risks identified and strategies for managing risks also drawn from past lessons; most include a listing of economic and sector work, TA credits, and preparation activities underpinning operations; some reports include annexes with principal findings from relevant studies.</td>
<td>Past policy reform experience (i.e., progress and slippage) reviewed in general terms; no discussion of past lessons from IMF operations; extent to which past lessons are taken into consideration in PBL design not clearly specified.</td>
</tr>
<tr>
<td>Extent to which policy dialogue is reviewed</td>
<td>Typically, dialogue is conducted with WB with AfDB appraisal after dialogue has taken place.</td>
<td>Some PBLs include a chronology of preparation events; typical coverage is “report is based on findings of several missions and discussions with stakeholders.”</td>
<td>Chronology of policy discussions and provision of TA support is presented; some identification of policy interlocutors.</td>
<td>Chronology of policy discussions and TA support presented.</td>
<td>Limited coverage of policy dialogue in PRGF request; findings from surveillance and dialogue elaborated in article IV and staff reports.</td>
</tr>
<tr>
<td>Alternative design options presented (or counterfactual)</td>
<td>No.</td>
<td>No.</td>
<td>No. (some discussion of negative repercussions for ongoing investment operations without additional budget support).</td>
<td>Rarely; some adjustment operations discuss why other reform options are not feasible or are inferior choices.</td>
<td>With- and without-reform scenarios and stress test results presented; alternative reform options generally not presented.</td>
</tr>
<tr>
<td>PBL Characteristics</td>
<td>AfDB</td>
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<td>World Bank</td>
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</tr>
<tr>
<td>Analysis of stakeholders (winners and losers).</td>
<td>Not explicitly presented; general statements about measures to protect the poor, or provide resources for implementing poverty strategies are included.</td>
<td>Poverty impact matrix presents main welfare effects; impacts on all stakeholders not explicitly presented.</td>
<td>Participatory processes incorporated in some PBLs (i.e., social protection to foster community acceptance of reform); attention to stakeholder concerns part of the design process, but generally not documented in the loan agreement.</td>
<td>Risks sections identify, in general terms, groups adversely affected by agreed upon reforms and likely to hamper reform; measures to secure reform support outlined in general terms.</td>
<td>Poverty impact assessment results provided; identification made of those who may bear short-term adjustment costs, and provisions made to offset those costs; little analysis provided of the political economy of reform.</td>
</tr>
<tr>
<td>Determination of degree of government ownership and involvement in design</td>
<td>Consistency with other partner efforts; reforms as a prerequisite to take advantage of trade agreements; signed development policy letter and consistency with PRSP.</td>
<td>Consistency with national plans; government request for support, government-signed development policy letter; implementation often by PBL-specific program implementation unit.</td>
<td>Consistency with government reform program and agreements reached with IMF and WB; concordance with government policy outlined in development policy letter; prior evidence of IADB-supported reforms in the sector discussed.</td>
<td>Consistency with PRSP. Consistency with past WB-supported reforms; ongoing IMF program; letter of development policy, country concurrence with WB country strategy, and evidence of prior reform commitment.</td>
<td>Past reform track record, commitment demonstrated in PRSP; governments technical memorandum of understanding (development policy letter), letter of agreement content.</td>
</tr>
<tr>
<td>Public consultation generally held prior to negotiations</td>
<td>Not explicitly discussed; may have been WB consultations for cofinanced loans; public disclosure of reform measures sometimes included.</td>
<td>Consultation likely during formulation; less likely at design and appraisal; limited details in appraisal report.</td>
<td>Consultation with key stakeholders increasingly part of the preparation and appraisal process, although not explicitly documented in the appraisal report.</td>
<td>Some programs include consultation during formulation; some include nongovernment organizations and other entities to monitor reforms; PRSP consultations contribute to identification; dissemination and communication strategy generally included as reform elements.</td>
<td>Recently, consultation held under the formulation of PRSP; increasingly, IMF undertakes consultations with social partners, parliamentarians, and civil society groups.</td>
</tr>
<tr>
<td>Extent of TA in PBL preparation</td>
<td>Moderate degree of consultant involvement in preparing appraisal report and designing TA components.</td>
<td>High degree of TA involvement in shaping design.</td>
<td>High degree of TA involvement in identification as well as government policies and strategies.</td>
<td>Modest degree of TA involvement in identification; moderate amount of TA provision to assist in implementation, including identification of future reforms.</td>
<td>Very limited degree; generally based on staff surveillance and analysis.</td>
</tr>
<tr>
<td>PBL Characteristics</td>
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<td>AsDB</td>
<td>IADB</td>
<td>World Bank</td>
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</tr>
<tr>
<td>Output specified</td>
<td>Mixed specification: some outputs are reforms to be undertaken or funding to be provided; some are inputs (changes in legislation); and some are outcomes (e.g., better access to social services).</td>
<td>Presented as set of sector reforms (outputs).</td>
<td>Set of agreed upon policy reforms and outcomes for each tranche release; outputs specified as sets of agreed upon measures; may include specific policy changes such as regulations or laws issued, tariff changes, sector policies prepared or updated, studies and action plans prepared, meetings conducted, new systems implemented, data bases established, methodologies determined.</td>
<td>Outputs specified as sets of agreed upon measures. May include specific policy changes such as regulations or laws issued, tariff changes, sector policies prepared or updated, studies and action plans prepared, meetings conducted, new systems implemented, data bases established, methodologies determined.</td>
<td>Outputs specified as a set of performance criteria (monetary, fiscal, exchange rate, and structural conditions) and indicative targets.</td>
</tr>
<tr>
<td>Outcomes specified</td>
<td>Macro and sector outcomes generally welldefined although links to program measures less clear.</td>
<td>Presented as sector performance targets (but some only list dates for reforms to be achieved).</td>
<td>Set of performance indicators specified (tend to be a mix of sector outcomes and development impacts)</td>
<td>Mixed: many adjustment loans do not specify outcomes by reform element; some specify outcome benchmarks (which are generally restated inputs rather than outcomes) or expected policy results.</td>
<td>Monetary, fiscal, and structural performance outcomes specified.</td>
</tr>
<tr>
<td>Development impacts specified</td>
<td>Some repeat general and specific objectives of PRSP as main development impacts; others provide more sector-specific targets and impacts.</td>
<td>General impact specified under program targets relative to program goal.</td>
<td>Performance indicators identified and required by Board of Governors; may be both medium-term development (poverty, growth, etc.), sector (e.g., education spending), and process indicators.</td>
<td>Several list PRSP targets as policy impacts generally supported by WB; several include detailed macro, fiscal, and subsector performance indicators; some list key results in qualitative terms (e.g., “strengthened institutional capacity”).</td>
<td>Medium-term macroeconomic projections (inflation, BOP, public debt, growth, and poverty reduction) include the main development impact targets.</td>
</tr>
<tr>
<td>Institutional analysis of capability of government to implement reforms presented</td>
<td>No; limited discussion of policy process; some discussion of TA provided to augment weak capacity.</td>
<td>No; generally a discussion of government organizations and implementation arrangements.</td>
<td>Discussion of characteristics and implementation capacity of institutions; involved as well as risk mitigation for weak institutional capacity.</td>
<td>Includes key characteristics of participating institutions; limited discussion of institutional capability to implement agreed upon reforms.</td>
<td>Governance discussed, and performance of government in macro-management; institutional arrangements for implementing PRSP reviewed, and risks due to institutional constraints may be</td>
</tr>
<tr>
<td>PBL Characteristics</td>
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</tr>
<tr>
<td>Implementation arrangements specified in PBL appraisal</td>
<td>Executing agency specified; performance of that agency assessed.</td>
<td>Executing authority specified; little rationale accorded.</td>
<td>Executing agency specified and coordination responsibilities assigned; often government management groups created to oversee the operation.</td>
<td>Generally high-level task force, under Ministry of Finance or Prime Minister’s office, responsible for nationwide adjustment loans (subnational trend to be under provincial government leader).</td>
<td>Implementation responsibilities clearly assigned (Central Bank) and coordination responsibilities for monitoring specified.</td>
</tr>
<tr>
<td>Logical framework included in PBL appraisal</td>
<td>Program framework in logframe format with hierarchy of objectives, objectively verifiable indicators, means of verification, key assumptions and risks; goals, outputs, and activities specified; few risks identified; many general outputs and indicators specified in general terms.</td>
<td>Program framework in logframe format with design summary, program targets, program monitoring mechanism, and risks/assumptions specified; some include program milestones (similar to implementation steps).</td>
<td>Programs include a policy matrix and a “means of verification” table (with performance indicators and identification of the agency responsible); since mid-2002 most PBLs include short- and medium-term outcomes and impact indicators, as well as terms of reference for monitoring and evaluation.</td>
<td>No; programs do not include a logical framework type of presentation, although goals and objectives, key measures, outputs (sometimes), outcomes (sometimes), and impacts generally discussed in the appraisal report.</td>
<td>No; programs are expressed within a financial program consistency model; other modeling frameworks may be used to test the impacts of long-term structural reforms.</td>
</tr>
<tr>
<td>Baseline data</td>
<td>Economic and sector baseline information presented; few baseline data on social, gender, or poverty conditions; many key reforms do not have baseline conditions specified.</td>
<td>Aggregate information on sector and economic conditions included; some include a poverty and social impact assessment; few contain environmental or gender baseline information</td>
<td>Aggregate sector and economic data presented; detailed discussion of poverty and social conflict generally presented; baseline values for key performance indicators provided; some baseline indicators provided for structural reform measures.</td>
<td>Aggregate economic and sector data presented; fiscal data frequently presented for key sectors; key poverty measures often presented; results from LSMS surveys sometimes presented; baseline measures for institutional characteristics rarely presented.</td>
<td>Baseline macro, fiscal, and monetary data presented; baseline data and structural indicators for all performance criteria and indicators specified.</td>
</tr>
<tr>
<td>Level of financing typically based on:</td>
<td>IMF estimate of BOP and fiscal gap (and PRSP estimate of external financing requirement).</td>
<td>Estimated adjustment costs of reform package and other considerations (resources available for the country and level of reform effort).</td>
<td>IADB exposure in the country and country quota based on IADB-wide limit on PBL; IMF estimate of external financing requirements; burden sharing with other MDBs; funding required to protect core BOP deficit (based on target fiscal deficit under sustainable management of the external debt.)</td>
<td>BOP deficit, fiscal deficit and WB’s performance-based allocation of country resources.</td>
<td>BOP deficit, fiscal deficit and WB’s performance-based allocation of country resources.</td>
</tr>
</tbody>
</table>
## Selected Characteristics of Multilateral Development Bank Policy-Based Lending Operations

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<tr>
<td><strong>Elements covered in policy matrix</strong></td>
<td>Format varies: some use objectives, measures already taken, measures to be taken and date of implementation; some use area, objectives, first tranche measures, second tranche measures, indicators.</td>
<td>Objectives, first tranche and second tranche conditions (note: conditions may be reforms, studies, plans; may be defined apriori or as the result of a plan or consultation, may be specific or general, may involve both submission of draft laws and securing passage of laws).</td>
<td>Format varies: (i) component, first tranche, second tranche; (ii) objectives, first tranche, second tranche; (iii) definition of the problem; required action, objective and expected impact; required actions for tranche release.</td>
<td>Format varies: (i) Specific objective, monitorable output by each tranche release, and monitorable output; (ii) objective, measures by effectiveness, by tranche release; (iii) prior actions, future actions, and expected results; (iv) reform area and outcome, measures taken, medium-term measures.</td>
<td>No policy matrix per se: fiscal and monetary performance targets (with floor and ceiling levels for policy instruments); list of structural policy reforms defined as structural benchmark, prior action or performance criteria. Detailed definitions provided for criteria and performance targets; proposed timing of performance measures listed.</td>
</tr>
<tr>
<td><strong>Economic justification based on:</strong></td>
<td>Program justification based on importance of the reforms to sector constraints, and contribution to macroeconomic and sector performance; no evidence of model-based analysis of direct and indirect program costs or benefits, or model-based assessment of performance with and without policy change.</td>
<td>Economic consequences of the policy problem; likely adjustment costs of the reform; IMF assessment of external resource requirements; some include medium-term fiscal forecasts, medium-term forecasts of performance, or &quot;savings&quot; when SOEs are restructured; rarely are ex-ante economic costs and benefits assessed.</td>
<td>IMF assessment of BOP and fiscal requirements; sector analysis of the constraints posed by policy and institutional deficiencies; review of fiscal requirements to protect key spending programs from fiscal restraint; no evidence of cost-benefit, cost-effectiveness, or policy simulation analysis.</td>
<td>Economy-wide loans tend to use with- and without-policy simulation for aggregate macro and fiscal variables (but assumptions not listed); sector reforms present improvements in cost-effectiveness or cost-savings; some justify operations in terms of expected improvements in growth, productivity, poverty reduction, and social indicators.</td>
<td>Macroeconomic model (financial program) of the with and without reforms; stress tests applied to models to test reforms; long-term growth models underpin some operations; main rationale is the macro-trajectory with and without reform.</td>
</tr>
<tr>
<td><strong>Adverse impacts identified and mitigation measures defined</strong></td>
<td>Very little discussion of possible adverse impacts of reform programs; likely incidence of measures on poor and other social groups not explicitly identified.</td>
<td>Present a matrix on poverty impact and mitigation measures; poverty impact covers labor market, prices, access, and net transfers; impacts direct (short-run), indirect, and identify groups affected; Some loans have more specific programs (or financing) earmarked for social assistance.</td>
<td>Some loans (e.g., social protection reform) aimed specifically at offsetting adverse adjustment effects while developing better social assistance systems; other PBLs (e.g., financial sector) do not explicitly identify adverse social impacts.</td>
<td>Poverty and social impact assessment undertaken in some cases to identify links between policy and the poor; adverse measures on nonpoor not specifically identified; many loans include general provisions to improve service delivery to the poor or to augment safety nets.</td>
<td>Poverty and social protection system strategies discussed; general implications of reforms on the poor presented; poverty and social impact assessment of reforms usually assessed with WB assistance; environmental and gender impacts generally not addressed;</td>
</tr>
</tbody>
</table>
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<tr>
<td><strong>Risks Identified</strong></td>
<td>General risks—lack of political will and adverse international setting—often cited; several cite weak capacity to implement as a risk; relatively few mitigation or insulation measures noted.</td>
<td>Present controllable risks (generally mitigated by TA, thorough preparation, general support for reform, establishing apolitical bodies to set policy and high-level political support) and uncontrollable risks (political change, world market volatility—mitigated by communication strategy to win more popular support, and commodity support arrangements).</td>
<td>Risks range from general (growth must accompany reforms) to political reversal risk, political interference, and political indifference to continuing supported programs; monitoring, front-loading, coordination with other agencies, and possibility of future loans described as risk-mitigating measures.</td>
<td>Macro, political, institutional, commodity market, and fiduciary risks identified and a set of mitigation measures (including design strategies and contingency arrangements); some risks (e.g., depressed world commodity markets) taken as givens.</td>
<td>Political law-and-order, global market, and resistance-to-reform risks identified; limited attention to risk management and/or mitigation measures.</td>
</tr>
<tr>
<td><strong>Participation arrangements</strong></td>
<td>Some loans include provisions requiring community consultation and participation; some require publication of reforms; few require a priori notification or consultation of policy changes.</td>
<td>Some loans state that government will ensure programs are implemented with community and other stakeholders (general terms).</td>
<td>Social protection loans generally include community participation in targeting and improved service delivery; public dissemination of key fiscal reforms generally included.</td>
<td>Some loans include consultations with stakeholders as a reform condition; others involve stakeholders in monitoring and evaluation; public communications and information dissemination required in several adjustment operations; majority of operations silent on stakeholder participation in reform.</td>
<td></td>
</tr>
<tr>
<td><strong>Types of summary tools used to describe the PBL logic</strong></td>
<td>Policy matrix, program framework, letter of development policy; some include more detailed implementation measures (e.g., legal provisions to be changed, steps to be followed in tax or budget reform).</td>
<td>Policy matrix program framework (logframe), performance milestones, letter of development policy, poverty impact matrix.</td>
<td>Policy matrix, performance indicators table, letter of development policy</td>
<td>Policy matrix, letter of development policy, macro and fiscal indicators and outlook tables, PRSP poverty monitoring indicators.</td>
<td>PRGF framework presented in macro-forecast tables (national accounts, fiscal, monetary and balance of payments); external sustainability frameworks; performance criteria and indicative targets, structural policy measures (specified for each year of the program), performance</td>
</tr>
</tbody>
</table>
## Selected Characteristics of Multilateral Development Bank Policy-Based Lending Operations

<table>
<thead>
<tr>
<th>PBL Characteristics</th>
<th>AfDB</th>
<th>AsDB</th>
<th>IADB</th>
<th>World Bank</th>
<th>IMF (PRGF Example)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monitoring arrangements</strong></td>
<td>Executing agency generally responsible for preparing and coordinating program monitoring activities and providing a quarterly implementation report; indicators or format not specified; similar report provided for all cofinanciers; annual accounting and audit of disbursement required.</td>
<td>PBL monitoring: specific and general indicators defined; responsible agency and reporting agency defined; organization of monitoring generally not defined, and capacity to monitor not assessed.</td>
<td>Most loans include monitoring by executing authority with provisions made for IADB supervision; monitoring in the form of quarterly and semiannual reporting; all PBLs included in the project performance management report system, which means biannual reports from country offices to headquarters on progress and likelihood of achieving development objectives.</td>
<td>Most loans include monitoring by executing authority with provisions made for WB supervision; some include provisions for stakeholder monitoring; some have poverty monitoring and evaluation units and steering committees set up to monitor PRSP, including community participation, reform tracking, coordinating key ministries, and launching selected impact evaluations; some loans include provisions for monitoring socioeconomic conditions of key producers (e.g., a group of farmers or another) to help fine tune reforms.</td>
<td>Loans include a discussion of PRSP monitoring arrangements; detailed reporting requirements (weekly, monthly, 6-weekly, and quarterly) schedule and supervision schedule agreed upon.</td>
</tr>
<tr>
<td><strong>Nature of mandatory evaluation requirement</strong></td>
<td>Midterm evaluation for tranche release purposes included for two or more tranche operations.</td>
<td>Agreement for a midterm review with AsDB and participating parties; establishment of a program performance management system to assess and evaluate scope, implementation arrangements, monitoring, progress, and achievement of the program; quarterly reports and final evaluation required.</td>
<td>Borrowers requested to prepare ex-post impact evaluation of current PBLs, but decline; borrowers agree to provide data to IADB that can be used by OVE to make certain before and after comparisons of key impact variables; OVE piloting impact evaluations and conducting ex-post performance and sustainability assessments of 20% of all operations; PBLs part of the 20%.</td>
<td>Annual PRSP progress reports; progress made in IMF financial arrangements; some loans include PRSP quantitative goals as measures against which progress will be measured; some include a poverty impact analysis as a (TA-supported) loan condition.</td>
<td>Review of macro-performance through IMF surveillance and annual reformulation of policy measures, performance criteria, and targets.</td>
</tr>
</tbody>
</table>

Sources:
AfDB: based on staff consultations and a review of the following PBLs: Tunisia: Competitiveness Support Program II (2001); Mali: 2001-2003 Structural Adjustment Program (2001); Guinea Third Structural Adjustment Program (2001); Morocco Financial Sector Support Program IV (2002); Niger Third Structural Adjustment Program (2001); and Mauritania Fiscal Adjustment Program (2001).
AsDB: based on staff consultations and a review of the following programs: Program cluster of loans to India for the Modernizing Government and Fiscal Reform in Kerela Program (November 2002); Pakistan Road Sector Development Program (2001); Pakistan Agriculture Sector Program II (2001); Sri Lanka Power Sector Development Program (2002); Uzbekistan Education Sector Development Program (2002); and Cambodia Subprogram II of the Financial Sector Program (2002).
IADB: based on staff consultations and a review of the following adjustment operations: Peru: Fiscal Reform Program (2002); Argentina: Program to Support the Fiscal Balance and Social Management (2000); Guatemala: Financial Sector Reform Program II (2001); Argentina: Sector Program in Support of the Federal Commitment to Growth and Fiscal Discipline (2001); Colombia: Programmatic Financial Sector Adjustment Loan (2003); Colombia: Programmatic Fiscal and Institutional Structural Adjustment Loan (2003); Serbia and Montenegro: Social Sector Adjustment Credit (2003); Uruguay: Special Structural Adjustment Loan (2003).
Appendix 4: Examples of a Results Framework and a Retrospective Logical Framework Matrix

A. Results Framework: Peru Fiscal Reform Program Results Framework: Sector Performance Indicators

<table>
<thead>
<tr>
<th>Area of Activity</th>
<th>Proposed Measures</th>
<th>Outcomes and Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increasing Collections and Improving Budget Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low income compromises fiscal sustainability</td>
<td>Tax evasion</td>
<td>Increase tax income, improve tax system equity, and reduce distortions</td>
</tr>
<tr>
<td></td>
<td>Proliferation of tax exemptions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduced collections for extractive activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Erosion of the tax base</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inequitable tax system generates distortions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal inconsistencies reduce effectiveness of state financial management</td>
<td>Obsolete, disparate legal framework</td>
<td>Improve coordination of state financial management systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited risk that decentralization process currently under way may generate fiscal imbalances</td>
<td>Uncontrolled decentralization tends to create pressure on public spending</td>
<td>Lay the foundation for fiscally neutral decentralization</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Poorly targeted social spending with little impact on poverty reduction</td>
<td>Budgeting according to historic patterns and lack of policy and instruments for targeting spending to the poorest</td>
<td>Priority assigned to social spending on the poorest</td>
</tr>
<tr>
<td>Actuarial deficit, lack of transparency, and inadequate service in National Pension System (SNP) State subsidies distributed very unequally</td>
<td>Actuarial imbalance Poorly managed records Government agencies fail to create actuarial reserves</td>
<td>Equity, sustainability, and transparency in state-run pension systems</td>
</tr>
<tr>
<td>Transparency and Efficiency in Spending on Pension Systems</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Contingent liabilities of military and policy pension system not known | Little disclosure of data | Oversight and sustainability of quasi-public system | Publication by central government and government agencies of projected cash flows for pension contributions and benefits, along with actuarial computations for state-run systems | Outcome: **Broad-based dissemination of real costs of the system for privileged beneficiaries**  
*Indicator:* Periodic publication of number of pensioners with 1 month’s pension higher than one tax unit (PEN 3,000) and their contributions in real terms, including government enterprises and autonomous government agencies. |
|---|---|---|---|---|
| | Unknown accounts and inadequate system management | | Goals agreed upon in the plan of action for coverage of actuarial reserves of government agencies reached  
Independent actuarial audit of military and police pension system completed and previously agreed-upon goals for system achieved | **Outcome:** **Actuarial status of the military and police pension system disclosed to all stakeholders**  
*Indicators:* (a) system reserves equal to or greater than previously agreed upon level,¹ (b) system records in compliance with international standards, (c) system participants fully informed of the accounting and actuarial status of their fund |
| | | | | **Outcome:** **Equity achieved**  
*Indicator:* reforms proposed by the Commission established to balance state-run pension system benefits implemented without any increase in spending in real terms² |
| | | | | **Outcome:** **Military and police pension system makes progress towards self-sustainability, and its members receive their pensions on a timely basis**  
*Indicators:* (a) similar to those of SNP (as described above), (b) reserves at level sufficient to cover pension liabilities |

¹ Presumably based on the review conducted and the plan of action agreed upon, some source funding would be used to begin to build up the reserves.  
² Subject to amendment of the Constitution.

a. Program I

<table>
<thead>
<tr>
<th>Narrative Summary</th>
<th>Verifiable Indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals</strong>&lt;br&gt;Promote growth through liberalization of the economy</td>
<td>GDP to grow by 4% during 1989</td>
<td>National income accounts</td>
<td>Strong government commitment to the reform process</td>
</tr>
<tr>
<td><strong>Objectives</strong>&lt;br&gt;Encourage agricultural production</td>
<td></td>
<td>National income accounts</td>
<td>No exogeneous shocks like drought.</td>
</tr>
<tr>
<td>Support light industries to increase capacity utilization</td>
<td></td>
<td>National income accounts</td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong>&lt;br&gt;Liberalization of exchange rate, prices and interest rates, and a deregulated economy</td>
<td>Unification of the parallel and official exchange rates, liberalized prices and interest rates</td>
<td>AfDB midterm review missions and World Bank reports</td>
<td>Adequate flow of technical assistance and balance of payments support</td>
</tr>
<tr>
<td><strong>Inputs/Activities</strong>&lt;br&gt;Government to take measures to dismantle the apparatus of state control over the economy and reduce external borrowing</td>
<td>Development partners to support the reform program with balance of payments support</td>
<td>ADF missions and reports by the government and other aid partners</td>
<td>Implementation by the government of the reform program and timely provision of resources by development partners</td>
</tr>
</tbody>
</table>
### Program II

<table>
<thead>
<tr>
<th>Narrative Summary</th>
<th>Verifiable Indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals</strong></td>
<td>i. Promote sustainable development through liberalization of the economy</td>
<td>i. Average real GDP growth of 5% annually during the period of the program (1991-93)</td>
<td>i. National accounts published by the National Statistical Institute and other publications</td>
</tr>
<tr>
<td></td>
<td>ii. Reduce poverty</td>
<td>ii. Average inflation rate of 17%</td>
<td>ii. National accounts published by the National Statistical Institute and other publications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>iii. Average per capita growth of 2.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td></td>
<td>i. Reduce primary current account deficit to an average of 61%</td>
<td>Ministry of Finance, World Bank, and IMF reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ii. Reduce primary fiscal deficit to an average of 4.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td>i. Improved fiscal management</td>
<td>i. Increase revenue mobilization by over 23%</td>
<td>Ministry of Finance, World Bank, and IMF reports</td>
</tr>
<tr>
<td></td>
<td>ii. Liberalized foreign trade and exchange</td>
<td>ii. Maintain public expenditures at 50% of GDP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iii. Financial and banking reforms</td>
<td>iii. Unification of official and parallel exchange rates</td>
<td>ii. AfDB mission reports</td>
</tr>
<tr>
<td></td>
<td>iv. Privatization and public sector reform</td>
<td>iv. Reduction of customs tariffs and simplification of tariff structure</td>
<td>ii. AfDB mission reports</td>
</tr>
</tbody>
</table>
### Narrative Summary

<table>
<thead>
<tr>
<th>Verifiable Indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>v. Separation of commercial and central banking activities in the Bank of Mozambique</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi. Selling of loss-incurring public corporations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vii. Improved management of public utilities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Inputs/Activities

**Government**
- Pass legislation on several policy and institutional reforms in the following areas: fiscal management/foreign exchange and trade/privatization/public enterprise reform/price and marketing reforms, as well as environmental reforms.

**Development partners**
- Support the reform program with balance of payments support:
  - ADF: US$ 76.3 million
  - IDA: 180.0
  - IMF: 156.9
  - Germany: 10.0
  - Switzerland: 6.0
  - Norway: 5.1
  - Denmark: 6.3
  - ODA: 1.3

**AfDB missions and reports by the government and development partners**

**Implementation by the government of the reform agenda and timely provision of financial support by development partners**


## Evaluability Dimensions and Key Elements for the Analysis

### Diagnosis
- The problem or need that the project attempts to address is clearly identified through consultation with stakeholders (borrowers, executing agencies, beneficiaries, other interested parties).
- The causes of the problem are identified.
- The potential beneficiaries are clearly identified.

### Definition of Objectives
- Expected results at end of project execution are clearly linked to the problems and needs identified in the diagnosis.

### Project Logic
- Project objectives (goal, purpose in logical framework terminology), components, and activities are clearly stated.
- All components contribute to the achievement of the purpose.
- All components include necessary actions to attain the purpose.
- All project elements are logically related.

### Assumptions and Risks
- Enabling conditions for project execution and achievement of project objectives are identified.
- Follow-up actions to monitor validity of assumptions are identified.
Outcome Indicators

- Purpose indicator(s) identify quantitative or qualitative measures of expected outcomes at end of project execution.
- Component indicator(s) identify quantitative or qualitative measures of the expected benefits resulting from goods and services to be delivered through project execution.
- Outcome indicators for purpose and components clearly specify expected target levels during and at end of project.

Baseline Measures for Outputs

- Output measures for purpose are presented in project documents.
- Output measures for components are presented in project documents.

Baseline Measures for Outcomes

- Outcome measures for purpose are presented in project documents.
- Outcome measures for components are presented in project documents.

Monitoring and Evaluating for Outputs and Outcomes

- IADB and borrowers have defined a data-gathering system to generate information on indicators.
- Resources have been identified and committed to ensure that predefined data will be collected and analyzed.

Appendix 6. Distilling Performance Criteria from a Meta-Review of Policy-Based Lending Evaluations

Several special studies have been conducted on the performance of policy-based lending (PBL) that draw on PBL evaluations, cross-country comparisons, and both quantitative and qualitative analysis of policy reform performance. This appendix reviews 12 special study-type evaluations of PBL, drawn from each of the multinational development banks (MDBs), as well as from nongovernment organizations and researchers. The studies are reviewed to identify determinants of PBL success (for replication) and failure (for avoidance).


**Coverage:** This special study reviewed the rationale for and experience of trade policy adjustment programs assisted by the African Development Bank (AfDB) in Nigeria, Malawi, Ghana, Mauritius, and Tunisia.

**Contributors to Success:** The study found that for the countries that were the most successful the following factors contributed to the success of AfDB-supported trade policy operations:

- **Stabilize Before Liberalizing.** A sector adjustment program performs best in an economy that has been previously stabilized, as available evidence shows that distortions and macroeconomic imbalances undermine the success of sector adjustment programs.

- **Sequence Trade Reforms Correctly.** Sequencing becomes important (e.g., bolster revenues before abolishing export taxes) in eliminating policy conflicts that could undermine implementation.

- **Do Sufficient Prior Economic and Sector Work.** In the case of trade adjustment programs, one needs to know in advance the structure of the tariffs, the incentive structure, and the likely response of the various industrial subsectors to any reform package.

- **Anchor Trade Reforms in a Setting to Foster Exports.** Trade reform alone is not sufficient; there need to be institutions for trade promotion and the dissemination of information on export opportunities. There should also be a conducive environment (policies and institutions) for investment in export-producing industries.

- **Foster Ownership and Participation.** People ought to have a sense of ownership of the development process. A participatory approach would make obvious the gains to be expected from the sacrifices that people are called upon to make during the process of adjustment. Without such an approach, social tensions could undermine the adjustment process.

**Factors That Undermined Performance:** The study found that the following factors hampered performance:

- **Operations Where Results are Not Clearly Specified.** In most of the programs, there was no explicit indication of performance variables with which to assess program outcomes. Where there were indicators, they were usually vague.

- **Lack of Supervision.** Supervision becomes critical in adjustment programs, which are of very short duration. Many of the implementation problems, that these programs (particularly the Export Stimulation Programme) faced could have been avoided if AfDB supervision had been adequate.

Coverage: This special study reviewed three structural adjustment experiences that were postevaluated as successful. Case studies of structural adjustment in Egypt, Ethiopia, and Mozambique were compared.

Factors Contributing to Successful Adjustment Outcomes. The study identified the following factors as contributors to successful adjustment outcomes:

Good Design, Timing, and Relevance. This refers to having serious policy problems waiting to be addressed in a decisive manner, following concerted stabilization with structural reform, assigning the right policy instruments to address the right targets; and putting in place programs when the environment is right for making fundamental change.

Having Adequate and Available External Finance. The availability of adequate external resources (in the form of debt relief, and grants) encouraged countries to implement policy reforms with vigor. In the absence of adequate financing, adjustment could become painful in terms of lost output and unemployment, and could discourage a government from vigorously implementing an adjustment program.

Strong Borrower Ownership. Ownership was assessed by the (a) locus of initiative, (b) level of intellectual conviction among policy makers, (c) expression of political will by top leadership, and (d) efforts towards consensus building among various constituencies. In addition to putting the program in place, the governments sought political support for it among the major constituencies. While borrower ownership was not very high in the three cases, it was high enough to be a contributing factor in the successful outcomes.

Effective Coordination Among Cofinancers. Led by the World Bank, but with the active involvement of AfDB staff, the coordination activities of the aid partners created a conducive framework for the design, formulation, and implementation, including monitoring, of the programs.

Adjustment Focused on Countries and Sectors with Positive Supply Response. The poor performance of adjustment programs is traceable, in part, to the weak supply response of African economies. This response has to do with the flexibility of these economies in adapting to changes or to incentives. In the three countries under review, the supply response was relatively better, thereby facilitating output growth in the key sectors.

Coverage: This special study reviewed the rational for and experience of AfDB-supported agriculture sector adjustment programs in Ghana, Kenya, Malawi, Morocco, Tanzania, and Tunisia for which project performance evaluation reports were available. It also reviewed a recently closed program in Senegal and an ongoing operation in Lesotho.

Overall Assessment: The AfDB’s self- and postevaluations have rated the overall outcome of a majority of its programs as unsatisfactory and unsustainable. These programs were not based on the AfDB’s previous experience, with sector studies underpinning the programs’ components, and tended to be adopted from World Bank operations with some minor modifications. Programs have also sometime included mismatched objectives. Reforms were expected to increase agricultural production and diversification by providing appropriate incentives to the private sector. However, output performance was mixed. Low supply response may well have reflected the absence of complementary infrastructure (rural roads, credit facilities, etc). Implementation of the programs suffered from various policy lapses and reversals, but the AfDB has continued to disburse even when the countries have not fulfilled their commitments under the programs. Unsatisfactory outcomes partly reflect the lack of borrower ownership and AfDB staff's commitment to the reform programs. Adjustment policies have a direct impacts on the poor via changes in their income and consumption pattern, and through impacts on national food production and food security. Despite this, agriculture sector adjustment programs have paid little attention to analyzing the impact of adjustment policies on the poor, via either changes in total income or changes in the distribution of income.

Recommendations to Contribute to Future Success

Ownership. Both the countries and AfDB staff must take effective ownership of these programs. For the AfDB, this implies that it must invest more staff resources and reposition them into policy analysis and adaptive research, and productively exploit its comparative advantage to understand and analyze the political economy of the reforms being proposed.

Manageable Programs. The conditions governing tranche release should be limited in number, unambiguous in their interpretation, and confined to areas of special interest to the AfDB.

Comprehensive Incentive Reform. An optimal incentive policy package should simultaneously include price incentives, land tenure and other regulatory reforms, infrastructure development, and institutional and human capacity development measures.

Risks Assessed and Managed. Future programs should examine carefully the trends and prospects in commodity and input prices, and risk assessments should provide the options that could be considered in the event that actual prices turn out to be significantly different.

Understand Supply Response. Programs should analyze and understand factors that influence the development and functioning of the private markets, and the role governments could play in assisting their development.

Get Sequencing Right. Careful attention should be given to the timing and sequencing of the removal of subsidies on inputs, and the liberalization of output prices to improve producer incentives.

Assess Poverty and Food Security Impacts. The AfDB should analyze the poverty-reduction impact of major individual policies being proposed. The poverty-reduction objective would also imply that the AfDB continue to accord high priority to promoting food security. The AfDB must therefore analyze the implications of food security, and determine whether the impact of the reform policies on food security is an important political and economic issue. Appropriate social safety nets and training programs should also be included in agriculture sector adjustment programs.

Treat Reform as a Long-Term Process. Many of the structural, institutional, and capacity constraints to agriculture sector development require longer-term policy measures, and thus a longer term commitment on the part of both the borrowing country and the AfDB. Sector reform needs to be set up within a longerterm policy horizon, with follow-up operations rather than a single response to a balance-of-payments problem.

Coverage: This special study reviewed the performance of the Asian Development Bank’s (AsDB) program lending and sector development programs from 1986 to 2001 through a desk review of loan documents, completion reports, audit reports, back-to-office reports, consultants’ reports, and AsDB files for the loans. Field visits were made to Bangladesh, Kyrgyz Republic, Lao People’s Democratic Republic, Mongolia, Nepal, Philippines, and Sri Lanka, to assess the impacts of AsDB programs.

Factors Contributing to the Success of AsDB Program Loans

Ownership. The government took the major role in designing the program measures and in implementing them; government authorship of the reform package needs to be complemented by the participation of affected groups in program formulation. The costs of not reforming should be analyzed and publicized along with the benefits of the program.

Timing. Programs were developed at a specific “macroeconomic moment” when vulnerability created not just a need for borrowing but an understanding of the need for reform. Commitment to reform may depend also on timing related to government tenure and on the need to maintain social cohesion.

Momentum. Delays in meeting specific conditions reflected a more realistic time frame for implementation, but did not detract from the direction of reform. Introduction of more flexible program loan modalities, such as floating tranches and cluster program loans, may better match the uncertainty attached to the time frame for reform.

Factors Impeding the Performance of AsDB Program Loans

Overambitious and Overloaded Loans. A program, on average, had 38 conditions. The ambitious and complex nature of policy changes was reflected in delays in tranche release and program completion: 72% of second tranche releases were delayed.

Main Impediments. Weakness in government commitment and institutional limitations were the chief problems.

Program Rigidity. Changes in scope in midcourse were difficult, restrictive, and rarely used. This imposed rigidity on implementation.

Formal Compliance versus Effectiveness. Formal compliance was sometimes achieved in ways that did not encompass the original intent.

Inadequate Investment in Institutions. The generic weakness of program lending is that technical assistance (TA) is often provided at implementation, but stronger capacity building is needed, especially in policy analysis for program formulation and in coordinating and building social awareness of policy reforms.

Inadequate Assessment of Institutional Incentives. Programs designed around formal conditionalities need to take account of informal policy reform mechanisms and the necessary incentives of those expected to implement reforms.

Limits of Program Framework, Logframe, and Policy Matrix. Flexibility must be built in. Often there are too many conditions with no prioritization; policy framework is not conducive to consideration of alternatives.

Inadequate Analytical Base. Special studies, skills, and coordination are needed to underpin operations and to understand risks. These have not always been available, especially with heavy reliance on consultants for program preparation.

Learning Reform Lessons. This is uneven, across programs and countries, and is reflected in programs that do not build on previous experience and reforms that are not sustained.

Evaluality Issues

Performance Targets. In some cases, development impacts have not been clearly identified or monitored.

Impacts. It is difficult to assess the efficiency of program lending, and it is generally difficult to assess its impact. Impacts are easiest to assess for trade- and tariff-related reforms affecting the tradable sectors and for the crisis loans that provide immediate macroeconomic support. It is harder to discern the effects of long-gestating second-generation institutional reforms. The links to poverty and social impacts are also not easy to analyze.

Coverage: This special study, conducted in three phases between 1994 and 1998, reflects the principal evaluation results for 14 sector loans made by the Inter-American Development Bank (IADB) to eight member countries. As part of this exercise, a project performance report was prepared for each operation evaluated. The loans evaluated represent 29% of all IADB sector loans and 42% of sector operations approved between 1990 and 1995.

Contributors to Success: The study found that success in IADB PBL operations reflects the following:

Focus. Adjustment programs should contribute to macroeconomic stability, a properly functioning price system, an efficient and sound financial system, adequate physical infrastructure and a sound human capital base, investment and savings rates consistent with target growth, and an institutional framework conducive to growth and productivity improvement. Clear ex-ante priorities need to be established at the onset to identify those actions that are most important to the success of the program.

Relevance. Reforms need to cover key elements and have clearly quantifiable goals. Special risks need to be understood and managed. The institutional situation in each country needs to be properly addressed, and the reforms supported need to be in line with the circumstances of each country.

Feasibility. Operations must be designed so that it is feasible to execute reforms in the short and medium term, within time limits, and within the mandate of the current government. The scope of the issues addressed and the depth of the reforms required need to be consistent with the existing technical capacity of countries to contribute to their preparation and to have them accepted by the main domestic stakeholders. They must also be compatible with the characteristics of a quick-disbursing loan.

Acceptance. Resources need to be invested in publicizing the expected benefits of reforms, and explaining in detail what their short-term costs will be. Provisions should be made for measures to compensate those sectors of the population that are negatively affected by such reforms.

Ownership. Progress with reforms under some sector loans was inadequate, primarily for lack of commitment on the part of technical groups or the authorities. The IADB needs to monitor compliance with both the letter and the spirit of the agreed upon program, together with the authorities.

Reform Trajectories. First-generation reforms in the financial sector and in the management of public services have given rise to the need for a second generation of institutional reforms to improve bank regulation and supervision, the supply and disclosure of financial information, and the regulation and supervision of newly privatized utilities.

Institutional Incentives to Reform. Sector loans suffered because disbursements were not generally used for the direct benefit of the institutions engaged in implementing the reforms. At times, these institutions were not even aware of the actions that must be taken to comply with the loan conditions.

Building Reform Credibility and Avoiding Moral Hazard. Disbursements were not linked to partial compliance with conditionality. For complex adjustment operations, or those where one or more aspects of legislation are held up, a disbursement application may be held up, or, conversely, approved even if some conditions have not been fulfilled. Weighting measures in terms of the expected impact and degree of difficulty of compliance, funding limited sets of reforms, and concentrating lending on countries with a good reform track record are ways of fostering reform credibility.

Lending Only When Effectiveness Is Assured. In other instances, the IADB should limit its participation to technical completion and policy dialogue.

Harmonize Technical Assistance with Quick-Disbursing Loans. Technical assistance to support policy change may proceed more slowly than planned. Ensuring that TA is put quickly in place, using streamlined procedures, may be necessary to speed it up.
Coverage: This special study evaluated the special emergency loans made to Argentina, Brazil, Colombia, and Peru in 1998 and 1999 as part of an international effort to help those countries manage the financial shocks caused by market reaction to destabilizing events elsewhere in the world.

Factors That Contributed to the Success of Emergency Operations

Macroeconomic Consistency. Programs were undertaken as part of an International Monetary Fund (IMF) program.

Relevance. Programs included country-specific objectives consistent with the program’s mandate and were considered deep reforms.

Timeliness. There should be clear ex-ante profiles for rapid-disbursement of funds.

Positive Announcement Effect. Announcement of a concerted program of international assistance did calm financial markets, as measured by domestic equity markets and by the emerging market bond index measure of a spread on a country’s debt in international markets.

Preventing Default. A major objective of emergency stabilization efforts is to prevent default.

Protecting Social Spending. Performance met or exceeded expectations when commitments were made to protect social spending from the adverse effects of the crisis.

Factors that May Have Impeded Effective Use of Emergency Assistance

Sustainability. Programs tended not to address the issue of capacity to absorb emergency lending on the special terms (i.e., high interest cost and short repayment period) and conditions of the program.

Tradeoff between Reform and Rapid Disbursement. The pace of disbursements was not as rapid as originally estimated. Countries regularly requested extensions, particularly for operations with difficult reform components. Some tranches had to be cancelled because of countries’ inability to comply with conditions.

Many Conditions, but No Important Ones in Which IADB’s Impact Could Be Isolated and Attributed. Operations tended to have a large number of conditions, but most related to processes such as conducting a study or presenting a plan. Deep or fundamental conditions were also mirrored in the conditionalities of World Bank and IMF programs, making attribution of any specific impact to IADB actions virtually impossible.

Disconnect Between Loan Size and Adjustment Costs. This gives rise to situations in which the IADB’s resources are being used to support activities different from those formally articulated in the loan conditionalities. This makes it difficult to track and evaluate the program.

Coverage: The authors examined 272 programs supported by the World Bank between 1970 and 1995 and used a variety of econometric approaches to assess the effects of political economy factors, starting points, and factors under the control of the World Bank on adjustment performance. They assessed whether or not adjustment is a form of commitment technology for sincere reformers—do they provide reformers an opportunity to tie their own hands? Adjustment success was measured in terms of the probability of generating a satisfactory program outcome, using World Bank Operations Evaluation Department project ratings.

Factors Contributing to Success

Just a Few Factors Count. A small number of political economy variables can predict the success or failure of adjustment programs 75% of the time. When resources under the World Bank’s control (preparation and supervision, number of conditions, and size of loans) are added to the equations, they have no relationship with the success or failure of the adjustment program.

Political Economy Factors. Successful adjustment loans are associated with governments that were democratically elected, do not have political crises, have a low degree of ethnic fractionalization, and were recently elected (recently elected governments had a 95% chance of success in World Bank adjustment programs).

World Bank Effort. Thorough preparation was positively associated with program outcomes.

Identifying Promising Reformers as a Prerequisite to Success in Adjustment Lending. This hinges on the World Bank becoming more selective and understanding better what are promising environments for reform and what are not. Once a poor selection is made, devoting more resources or imposing more conditions will not improve the likelihood of reform.

Factors that Have Little Influence on Success

World Bank Effort. The number of conditions and loan size do not matter. Supervision resources were 50% higher for failed loans than for successful ones, suggesting that considerable resources were spent to attempt to salvage poor implementation.

Starting Points. Regional location, income per capita, population, and gross domestic product (GDP) had little influence on adjustment success once political economy variables were considered. Also, income inequality, terms of trade shocks, and the level of inflation and budget surplus prior to reform had no influence on adjustment performance when other variables were taken into account.
Appendix 6


Coverage: This retrospective review was built on the findings from World Bank evaluations of adjustment lending and recent research on PBL. It was intended to provide the background for a discussion of adjustment lending instruments and to contribute to the update of the World Bank’s adjustment lending policy.

Factors Contributing to Performance of Operations

Rationale for Adjustment Lending. The rationale should be to provide a cushion against economic shock, to finance medium-term priority public expenditures, and to promote policy reform.

Failure in Adjustment. Inadequate implementation, rather than inadequate design, led to program failure.

Adjustment Finance. Adjustment finance is most effective when (i) It is preceded by low-level assistance that helps countries decide on a policy course to shift from bad to better policies; (ii) countries have accelerating reform efforts; external finance may strengthen confidence in the reform program, attract more private investment, and enable governments to provide public services to complement private investment; and (iii) reforms are being consolidated; external assistance may help “lock-in” reforms.

Government Ownership. This is the most critical factor, and can be assessed through leadership analysis, stakeholder analysis, and reform readiness analysis. One can assess how much the government and civil society went into preparing the reform program (in the letter of development policy), participation (extent and quality of consultations with civil society, local officials, and aid partners); past track record on implementing reforms, and newly elected governments (have a higher probability of success, while existing regimes may have vested interests and benefit from the status quo).

Implementation Capacity. Lack of adequate attention to the mechanisms by which programs would be implemented was a generic concern. Programs that are too complex may be too demanding. Realism about the time frame for reforms need encouraging.

Adequate World Bank Program Support. This is reflected by analytical work that is current (under 5 years old) and coverage of social, poverty, and environmental aspects; World Bank support for civil society and other partners to build momentum and support for reform; and stronger supervision, involving third parties and civil society representatives, which can improve progress through greater use of intermediate and output indicators.

Conditionality. This can play a positive role. It is welcomed by reformers, who use the associated commitment to push through reforms, especially when focused on a few priority measures to which the government has already committed. Matrixes tend to mix key measures, desired actions, and detailed processing steps. Many loans appear overburdened with conditions. The number of conditions tends to be higher in countries with poor performance (a shotgun approach). Micromanagement of conditionality through highly detailed measures is generally unsuccessful. Multitranche operations tended to relegate deep reforms to the second tranche stage. Multitranche conditionality was found to be associated with conditionality that is less precise, more complex, less realistic, and less relevant.

Sequencing of Conditions. Priority should be accorded to reforms that contribute to both stabilization and efficiency improvement. Reforms are best initiated with substantial reductions in the largest or costliest distortions. And it is important to identify complementarities among the reform measures.

Phasing. The choice of single, multitranche, or sequence of programs depends on the nature of the reforms (short term, long duration) being pursued. Single tranche operations were rated higher than multitranche operations in outcomes and sustainability. The focus is shifting towards single-tranche operations embedded in a medium-term framework of support. Floating tranches are appropriate for actions with uncertain timing.

Monitoring. Few programs included up-front agreement on monitoring indicators. Progress is generally assessed by compliance with loan conditions. Combinations of policy, intermediate (proxy or leading outcome) indicators, and outcome indicators are required. Performance indicators should be agreed upon up front, with a clear understanding of which are under the government’s control. It is important to strengthen monitoring and evaluation capacity, and to assign monitoring responsibilities at the start of the program.
Risk Coverage. The most frequently cited domestic risks were domestic political economy risks, slippage in implementation, opposition by entrenched interests, and weak implementation capacity. Weak governance and inadequate World Bank supervision were not generally noted as a risk. Risk mitigation was treated incompletely and superficially.

Complexity. OED ratings show that the complexity of operations (measured as range of policy and institutional reforms, number of institutions involved, number of cofinanciers, number of project components, and their geographic dispersion) increased in the 1990s. By the end of the decade, 86% of the operations were classified as substantially complex.

Investment Lending Complementarity. The review found that investment ratings were 18% higher in countries with adjustment loans that were rated as having successful outcomes.

Poverty Impact. There is now a greater understanding that costs of adjustment may be substantial, that market characteristics influence the response to price reforms, and that cost-recovery measures may adversely affect service access by the poor. Establishment of social safety nets has been one of the approaches to mitigate adverse impacts. The poverty focus of adjustment operations can be assessed on three dimensions: reallocating public expenditures towards the poor, eliminating distortions that limit the poor's income-earning opportunities, and supporting safety nets that protect vulnerable members of society. Best-practice poverty-oriented adjustment programs (Uganda and Republic of Korea) laid the foundation for broad-based growth; stimulated rural development; made the investment climate more secure; contributed to a shift in public expenditures towards social services that benefit the poor; and, the case of the Republic of Korea, improved the unemployment insurance program and supported a temporary jobs program to buffer the poor from the effects of a financial crisis. The World Bank finds that “cross country evidence suggests that successful adjustment policies involving market reforms—often supported by adjustment lending—have tended to increase growth rates on average with little or no effect on income distribution….policies such as openness to international trade, low inflation, moderate government size, and strong rule of law generally benefit the incomes of poor people as much as those of anyone else, and that some policies, notably stabilization of high inflation, may benefit the poor disproportionately.” Most operations did not adequately take gender considerations into account in their design.

Reforming Public Institutions. Good governance determines the success of public sector reform. There has been a shift from technical solutions to changing the incentives for good public performance, through changing the rules under which the public sector operates to bring about transparent and accountable public sector management. The focus is on rules and behavior in key functions (procurement, customs, public finance, personnel). Other preconditions for success include government vision about what it expects from civil service, broad consensus on a carefully sequenced set of reforms, top government commitment to and involvement in the reform process, and appropriate sequencing of reform actions.

Financial Sector Reform. Experience suggests that lasting improvements are difficult to achieve; improved laws and supervision can be undermined by regulatory forebearance and shocks; and more intensive analysis and dialogue can help resolve the tension between the short-term response to shocks and long-term capacity building.

Environment. Measures have been incorporated in programs in many sectors, but the real challenge is the monitoring, implementation, and enforcement of conditions. Economy-wide policies can have important and unintended environmental impacts. Sometimes environmental effects are broad, indirect, and uncertain, or appear only over the long
Appendix 6


Coverage: This research report analyzed the performance of 170 IMF-supported programs undertaken between 1992 and 1998, using information on conditionality performance from the IMF’s Monitoring Arrangements data base and a number of other data bases on economic, political, and social characteristics of borrowing countries. Some 48% of the sample were standby operations, 38% were concessional facilities, and 15% were facilities under an extended standby facility. An econometric model was used to identify factors contributing to the implementation of IMF-supported programs. Performance was based on measures of program interruption, irreversible interruption, an overall implementation index and a ratio of disbursements to commitments.

Key Finding on Impact: Inflation and reserves to import ratios improved for those cases in which programs were successfully completed. There was no difference in growth rates between successful and unsuccessful programs.

Main Contributor to Successful Program Implementation—Favorable Political Economy: A stable polity (based on relative absence of internal conflict using the 12-point Internation Country Risk Guide scale) with a good quality bureaucracy (based on the ICRG four criteria scale), lack of large special interests represented in parliament, and no ethnic division in society contributed to success.

Contributor to Unsuccessful Program Performance—Adverse Political Economy Setting: Strong vested interests in parliament (defined by the number of seats held by a special interest group), lack of political cohesion (same party not in control of the executive branch and the legislature), poor quality of bureaucracy, and ethnic division inhibited success.

Factors that Were Insignificant in Contributing to Program Performance

Political Cycle and Democracy. Neither the incumbents’ newness in office nor their democratic credentials are associated with implementation success.

IMF Effort. Indicators of IMF investment of human and financial resources are not good predictors of program implementation.

External Conditions. There is no association between initial and external conditions and program performance, indicating that programs may incorporate realistic goals and be related effectively to a member’s initial “position.” There is no association between the extent of external indebtedness and program performance.

Selected Recommendations

Design. The IMF could take political information and constraints systematically into consideration. It could methodically collect the growing numbers of political indicators made available by research in quantitative political science.

PBL Relevance. If the probability of implementation is judged to be below some acceptable threshold, the IMF could exercise greater selectivity in providing financing. The combination of more selectivity, streamlined conditionality, and enhanced ownership would enable the IMF to counter criticisms that it grants too many waivers. Even though the IMF would not be providing loans to these countries, it would continue being active through surveillance, economic education, and TA, and through encouraging open debate about policy options and trade-offs.

Coverage: This study analyzed the experience of 51 countries that were prolonged users of IMF resources between 1971 and 2000. It was based on empirical and econometric analysis of a broad group of prolonged users; three main country case studies (Pakistan, Philippines, and Senegal) and two more limited case studies of “graduators” of prolonged use (Jamaica and Morocco); interviews with stakeholders; and questionnaires sent to prolonged users authorities, official and private creditors, and IMF mission chiefs.

Main Finding: In 2001, about half of those with IMF programs were prolonged users. Prolonged use is partly a reflection of systemic factors arising from the changed role (i.e., seal of approval and support for long-term structural adjustment) that the international community expects the IMF to perform, and is also linked to program design and implementation problems.

Factors Contributing to Prolonged Use

Coherence Among Aid Partners. The reluctance of other agencies to provide concessional aid at a level sufficient to replace intended diminished IMF flows has meant that the IMF has had to remain involved in repeated programs, or to withdraw before external viability could be reached. The overlap between the IMF and the World Bank on structural reform has suffered when coordination was inadequate.

Starting Points and Design Overoptimism. Prolonged users face external circumstances and have fiscal circumstances (low trend export growth, high public debt, low tax take) that make swift adjustment unlikely. Program design suffers from overoptimism and should be more realistic about the pace and path of adjustment. IMF staff face incentives for overpromising.

Time Horizon. For prolonged users, substantial challenges remained at the end of the prolonged use period. There was a mismatch between objectives and time frame: overly ambitious agenda in a short time frame with inadequate understanding of growth and adjustment dynamics.

Rules versus Measures. Conditionality that focused on policy rules or procedures was more effective than one-off changes, especially when dealing with deep-seated structural constraints.

Prior Actions. These are not well integrated in design; they did not focus on priority issues and therefore had little influence on program implementation.

Generic Design Flaws. Prolonged users had programs with overestimated growth and export performance. Targeted fiscal and external current accounts were more modest in prolonged users. Conditionality was less extensive and with fewer targets, and more often had performance criteria waived. The key determinant was not the magnitude of conditionality but its prioritization and integration into program design.

Structural Conditionality Was Poorly Prioritized. This affected compliance; the most important problems were not being addressed. IMF staff had inadequate understanding of implementation capacity constraints to performance and political economy of reform. There was insufficient emphasis on fostering the deep reform of institutions needed in critical areas, overemphasis on financial programming, and inadequate understanding of the real economy response to main policy measures.

Conditionality. There was overemphasis on formal rather than substantive compliance. Conditionality could be used more to draw attention to critical reform areas.

Dialogue. Surveillance failed to play a major role (in signaling performance) in the case of prolonged users. Surveillance reports did not present alternative policy options and their consequences, nor foster a debate on trade-offs.

Weak Ownership and Political Commitment. Inadequate effort was made to assess political commitment and to understand institutional constraints. Very detailed conditionality was not effective in enhancing implementation when political commitment was weak.

Uncertainty. Many programs faced difficulty dealing with uncertainty because risks were not identified and adequately managed.

Limited Learning. Few ex-post assessments of programs were made, and rarely were explicit exit strategies formulated. Few debates on program performance were reflected in Board papers.

Coverage: The Structural Adjustment Participatory Review Initiative Network (SAPRIN), a network of civil-society groups, and the World Bank undertook a participatory review of structural adjustment experience involving four years of consultations and analysis in nine countries spanning four continents. Several thousand organizations participated in the process, and nearly 100 working papers were prepared.

Key Factors That Influence Adjustment Performance Highlighted in the Summary Report—Participation and learning. Washington staff were ill prepared for critical findings and attempted to bury SAPRIN and its findings in the institution. Willingness to engage civil society in meaningful dialogue was questioned.

Design Flaws in Adjustment Operations Revealed by Case Studies

Sequencing of Trade Liberalization. Case studies show that trade liberalization was associated with rapid import growth and deindustrialization. A flood of imports contributed to real wage declines, and increased inequality and job insecurity; and informalization became more pervasive. Exports increased, but this had only a modest effect on the manufacturing sector. Industrial policy needs to be in place to adjust the structural and policy constraints to competitiveness prior to liberalization.

Participation. There was a general lack of meaningful participation of national stakeholders in the design and implementation of reforms, which rendered them technically inefficient and socially costly.

Getting Goals Right. Financial market reforms caused financial assets to be more concentrated, reduced financial market access to poor and small business, limited government’s ability to influence the economy, and generated few efficiency gains. The goal of reform should have focused on access, cost of capital, support for employment-creating development banking, and a sound regulatory system for banks. Agriculture and mining reforms were aimed at making markets more efficient, but not necessarily at improving rural people’s livelihoods. There is no evidence that reforms improved farmers’ incomes; food security appears to have decreased; large-scale export production has inspired farmers to exploit marginal lands; and adverse adjustment effects have fallen more heavily on women in several countries. Mining reforms have allowed large-scale mining to proceed unabated, threatening indigenous tribes, contributing to environmental stress, contributing to negative social consequences, and weakening community control over resources.

Getting Objectives Right. Introducing flexibility in labor markets appears to have triggered wage declines, widened income inequity, worsened employment, more precarious employment, increased child and senior citizen work, and uneven productivity and competitiveness gains. Labor rights, tripartite wage pacts, social policy, and discrimination against women are key objectives that were not addressed.

Focusing on Nurturing Positive Externalities. Privatization improved company performance, but largely through raising tariffs and costs. Strategic services were placed under foreign control. Elimination of subsidies reduced access of the poor to essential services. Asset sales were nontransparent and marred by corruption. No property-owning middle class was created. Whether or not privatization has had desired social effects on service access, cost of service, and meeting the social needs of the poor was questioned.

Inter-Policy Consistency. Adjustment programs tried to protect social sector spending while also introducing policies that made access more difficult: cost-sharing; rising cost of training, health services, and medicines; and revenue-generating constraints created additional impediments to the access to services by the poor in the case study countries. Servicing debt was accorded higher budgetary priority than social sector outlays. The quality of education and health services has deteriorated.
Appendix 6


Coverage: Easterly compares the growth and macro-policy performance of countries with repeated IMF and World Bank adjustment programs with those with little or no adjustment lending. He develops an indicator of macro-distortion and he uses a cross-country instrumental variables regression to estimate the causal effect of repeated adjustment lending on policies. To overcome the selection problem, he uses instrumental variables to control for other factors that contribute to aid flows. The second paper uses a pooled cross-section and time series of data on adjustment programs, growth, and poverty to assess the impacts of PBL on poverty reduction.

Key Findings (paper 1)

Performance Was the Same Between Intensive Adjustment and the Rest. Intensive adjustment recipients had about the same near-zero per capita growth rate as the overall developing country sample. They had about the same current account deficit, government deficit, black-market premium and inflation rate, and the same real interest rate.

Main Macro-Effects. There is evidence that the real exchange rate overvaluation was modified and the black market premium reduced. The cumulative number of adjustment operations has a linear (but small) statistically significant effect on the size of the current account and fiscal balance. Receiving 10 adjustment loans was associated with a 2.4% of GDP improvement in the current account balance and a 1.4% of GDP improvement in the fiscal balance. There is no clear association of terms of trade changes and macroeconomic performance in the intensive adjustment cases.

Perverse Incentives. The probability of receiving another adjustment loan does not decrease with the number of loans received. The tendency to fill the financing gap may have inspired countries to overborrow instead of adjusting. Of the 18 International Development Association-eligible adjusting countries in 1970, 17 had become eligible for Heavily Indebted Poor Countries debt-relief in the 1990s. Policies were not sufficient to generate the resources necessary to service the debt.

Attributing Effects. A high level of repeated adjustment lending was not enough to get macro-distortions under control. There was macro-adjustment, but it was not associated with the intensity of adjustment operations received. The prevalence of one or more extreme macroeconomic distortions did not diminish as adjustment accumulated, suggesting that those policies that improved were offset by those that worsened.

Growth. None of the techniques employed could identify a positive growth effect of repeated adjustment lending after controlling for starting points, terms-of-trade effects, and other factors contributing to aid flows. Evidence suggests that lending continued even though initial adjustment performance was poor. Aid did not discriminate well between good and bad policies.

Key Findings (paper 2)

Growth Impacts. There was no systematic effect of adjustment lending on growth. Whether expansion or decline predominates depends on the size of the expanding and declining sectors.

Poverty Impacts. While adjustment lending has no direct effect on poverty reduction, it has a strong interaction effect with economic growth, i.e., the growth elasticity of poverty declines by 2 points with every additional IMF or World Bank adjustment loan per year. This implies that the poor benefit less from expansions with a structural adjustment program than without them. Lowering the stake of the poor in expansion could be dangerous because it gives them less of a stake in the recovery phase of adjustment.

Counter-Cyclical Smoothing. Adjustment loans appear to help smooth consumption of the poor. There is some evidence that adjustment loans had a countercyclical effect on inflation, the exchange rate black-market premium, and fiscal transfers, but no evidence that these variables had any direct effect on poverty or a positive interaction with growth. The poor tend to suffer less from output contraction in countries with many adjustment loans.

Informality. There is evidence that the poor derive a large share of their income from informal activity and may be structurally or geographically isolated from the formal sector. Employment segmentation may explain why the poor are ill-placed to take advantage of opportunities afforded by structural adjustment. This also explains why they were less likely to have benefited from the loss of opportunities in sectors previously protected under the old policy regimes.
Appendix 7. Subcriteria for Evaluating Policy-Based Lending Operations

What follows is a suggested list of subcriteria. This is neither a comprehensive nor a minimum checklist. The subcriteria listed here have been found to be important determinants of policy-based lending (PBL) performance in multilateral development bank (MDB) evaluations and policy research. They can be used to select and define the criteria employed in evaluating specific PBL operations (PBLs). An evaluative judgment is required to assess the degree to which each chosen subcriterion has been achieved.

A. Relevance

1. Consistency with the country's overall development strategy
2. Consistency with the MDB assistance strategy
3. Importance of unwritten objectives (i.e., was there a pressing financing imperative, and if so, to achieve what?)
4. Importance of policy objectives addressed to meet critical development constraints (by category, such as macroeconomic management, structural reform, sector reform, private sector development, institutional development, human development, environmental reform, and infrastructure development)
5. Reform ownership
   - leadership commitment: (a) locus of initiative, (b) level of intellectual conviction among policy makers, (c) expression of political will by top leadership, and (d) efforts towards consensus building among various constituencies
   - stakeholder support: (a) program designed as win-win reforms; (b) stakeholder assessment underpinning reform; (c) conditionalities structured to have greater chance of success given stakeholder interests; (d) tensions between stakeholder interests and reform resolved during policy dialogue; (e) key interest groups and the public made aware of the purpose, objectives, and likely effects of reform
   - institutional capacity: (a) ability and willingness of key institutions to reform factored into design, (b) adequate incentives for key institutions to participate in reform, and (c) assistance provided to augment identified gaps in skills or knowledge
   - participation: quality of stakeholder analysis and contribution
6. Validity of the diagnosis
   - policy dialogue considered alternative policy options and their consequences
   - sufficient country knowledge base for diagnosis and recommendations
   - lessons from past reform experience assessed and incorporated
7. Program Formulation and design was relevant to achieving objectives
   - adequacy of the external financing case for the operation?
   - adequacy of the overall external financing arrangements?
   - extent and appropriateness of the medium-term framework?
   - adequacy of the program logic (identification of the goals to be achieved, the specific purpose of the operation, reform measures, their expected outputs, outcomes, and development results, together with the key assumptions and risks to performance all identified)
   - appropriate reform instruments selected (reforms properly sequenced to reach policy targets, internally consistent, relevant, precise, not overly complex or detailed, realistic/feasible, a manageable number selected, aimed at substantial reductions in major distortions, cover key elements, and have clearly defined targets and objectives)
   - adequate tranching arrangements (disbursement phasing matches financing requirements, reform phasing matches disbursement phasing)
   - impacts (economic, poverty, social, environmental, and institutional) reflected in design
- social consequences assessed, and suitable mitigation measures incorporated
- performance risks (both internal and external) adequately identified, and suitable strategies for managing risk incorporated
- reform is coordinated with and coherent with other assistance efforts
- suitable implementation arrangements (well-functioning economic management team in place, high-level representation, burden sharing across ministries, and adequate incentives for affected parts of government to buy into the reform effort)
- adequate technical assistance (TA) available (to fill knowledge gaps, contribute to capacity building, and support program implementation)
- time frame realistic for reforms to be completed, given institutional and other constraints
- best option among alternatives selected

8. PBL could be readily evaluated
- targets well defined, linkages traced, baseline values provided, and performance targets specified
- reporting, monitoring, and evaluation responsibilities assigned and funding provided
- knowledge gaps identified, and actions identified for securing information needed for decision making

B. Efficacy (Achievement of Purpose)

1. Extent to which main program objectives were achieved
   - by main written objective (i.e., desired outputs and outcomes achieved)
   - by main unwritten objective (i.e., desired outputs and outcomes achieved)

2. Extent to which the political economy context was conducive to the achievement of program objectives:
   - high social cohesion/low degree of ethnic fractionalization
   - recently elected government/politicians will be in office long enough to see the benefits of reform
   - degree to which a perceived crisis has precipitated reform
   - lack of large special interests represented in parliament
   - public awareness and support obtained for PBL-supported reforms

3. Extent to which PBL financing and contemporaneous macro-reforms contributed to desired macro-outcomes

4. Extent to which PBL contributed to fulfilling key policy goals (i.e., macro stabilization, improved public investment, expenditures and domestic resource mobilization, financial sector reform, debt sustainability, private sector enabling environment, governance and public sector management, competitive pricing and marketing, labor legislation, sector regulation)

5. Extent to which PBL contributed to fulfilling key financial goals and objectives (i.e., financial restructuring, financial viability of distressed banks and state enterprises, enhanced cost recovery)

6. Extent to which PBL, and associated TA, contributed to fulfilling institutional development objectives (i.e., contributed to capacity for economic management and efficient and effective regulation, capacity of the executing agency to implement reforms)

7. Extent to which social objectives were met (i.e., poverty reduction, protection of vulnerable groups, reducing income disparities, community development and participation, gender equality, access and quality of public services, nutrition and food security, health improvement, participation, and empowerment)

8. Extent to which environmental objectives were met (i.e., improved natural resource management; maintenance of biodiversity; maintenance of soil, air, and water quality; improved urban environmental quality)
9. Extent to which PBL reforms contributed to continuity of the reform process (i.e., did learning, policy research, and dialogue advance the reform agenda and help build the constituency for the next generation of reforms?)

10. Extent to which factors beyond the government’s control influenced the outcome of the program (including world markets, natural calamities, cofinanciers, performance of consultants, war/civil disturbance)

11. Were other performance assessments reviewed and presented (including those whose findings contradict the evaluation)?

C. Efficiency

1. Socioeconomic benefits of major reforms are, or are expected to be, substantial
2. Socioeconomic benefits exceed costs (i.e., debt plus main adjustment costs)
3. Costs were effective compared with social objectives achieved (i.e., debt assumed and adjustment costs were relatively low compared with achievement of social objectives)
4. Financing was provided in a timely manner
   - identification and appraisal expeditious
   - financing disbursed in line with external financing requirements
   - disbursements took place according to plan
5. Transaction costs of providing assistance were a cost-effective use of assistance
   - costs of identifying, appraising, and supervising the operation lower, by volume of assistance, than for contemporaneous investment operations
   - government burden (i.e., proportion of economic management team resources devoted to design and implementation) did not preclude attention to other policy matters
6. Net economic returns to the reform operation
7. Public expenditures made adequate provision to meet the government’s portion of adjustment costs

D. Sustainability

1. Absence of major policy reversals
2. Continued borrower commitment to objectives demonstrated through post-program implementation of related measures
3. Sociopolitical support for the PBL (including adversely affected groups)
4. Adequacy of institutional arrangements for implementing agreed upon reforms
5. Conducive political setting (i.e., stable and supportive)
6. Conducive macroeconomic setting
7. Degree of reform resilience (i.e., resilience to changing financial, social, economic, and political conditions)

E. Institutional Development

1. Contribution towards improving national capacity (in economic management, civil service reform, legal and regulatory systems, sector development, and others)
2. Contribution towards improving agency capacity (in planning, policy analysis, skills upgrading, public awareness building and consultation, management, restructuring, decentralization, management of information systems, financial controls, financial restructuring, regulatory enforcement, and agency governance)
3. Contribution towards improving private sector capacity
4. Contribution to improving nongovernment organization and civil society capacity (including participatory attitudes and involvement of society in the reform process)
5. Contribution towards improving the governance of the policy reform process (i.e.,
transparency, checks and balances, public participation and accountability in the process of
reform).
6. Extent to which capacity has been developed to manage and lead the reform process within
core government agencies

F. Impact

1. Anticipated and unanticipated (positive and negative) impacts identified
2. Impacts attributable to the PBL isolated from those caused by other factors
3. Counterfactual scenario identified and used in impact assessment
4. Before and after conditions identified and used in impact assessment
5. Key development impacts assessed, either qualitatively or quantitatively, including
   - economic impacts
   - impacts on poverty
   - impacts on sector activity
   - impacts on the environment
   - impacts on social conditions (gender, participation, and others)
   - impacts on political conditions
6. PBL’s additional contribution to the policy reform process identified

G. Borrower Performance

1. Quality of preparation
   - degree of ownership and involvement in identification and design
   - political support for reform secured
   - adequate institutional arrangements for program implementation
2. Quality of implementation
   - well-functioning economic policy management team
   - effective leadership and management of the reform process
   - supportive macropolicies and complementary structural and sector policies
   - adequate public outreach, disclosure, and awareness building throughout program
   - key staff assigned to implement reforms
   - executing agencies had adequate incentives to undertake reforms
   - satisfactory use of TA
   - suitable mid-course adjustments made where necessary
   - covenants complied with or waivers requested
3. Adequacy of monitoring, evaluation, and reporting

H. MDB Performance

1. Quality of PBL at entry
   - appropriate degree of selectivity
   - grounding in recent economic and sector work
   - adequate economic and financial rationale
   - adequate risk assessment
   - incorporation of lessons identified
   - adequate institutional analysis
   - adequate poverty, social (including gender), environmental, and stakeholder analysis
   - incorporation of monitoring and evaluation indicators and reporting procedures
2. Quality of MDB supervision
extent to which supervision and implementation contributed to achieving desired reform:
- degree to which supervision focused on achieving objectives (versus conditionality compliance)
- degree to which civil society participation was fostered in implementation (i.e., awareness fostered, prior notice given before reforms)
- problems identified during implementation were expeditiously assessed and resolved
- flexibility demonstrated in suggesting and approving modifications to achieve desired policy outcomes and impacts
- supervision used to foster institutional learning and awareness about policy reform
- quality of TA and advisory services during implementation
- adequate resources devoted by the MDB to supervision
- extent to which MDB reporting was complete, candid, and accurate
- attention paid to monitoring and evaluation data and processes
- quality and timeliness of self-assessment (i.e., completion reporting)