AFRICAN DEVELOPPEMENT BANK GROUP

OPERATIONS EVALUATION DEPARTMENT
(OPEV)

EVALUATION OF POLICY BASED OPERATIONS IN THE AFRICAN DEVELOPMENT BANK, 1999-2009

High Level Evaluations Division (OPEV.2)

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Abbreviations

ADB	African Development Bank (i.e. in contrast to ADF)
ADF	African Development Fund
AfDB	African Development Bank
APPS	Appraisal Projects Processing Schedule
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DARMS	Documents and Records Management System
DBSL	Development Budget Support Loan
DRC	Democratic Republic of Congo
EC	European Commission
ELF	Emergency Liquidity Facility
FSF	Fragile States Facility
GAP	Governance Action Plan
GBS	General Budget Support
GECL	General Counsel and Legal Services Department
IDA	International Development Association
IMF	International Monetary Fund
MDG	Millennium Development Goal
MTS	Medium Term Strategy
OAGL	Office of the Auditor General
OPEV	Operations Evaluation Department
ORPC	Operational Resources and Policies
ORPF	Procurement and Fiduciary Services Department
ORQR	Results and Quality Assurance Department
OSGE	Governance, Economic, and Financial Management Department

OSVP	Vice Presidency, Sector Operations
PAR	Project Appraisal Report
PBL	Policy Based Lending
PBLG	Policy Based Lending for Governance
PBO	Policy Based Operations
PBS	Protection of Basic Services
PCN	Project Concept Note
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PRS	Poverty Reduction Strategy
RMC	Regional Member Country
SAL	Structural Adjustment Loan
SBS	Sector Budget Support
SDBSL	Sector Development Budget Support Loan
SECAL	Sectoral Adjustment Loan
SWAp	Sector Wide Approach
TA	Technical Assistance
UA	Unit of Account
USD	United States Dollar
WB	World Bank

Foreword

This independent evaluation of Policy Based Operations (PBOs) was undertaken by the Operations Evaluation Department (OPEV) to examine how effectively PBOs have been used by the Bank over the period 1999 to 2009. The main focus of the evaluation was on the Bank's own policies and procedures for the design and implementation of PBOs and how this compares with experience of PBOs in other development agencies and emerging international best practice. The results of the evaluation will help to inform a new AFDB policy on PBOs, which is currently being developed.

The evidence presented in this review suggests that the Bank has made substantial progress in its use of PBOs. It has developed a stronger organisational capacity and structure for the design, appraisal, and management and monitoring of PBOs and is a major partner in joint budget support operations. However, to build on these achievements, the Bank now faces significant challenges: to build in-country capacity to engage in meaningful policy dialogue; to build links between PBOs and the project investment portfolio; and to expand PBO knowledge and capacity throughout the Bank.

The information contained in this review is based on a review of literature and comparative experience with PBOs in other development agencies, a review of the Bank's institutional and policy framework, six country case studies (Burkina Faso, Ethiopia, Morocco, Rwanda, Sierra Leone and Tanzania) and four case studies of other significant PBOs (in Botswana, Democratic Republic of Congo, Egypt, and Nigeria). These background documents are available in full on the OPEV website.

We would like to thank the main authors of the review: Stephen Jones of Oxford Policy Management and Ann Bartholomew of Mokoro and all those engaged in the country case studies. We particularly appreciated the time and energy given by OSGE and others who fully participated in this evaluation and provided information and valuable feedback in evaluation workshops. Without the support of OSGE and AFDB country office staff in Burkina Faso, Rwanda, Sierre Leone, Morocco, Ethiopia and Tanzania this report would not have been possible.

Executive Summary

Scope of the evaluation

i. This evaluation assesses the African Development Bank's use of Policy Based Operations (PBOs) over the period 1999-2009 during which 120 operations totalling UA 6.1 billion were approved, representing 31.3 percent of total ADB approvals and 21.8 percent of total ADF approvals. The evaluation examines how effectively PBOs have been used by the Bank to support national development objectives and focuses on the Bank's policies and procedures for PBOs. The evaluation is based on a review of literature and comparative experience with PBOs in other development agencies, a review of the Bank's institutional and policy framework, six country case studies and four case studies of other significant operations.

Significant progress has been made…

ii. The evaluation concluded that the Bank has made substantial progress in its use of PBOs. In 1999, the Bank remained heavily dependent on the IMF and the World Bank for analysis and design of its engagement in structural and sectoral adjustment operations, which often encountered implementation difficulties and delays resulting from weak country ownership and the unsuccessful attempt to leverage policy change through the use of complex policy conditionality.

iii. The Bank now operates as a significant partner in joint donor budget support arrangements, and the record of its engagement (reviewed through the country case studies) is largely one of success. The Bank has developed a cadre of staff (concentrated in the Bank's Economic and Financial Management Department - OSGE) with strong experience in the design and management of budget support. The establishment of Field Offices (even though decentralisation has progressed less far than was planned) has significantly improved the ability of the Bank to engage in national policy and budget processes and has strengthened the Bank's monitoring and supervision of PBOs.

iv. The Bank has developed a stronger organisational capacity and structure for the design, appraisal, and management and monitoring of PBOs although some aspects of this still require further development. In addition to this the Bank proved highly responsive to the challenges of international economic and financial instability as these have affected the Bank's Regional Member Countries (RMCs) during 2008 and 2009. The Bank was able to design and implement operations to meet the urgent financial requirements of its clients, which were also directed towards providing a platform to address longer term structural reform requirements. The Bank has also made important contributions to the development of budget support in fragile states.

… but there are areas where improvement is required

v. The evaluation identified some significant shortcomings in the Bank's policies and practices including in comparison to approaches used in other development agencies undertaking PBOs. First, the Bank has a proliferation of policies and guidance for PBOs that (unlike in other agencies) have not been consolidated and updated, while appraisal procedures for PBOs are excessively complicated and divert management attention more to ensuring procedural requirements are met than to improving analysis and design. Information systems for PBOs are weak and uncertainty persists about how audit and fiduciary risk should be addressed. Second, the

Bank has lacked both a mechanism for a medium-term programmatic approach to budget support and an effective instrument for support engagement in Sector Wide Approaches (SWAps). Most fundamentally, the Bank lacks policy and analytical capacity, particularly in-country, at the both macroeconomic and sectoral level. This limits the Bank's ability to engage in policy dialogue, to exploit synergies between PBOs and other Bank activities, and to undertake economic and sector work to improve the quality of its engagement and the extent to which its Country Strategy Papers provide effective guidance for decision-making on PBOs. Staff incentives also do not encourage an effective multisectoral approach to budget support

Challenges for the Bank in using PBOs

vi. The evaluation has identified three main challenges for the Bank if it is to build on its achievements and the enhanced capacity it has developed to use PBOs more effectively to achieve its strategic objectives and meet the needs of RMCs.

vii. First, while the Bank's engagement in budget support arrangements and its strengthened in-country capacity has enabled it to participate more fully in policy forums and processes, the Bank has in general contributed little to dialogue on substantive policy issues. The Bank's capacity to engage in sectoral policy has been particularly constrained by its lack of senior level technical staff based in Field Offices. While the objective of most Bank PBOs since 2006 has been to strengthen public finance management, the Bank has had no public finance management specialists in its Field Offices.

viii. Second, there are few linkages between the Bank's engagement in PBOs and the rest of the Bank's programme (in particular the Bank's investment lending) so that potential synergies within the programme have not been developed or exploited. There have been initiatives to use PBOs as an entry point for deeper engagement in sectoral reform processes and to provide opportunities for subsequent investment operations but these have yet to generate substantive results.

ix. Third, the concentration of capacity within OSGE has reinforced the tendency for budget support PBOs to be managed as governance "sector" operations even though the majority of these are multisectoral in the sense of supporting the whole government budget.

x. The Bank therefore faces a choice as to whether it seeks to build its capacity to engage in policy dialogue around PBOs, particularly within Field Offices, or to add value through developing complementarities between PBOs and the rest of the Bank's programme, or whether its role will remain largely limited to the provision of finance.

Areas where action is required

xi. The Bank needs to define more clearly and authoritatively the role that PBOs have in advancing the Bank's strategy both in relation to its overall mandate and objectives, and its engagement at country level. In the majority of cases the Bank has been participating in joint operations with other multilateral agencies and in some cases bilateral donors so that the specific value added from the Bank's participation needs to be identified, as well as the potential synergies between the Bank's use of PBOs and its other activities, notably its investment lending and support to capacity development.

xii. Whatever specific decision is made on the definition of this role, the Bank needs to produce a (single) comprehensive policy and supporting guidance on PBOs (replacing where necessary existing policies and guidance). This policy and guidance should build on existing policies (notably the 2004 policy on Direct Budget Support Lending) but should have a clearer statement of the intervention logic that should be used in the statement of the objectives of PBOs and their design, as well as drawing on lessons and best practice on the appropriate definition of objectives, choice of conditions, and other design aspects such as tranching.

xiii. The organisational and management implications of the policy that is adopted will need to be addressed and followed through to support its effective implementation. This will include (i) clarifying the role of different Bank departments and organisational units (including in particular OSGE and Field Offices) in the design and management of PBOs; (ii) the building of capacity within the Bank to ensure these policies are effectively implemented; (iii) the development where feasible of procedures for the design, appraisal and management of PBOs that are specifically tailored to the requirements of PBOs rather than the use of generic project preparation procedures, and (iv) the improvement of information systems to enable the performance and results of PBOs to be more effectively monitored and lessons identified.

Recommendations

xiv. The recommendations from the evaluation are the following:

1) The Bank should take a decision about how PBOs are to be used as an instrument to support the Bank’s wider strategic objectives and the needs of its RMC clients. To the extent that the Bank decides that PBOs should be used to strengthen engagement in policy dialogue, rather than just a financing mechanism, the Bank needs to build its capacity and develop its policies and procedures to fulfil this role more appropriately.
2) Guidance for the design of PBOs and the identification of results should be developed based on a more fully developed model of the intervention logic for PBOs.
3) Existing Bank PBO policies and guidance should be consolidated into a single policy.
4) The Bank should identify potential synergies between the Bank’s engagement in general budget support and related PBOs and other parts of the Bank’s programme, especially investment operations.
5) To the extent that the Bank identifies potential synergies and contributions that it can make through policy dialogue or complementary activities these should be explicitly built into the design of PBOs and sufficient capacity and resources should be made available to enable these contributions to be made effectively, including for the Bank’s role in chairing joint budget support groups.
6) Each sectoral area of the Bank should undertake a review of the scope for the use of sectoral PBOs, for providing contributions to multisectoral PBOs, or for finding more effective ways for participating in SWAps.
7) The Bank should examine how policies and procedures (especially relating to ADF) can be adapted to allow a more programmatic medium-term approach to budget support.
8) The Bank should develop, fully document, and provide comprehensive training for staff in a set of procedures and timetables for PBOs that is specifically tailored to the needs of this instrument.
9) The Bank should review and substantially strengthen its information systems and procedures for PBOs.

1 Introduction

1.1 This evaluation assesses the African Development Bank's use of Policy Based Operations (PBOs) over the period 1999-2009. It examines how effectively PBOs have been used by the Bank for the achievement of nationally owned development objectives. The main focus of the evaluation is on the Bank's internal processes (policy and guidelines) for the design and the delivery of PBOs and how these translate into decisions in practice about the use and design of PBOs in different country settings.

1.2 The findings of this evaluation are drawn from four pieces of analysis that were undertaken for the evaluation. The first is a review of literature and the comparative experience with PBOs in the World Bank, Asian Development Bank, European Commission, and selected bilateral agencies. The second is a review of the Bank's institutional and policy framework for PBOs within the context of the Bank's wider strategies and organisational reforms over the evaluation period. The third comprises six case studies (Burkina Faso, Ethiopia, Morocco, Rwanda, Sierra Leone, and Tanzania) of the Bank's use of PBOs over the evaluation period. The fourth consists of four additional case studies focused on large and strategically significant PBOs.

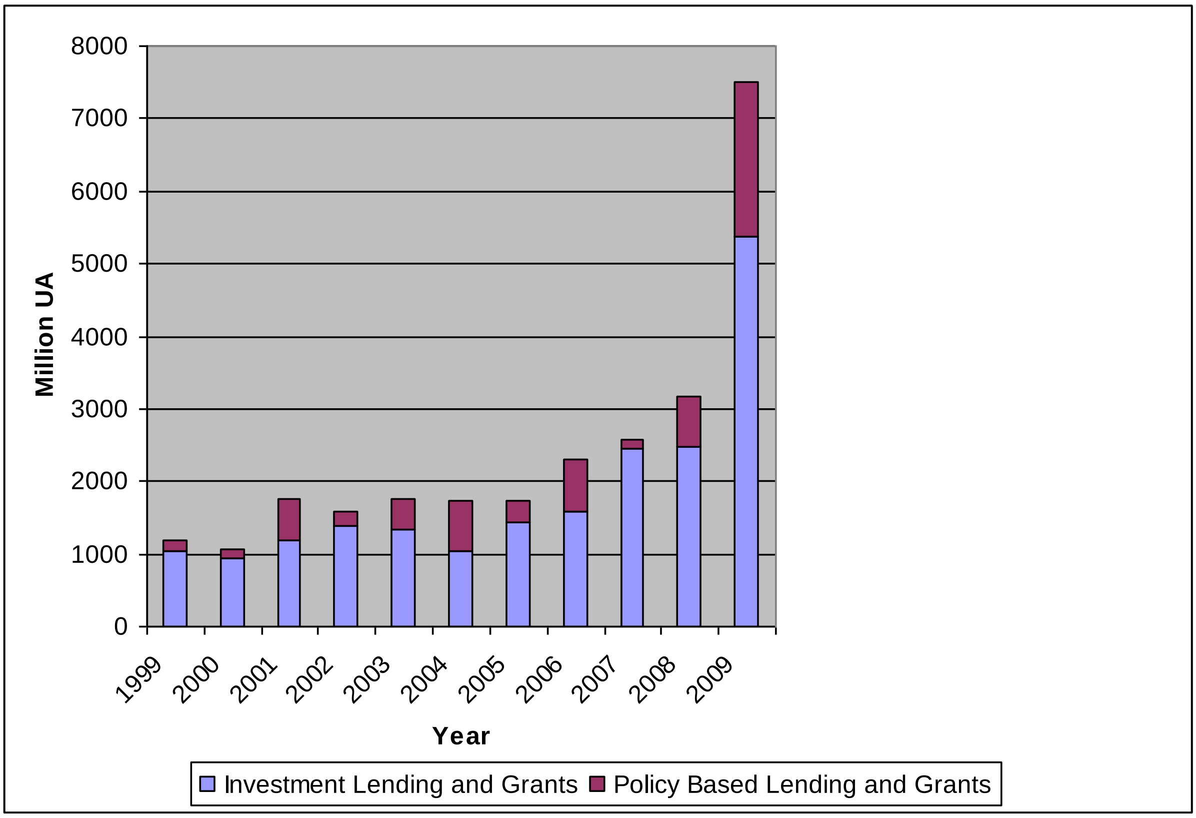
1.3 This report presents the findings from these studies, the overall conclusions of the evaluation, and proposes recommendations to improve the Bank's practice and enhance the effectiveness of the Bank's use of PBOs.

1.4 The remainder of the report is structured as follows. Section 2 summarises the main features of the Bank's use of PBOs over the evaluation period. Section 3 presents the assessment of the Bank's institutional and policy framework within the regional and international context over the evaluation period. Section 4 examines how the Bank has put its policies on PBOs into practice through the findings of the case studies. Section 5 presents the conclusions and recommendations of the study.

2 Overview of the Bank's Use of PBOs[1]

2.1 At the start of the evaluation period, the Bank's total level of approved loans and grants was lower than UA 1.2 billion per annum with PBOs accounting for UA 120 to UA 160 million (see Figure 2.1). There was a substantial increase in Bank operations in 2001, largely driven by an increase in PBOs. From 2001 to 2005 the total level of operations remained stable though the significance of PBOs fluctuated markedly from year to year. The Bank's total operations grew rapidly between 2005 and 2008, before a spectacular increase in 2009 in response to the international financial crisis. Total PBO approvals over the period amounted to UA 6.1 billion, comprising UA 3.6 billion ADB loans (21 operations), UA 1.8 billion ADF loans (68 operations), and UA 0.7 billion ADF grants (31 operations).

Figure 1.1 Total African Development Bank Group loans and grants



2.2 In total, over the evaluation period, PBOs have accounted for 31.3 per cent of ADB approvals, and 21.8 per cent of ADF approvals. Several distinct categories of countries can be distinguished among ADB borrowers in terms of the share and value of PBOs. The first group includes Botswana, Mauritius and Seychelles who have not historically been major clients of ADB but who took out large loans as part of their response to the international financial crisis. In the second are Morocco and Tunisia, who have made substantial use of PBOs over much of the evaluation period. The top five users of PBOs by value are all ADB countries (Morocco, Botswana, Tunisia, Mauritius and Egypt). Within ADF countries, the extent of variation in the

[1] Detailed information is provided in tables in Annex A.

share of PBOs has been much less, with over half (20/36) of (active) ADF countries having PBOs accounting for more than 20 per cent of their total operations, with eight countries receiving between 10 per cent and 20 per cent and eight less than 5 per cent of their total ADF financing as PBOs. The largest ADF users of PBOs in terms of total finance provided have been Ethiopia, Tanzania, Ghana and Mozambique, all having had more than UA 200 million through PBOs over the evaluation period. The ADF countries with the largest number of separate operations have been Tanzania, Burkina Faso and Cape Verde (each with six) and Ethiopia, Mali, Zambia, Benin and Lesotho (each with five).

2.3 Figures 2.2 and 2.3 show trends in the number and value of ABD loan, ADF loan, and ADF grant, PBOs over the evaluation period. The main features are the following:

- Until 2009, there were on average fewer than one and a half ADB PBOs approved each year, though the operations were relatively large, averaging almost UA 180 million each.
- A third of the total ADB PBOs over the period were approved in 2009, accounting for 49 per cent of the total ADB PBOs approved over the period by value. One operation (Botswana Economic Diversification Support Loan) dominated this with a value of just over UA 1 billion.
- ADF PBOs have been much smaller than ADB PBOs, with ADF loans averaging about UA 26 million, and ADF grants averaging UA 21 million.
- ADF loan PBOs have shown no marked trend over the evaluation period, except for a spike during 2008 which appears to reflect an increase in demand in response to the food and fuel crisis. ADF grants only became significant from 2004 (under ADF-X and ADF-XI).

Figure 1.2 Number of PBO approvals

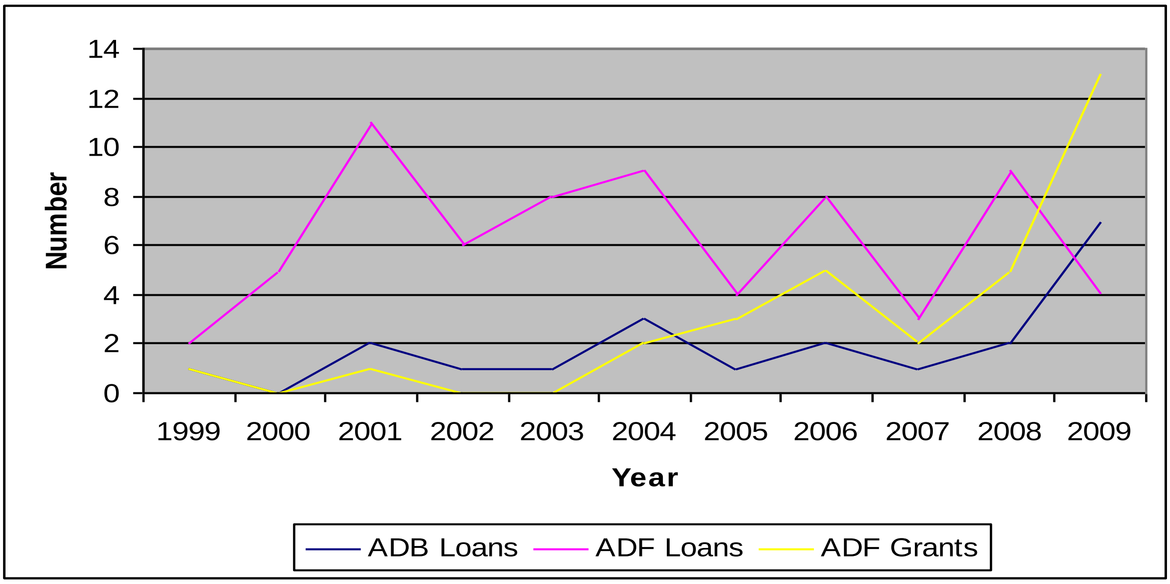
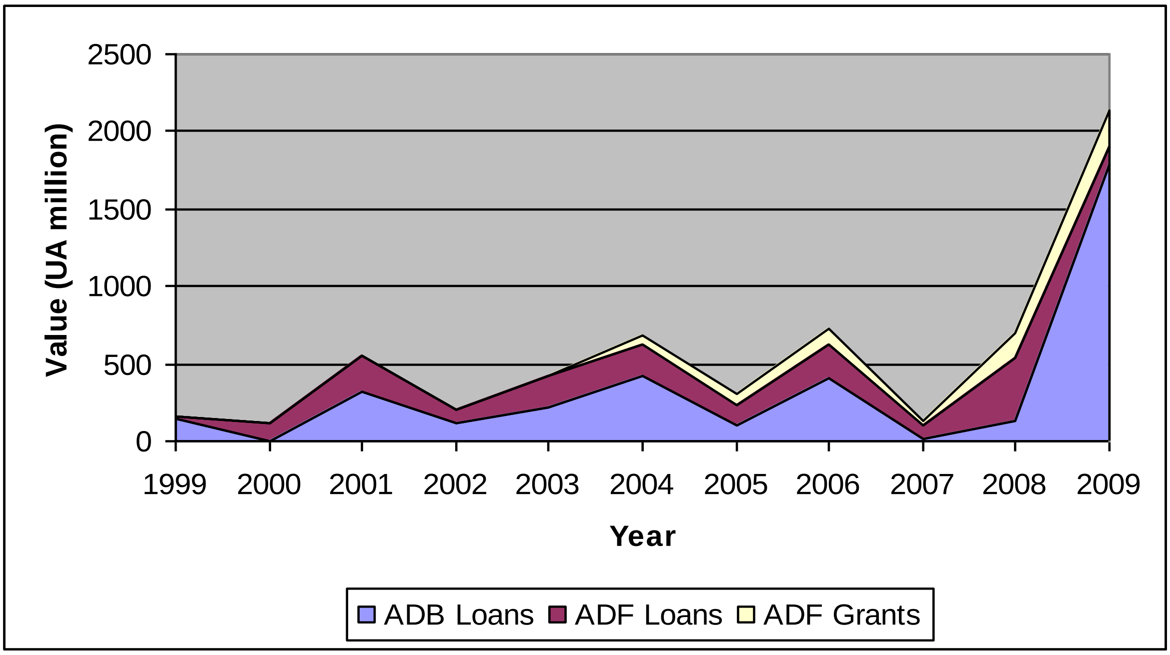


Figure 1.3 Total Value of PBO Approvals



2.4 Figure 2.4 shows that only eight out of 102 ADF operations have been classified as sectoral and almost half of the sectoral operations by value is accounted for by one operation (Nigeria Economic and Power Sector Reform, 2009). Otherwise there have been just three agricultural sector operations (two in Lesotho in 1999, and Tanzania 2007), two social sector (education) operations (Rwanda 2006 and Tanzania 2007), and one finance sector operation (Mauritania, 2001). By contrast, sectoral operations have accounted for nine out of 21 ADB PBOs and for 42 per cent by value. The most active sector has been Finance (banking and financial market reform), with operations in Tunisia (2001, 2005), Egypt (2006) and Morocco (2009). All the other ADB PBOs have been in Morocco, in the communications, health (two operations), water, and transport sectors.

Figure 1.4 Sectoral and Multisectoral PBOs (Number)

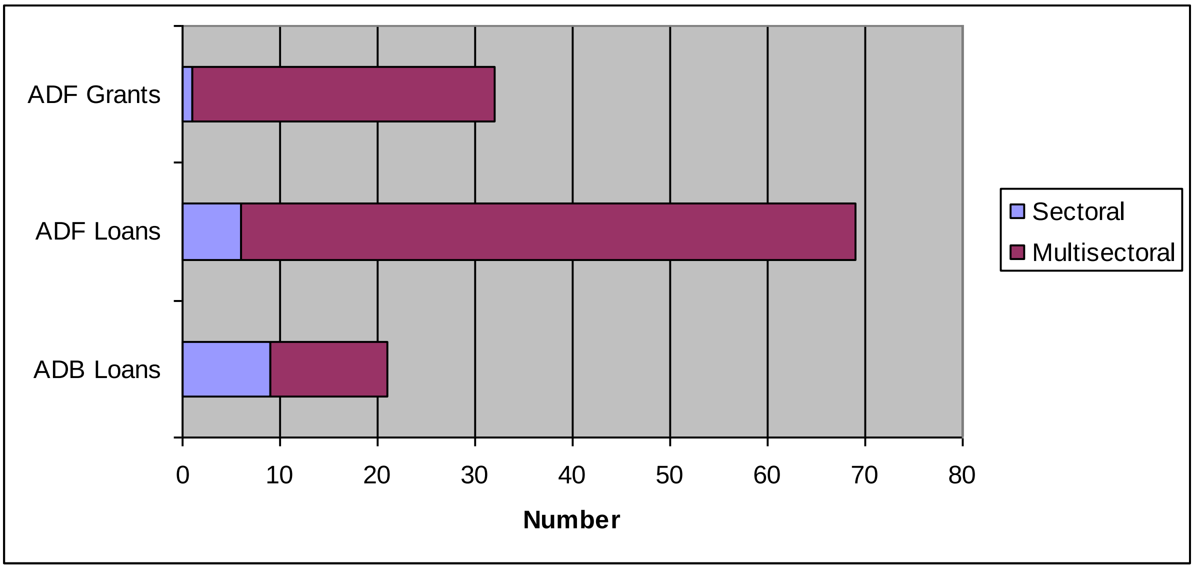
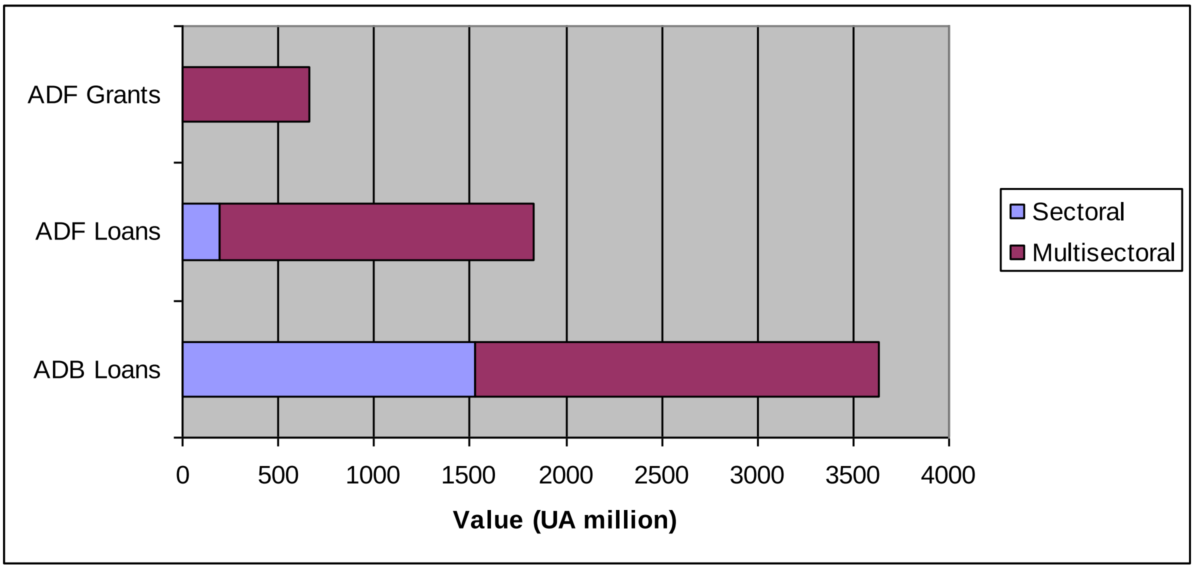


Figure 1.5 Sectoral and Multisectoral PBOs (Value)



2.5 The Bank has (as discussed in the next section) introduced new instruments during the evaluation period including Development Budget Support Loans (DBSL) and Policy Based Lending for Governance (PBLG). However, the Bank's management information system (SAP) does not classify operations by type of instrument and indeed review of project documentation does not in all cases clarify what instrument is being used. While the move from structural adjustment to budget support has been the most significant change in the way in which the Bank has used PBOs over the evaluation period (as emerges clearly in the country case studies) it is difficult to analyse this change on the basis of the Bank's information systems.

2.6 However, while the Bank's information systems classify the large majority of PBOs as multisectoral, it has been argued that since most PBOs are designed and managed by the Bank's Governance, Economic and Financial Management Department (OSGE) which has responsibility for the Governance sector, many of the operations classified as multisectoral since 2006 should be classified instead as governance sector operations. The coding of operations in the Bank's management information system (SAP) has now been amended to allow this to be done. This issue is discussed in Section 3.4 below.

3. The Bank's Institutional and Policy Framework for PBOs

3.1 Challenges in the international and regional context

3.1.1 The period covered by this evaluation is one in which the Bank has sought to develop a more effective strategic and organisational approach to a series of challenges resulting from changes in the international and regional context affecting the Bank's RMCs, developments in the international aid architecture, and lessons from the Bank's own experience. The period was generally one of an international economic environment that supported growth, and increasing international aid, until the impact of the international financial crisis hit at the end of the period.

Africa over the evaluation period

3.1.2 Africa's economic performance over the last decade has been relatively strong compared to earlier periods, reflecting in particular strong demand for the continent's natural resource exports, and foreign direct investment aimed at exploiting these resources, increasingly from China, as well as improved macroeconomic management and generally more favourable policy environments for private sector led growth. The commodities price boom in the mid-2000s generated large increases in foreign exchange earnings for many African countries but also adversely affected many of the poor who were especially vulnerable to escalating prices for food and fuel.

3.1.3 The international financial crisis from 2008 adversely affected both the demand for African exports, and the prospects for African access to international capital, though the direct effect on Africa was smaller than initially feared, particularly because key export commodity prices tended to remain high. However, the severe balance of payments problems that many African countries encountered through 2009 led to a sharp increase in demand for finance for balance of payments support.

3.1.4 The evaluation period has also seen a number of countries emerging from long-running conflicts and instability (for instance Liberia, Sierra Leone, and the Democratic Republic of Congo) while some other RMCs have suffered political crisis and economic collapse (for instance Cote d'Ivoire and Zimbabwe). This period has seen a steady increase in measures of the quality of government policy and institutional capacity across most of Africa, including all of the case study countries).[2]

Developments in the international use of PBOs[3]

3.1.5 The evaluation period has seen important changes in the way in which PBOs have been used as an aid instrument in low income countries. Since 1999, the principle that aid should be aligned on a national poverty reduction strategy (initially developed as part of the Highly Indebted Poor Country debt reduction initiative) has been generally accepted, and budget support instruments have been developed as a principal way of providing aid in support of agreed national development priorities. This approach has been reinforced by the increased focus on aid

[2] As measured for example by the Country Policy and Institutional Assessment (CPIA) and Public Expenditure and Financial Accountability (PEFA) assessment performance.

[3] This section draws on the review of literature and experience.

effectiveness leading to the agreement of the Paris Declaration in 2005. By the latter part of the evaluation period, low income African countries receiving budget support had generally made progress in strengthening their policy and institutional capacity and joint budget support arrangements incorporating major donors had been established in many countries. Poverty reduction strategies have increasingly over the period become fully integrated with national development strategies.

3.1.6 There have been important shifts in what has been conceived of as international best practice in PBOs over the last decade. These changes have been a response to the problems of implementing PBOs particularly as instruments for budget support and the shifts that have also occurred in development thinking aimed at making aid more effective. The experience of PBOs over the past decade has led to an emerging consensus on best practice in the design and implementation of these operations. The firm empirical evidence base on which conclusions have been drawn remains quite limited however.

3.1.7 The main elements of this consensus are that PBOs should be designed and implemented in the following way:

- Use *ex post* rather than *ex ante* conditionality (that is, focus on defining agreed prior actions and disbursing against these).
- Use dialogue to support policy reform rather than expecting conditions to achieve this.
- Support specific policy reforms as part of a longer-term support to national poverty reduction strategies.
- Be integrated into the national budget and public expenditure management processes, with PBO mechanisms being explicitly intended to strengthen further this process.
- Be part of joint donor operations rather than stand alone operations.
- Provide complementary capacity building and technical assistance.
- Involve a focus on results and outcomes using joint assessment frameworks.

3.1.8 This consensus suggests that PBOs need to be designed in partnership with recipient governments and other donors to ensure country ownership, as well as for a strong focus on developing an appropriate complementarity between PBOs and other forms of support particularly accompanying policy dialogue and technical assistance and organisational development.

3.1.9 There is strong evidence that in general the use of ex ante conditionality to leverage policy reform does not often work well and that successful policy change needs to be domestically led. It can though be successfully externally supported through dialogue and support to research, analysis and capacity development. PBOs require complementary actions, for instance those focused on strengthening capacity in key areas, most notably public financial management, but also policy dialogue to discuss budget priorities and reform agendas. This implies that International Financial Institutions and donor agencies will require sufficient technical capacity in country to engage in this type of dialogue.

3.1.10 Although major shifts have occurred in the approach to PBOs in response to the lessons of structural adjustment and the emergence of budget support, this model is not always being consistently implemented internationally. Several factors may influence this.

- First, the attempt to use grant or loan conditionality as an instrument to bring about policy change has not been entirely abandoned, and the use of multiple tranche operations is often seen as a way of trying to retain and exert influence over partner actions.
- Second, implementation of effectively harmonised approaches is often difficult to achieve in practice. Donor procedures and priorities differ, and the tendency remains for different agencies to seek to include "components" (i.e. specified policy actions) of particular interest within a common policy framework in order to be able to demonstrate action against particular areas of interest.
- Third, there are differing donor approaches to the risks of using PBOs. These relate in particular to fiduciary risk (where it is important to distinguish the risk of resources supplied being misused, from the risk of resources being used within the government budget, but this not leading to the specific results providers of support are seeking) and to the ability effectively to monitor results. PBOs that incorporate assistance aimed at strengthening PFM systems and audit functions, good performance monitoring frameworks and design and collection of baseline data prior to the start of the PBO, and that are accompanied by clearly specified and resourced complementary actions, are likely to be the best equipped to deal with risks.

3.2 The Bank's strategic and organisational response

3.2.1 The Bank's 1999 Vision Statement set out overall objectives for the Bank focused on agriculture and rural development, human resources and the private sector. The Bank has sought to implement the Vision first through the 2003-2007 Strategic Plan, and subsequently the 2008-2012 Medium Term Strategy (MTS). The MTS represented a shift in the operational focus of the Bank towards in particular infrastructure, governance, and private sector operations as prerequisites for broader development goals (for instance in agriculture or health). The MTS also placed a greater emphasis on partnership arrangements and on the aid effectiveness agenda. Over the evaluation period there has been a significant increase in the level of resources available to the Bank, particularly through successive ADF replenishments, including an increased ADF grant component.

3.2.2 Significant organisational reforms were implemented in 2006 in response to recognition of weaknesses in the Bank's structure and business processes. These were identified as including an insufficient field presence, weak country focus and client orientation, weaknesses in delivery across the project cycle, and an insufficient focus on results. The organisational reforms included the establishment of the Operations Complexes, and other changes to align Bank structure with strategic priorities, and a process of decentralisation including the opening of Field Offices.

3.2.3 An important feature of Bank strategy over the evaluation period has been the increasing emphasis on Governance, reflected in particular in the establishment in 2006 of the Governance, Economic and Financial Management Department (OSGE) which has taken responsibility for the design of the majority of Bank PBOs, and the adoption of the Governance Strategic Directions and Action Plan (GAP) in 2008. Before the establishment of OSGE, multisectoral PBOs were designed and managed by Regional Departments of the Bank, with Country Economists taking the lead role. The move of responsibility for preparation and management (but not the strategic decision to undertake) budget support from Regional Departments to OSGE was prompted both by the lack of dedicated skills on PBOs within Regional Departments, but also by a concern about a possible conflict of interest if Regional Departments had responsibility both for determining allocations between sectors and operations and for running operations.

3.2.4 A further important initiative has been the establishment of the Procurement and Fiduciary Services Department (ORPF), in particular the Fiduciary Service Division which focuses on the assessment of country financial management systems.

3.2.5 The Bank has also developed specific policies and approaches over the evaluation period to address the aid effectiveness agenda (including strengthened results reporting and an increased focus on the use of country systems), to strengthen engagement in post-conflict and fragile states including through the establishment of the Fragile States Facility (FSF), and to respond to the impact of international economic instability on RMCs.

3.2.6 Policy Based Operations, while not a central focus of the Bank's strategic documents, have played an important role in responding to the changing context and needs of RMCs. This has specifically been though the development of instruments for the provision of budget support (in support of nationally-led poverty reduction strategies), the identification of budget support as a means to support the wider objective of governance reform, policies to enable budget support more easily to be used in fragile contexts and countries emerging from conflict, and the increase in demand for quick-disbursing funds to deal with balance of payments and fiscal difficulties of RMCs from 2008.

3.3 The Bank's policies and instruments for PBOs

3.3.1 At the start of the evaluation period, the Bank's approach for "Policy Based Lending" was that defined in guidelines prepared in 1988, by which the Bank engaged with the structural adjustment agenda that was being led by the IMF and the World Bank, in response to the deep macroeconomic problems that Africa was facing during this period. This distinguished between Structural and Sector Adjustment Lending (respectively, SALs and SECALs). Policy-based loans under these guidelines were designed to provide quick-disbursing resources (focusing principally on the foreign exchange element, though noting that counterpart funds provided support to the government budget), often over a period of about three years, involving successive disbursements based on progressive implementation by the Borrower of agreed policy and institutional reform measures. Financial resources were paid into a special account whose use (for imports) could be externally audited. Between 1986 and 1998, the Bank engaged in 71 SALs and 29 SECALs. PBL approvals using ADB resources amounted to UA 2.7 billion and UA 1.1 billion using ADF resources.

3.3.2 Evaluations of SALs and SECALs noted that the Bank had limited human and financial resources to engage in adjustment operations, and was heavily reliant on the World Bank for analysis and the setting of conditions. First tranche conditions generally had proved easy to fulfil but satisfaction of conditions for subsequent tranches was much more problematic leading to long funding delays.

3.3.3 Design weaknesses identified with the Bank's adjustment lending included over-optimism on the time frame for the implementation of major reforms, lack of ownership of reform programmes by governments, and excessively complicated and numerous reform objectives. Implementation weaknesses included lack of compliance with legal covenants by the borrowers, especially in terms of financial and audit requirements, and lack of programme implementation support to follow-up appraisal and mid-term missions, which meant that recommendations made or agreements reached were not followed by action. The main recommendations from the evaluation were that the Bank should redesign its next phase of adjustment programmes to focus on longer-term development issues, rather than crisis response, and that the Bank should be more selective in the choice of countries the Bank seeks to assist with this type of lending programme, and the choice of areas of focus for conditions.

3.3.4 The main change in the Bank's PBO policies over the evaluation period has been the introduction (from around 2001) of Development Budget Support Lending (DBSL) for which guidance was set out in 2004. This was conceived as the instrument to support the implementation of a poverty reduction strategy with resources transferred directly to the national budget and managed through national systems. Use of national systems is conditional on a favourable fiduciary risk assessment and the implementation of mitigating measures to address shortcomings. Sector Development Budget Support Lending (SDBSL) is identical to DBSL except that conditions are focused on a particular sector.

3.3.5 This definition accords with the "strict" definition of Sector Budget Support set out in OECD/DAC guidelines. Wider definitions of sector budget support used by some donors and analysts allow for sector budget support funds to be earmarked to particular expenditure items, or to be traceable to a specific budget line. Funding of a Sector Wide Approach (SWAp) generally requires some form of earmarking and a common arrangement is for the establishment of pooled donor funding. The World Bank has several flexible Investment Lending instruments that are often used for funding SWAps (such as the Sector Investment Loan and the Adaptable Program Loan) and does not use PBOs (Development Policy Operations) for this purpose. By contrast, the AfDB has used SDBSL to support SWAps. However, the Bank's rules of origin have been interpreted as preventing the Bank participating in pooled funding arrangements, until the recent removal of these constraints for ADF.

3.3.6 In addition to PBL, DBSL and SDBSL, two other initiatives to establish new PBO instruments have taken place over the period. The Bank and ADF Board's approved a paper in 2004 for Policy Based Lending for Governance (PBLG). This instrument was conceived as supporting packages of governance reforms, through (multiple) single tranche operations aimed at addressing specific governance constraints. In 2009, the Emergency Liquidity Facility (ELF) was established to address the immediate impact of the financial crisis on access to liquidity for RMCs. In addition, some acceleration in procedures has been allowed to enable a quicker response to be made by the Bank to address urgent financing requirements, while fiduciary requirements for DBSL under ADF have been relaxed for countries qualifying for supplementary grant support under Window I of the Fragile States Facility.

3.3.7 While some distinction is still being made in Bank practice between budget support and balance of payments support (on the basis of whether funds are being paid into a special account at the recipient's Central Bank), the practical difference between PBL (in the sense of adjustment lending under the 1988 guidelines) and DBSL may be limited given the fungibility of financial resources. Both types of operation have the effect of increasing the amount of foreign exchange available to the Central Bank, and of making available to government counterpart funds for the budget.

3.3.8 The extent to which the Bank is in fact applying different PBO "instruments" is therefore unclear. Specific operations are not necessarily classified in relation to these instruments in appraisal documents and the Bank's SAP management information system does not identify the type of PBO instrument used (other than in relation to sector). In operations undertaken during 2009 in response to the international financial crisis it was not specified whether the form of support provided was in the form of PBL or DBSL (generally it was envisaged as providing both budget and balance of payments support). It does not appear that the Bank has carried out any operations specifically conceived as PBLG or matching the model that is set out in the PBLG guidance, although since 2006 most budget support operations have been envisaged in terms of their objectives (and the staff leading in their design and management) as directed at strengthening governance (specifically public finance management), though these operations remained classified as multisectoral in SAP.

3.3.9 The rules governing the application of PBOs vary between ADB and ADF countries, with the use of the ADF being subject to additional requirements and constraints, including the allocation of ADF funds between countries on the basis of performance criteria, and (under ADF-XI) an overall ceiling of 25 per cent of ADF resources being allocated to PBOs.

3.4 Assessment of the Bank's institutional and policy framework for PBOs

Overview

3.4.1 The evaluation period has been one in which the Bank's operations have expanded significantly (particularly through ADF), and where a more ambitious and coherent strategic focus has developed than was the case in earlier periods where the Bank's role was more focused on individual projects. This has been reflected in both the strategies that have been formulated and implemented during the evaluation period, and in the organisational and management reforms which have emphasised a greater focus on results, and on the link between the Bank's strategic objectives and its activities and results.

3.4.2 There has been a consistent emphasis on seeking to improve the quality of the Bank's portfolio, through improved reporting, supervision, organisational reforms including decentralisation as well as seeking to improve harmonisation and alignment of the Bank's operations. There has been important progress in strengthening systems and carrying through organisational reforms, though these have sometimes taken longer than was envisaged. Hence, the Bank does not appear to be on course to achieve its decentralisation objective of having 45 per cent of staff in Field Offices by 2012, and it was only during 2010 that full compliance with guidance on producing timely PCRs has been achieved, so that the contribution of these initiatives to improving Bank performance may only now be emerging.

3.4.3 In terms of the Bank's priorities for engagement, there has been a move away from the initial sectoral emphasis on agriculture and rural development and social sector investments towards a focus on infrastructure; a key constraint on achieving growth and poverty reduction, including those related to rural development. In parallel, there has been an increasing emphasis on "governance", particularly public financial management reform, to improve the overall effectiveness of public expenditure and aid, with a potential positive impact across a range of sectors contributing to poverty reduction and economic growth.

3.4.4 The Bank Group's approach has also become more targeted and selective towards the needs of different groups of countries, with the development of policies and instruments to enable the Bank to engage more effectively in post-conflict and fragile contexts, and to address the consequences for African countries of the international economic instability towards the end of the evaluation period.

3.4.5 In relation to the role implied for the Bank's policy based operations, and the operational environment in which they have been implemented, the following observations can be made:

- The increased emphasis on harmonisation and alignment and the international aid effectiveness agenda, on governance (focusing on public finance reform), and on a more strategic approach at the country level (with programmes driven by country strategies) have all implied a greater potential role for PBOs (and specifically for direct budget support) in taking forward the Bank's objectives.
- Organisational reforms, including the progress towards decentralisation, the establishment of OSGE, and a range of initiatives seeking to strengthen quality and results focus, have had the potential at least to help with improving the effectiveness of the Bank's PBOs compared to the experience before the evaluation period.
- New instruments and policies for PBOs, and particular funding sources, have been developed to enable the Bank to tailor its engagements more effectively to the needs of different groups of RMCs, including post-conflict and fragile states, and countries affected by international economic instability.

Weaknesses in the institutional and policy framework for PBOs

3.4.6 However, the review of the Bank's institutional and policy arrangements for PBOs has identified several important shortcomings.

Lack of consistent, widely available, and unified policies and guidance on PBOs

3.4.7 The Bank's policies and guidance for PBOs are set out in a number of different documents that have been approved by the Bank and ADF Boards, as well as additional guidance material that has not been approved at Board level. However, these are not readily available in a consolidated form, and the relationship between the policies (and the instruments they define) is unclear. For example, while the Bank set out a policy for Policy Based Lending for Governance (PBLG) in 2004, and many Bank PBOs are regarded as governance sector operations, these appear in design to follow the model of DBSL rather than the approach set out in the PBLG policy. There is a lack of consistency in terminology - for instance the term "policy based lending" originally applied only to adjustment operations but has now been extended to cover budget support. There is consequently uncertainty and confusion among Bank staff (especially outside OSGE) about aspects of PBO policy and practice. An overarching and comprehensive policy and supporting guidance on PBOs that unifies and replaces the existing plethora of documentation would contribute to improving understanding.

Lack of clarity about how results are to be achieved and the intervention logic governing PBOs

3.4.8 Related to the weakness of guidance, there appears to be some lack of clarity about how the results sought from PBOs are to be achieved and the precise way in which the different elements of PBOs (the money provided, engagement in policy dialogue, use of country systems, the setting of conditions, and complementary measures taken) are supposed to contribute to achievement of these results. The main impact of the provision of budget support is on the ability of the client government to fund its public expenditure plans, and one of the main evaluation criteria for the effectiveness of budget support needs, at least in principle, to be an assessment of how the provision of budget support affects public expenditure, and what results are achieved with the public expenditure that is undertaken.

Lack of readily available information on PBOs and weak information systems

3.4.9 There is a lack of complete, consistent and readily available information on PBOs in the Bank. While complete project information is supposed to be recorded in the Bank's management information system on SAP (and complete project documentation should be available through DARMS), considerable difficulty was encountered in developing a complete listing of PBOs over the evaluation period, and analysis of this information was hampered by a coding system on SAP that did not clearly identify which operation was using which instrument, and the apparent incompleteness of documentation available in both SAP and DARMS. Because of the weakness of the information available for SAP, it is understood that alternative lists of PBOs are maintained, for instance for monitoring PBOs under ADF to ensure that policies (for instance the ceiling of 25 per cent of ADF XI resources allocated to PBOs) are implemented.

Uncertainty about audit and fiduciary risk requirements where there is reliance on country systems

3.4.10 The lack of complete and explicit guidance on all aspects of PBOs has contributed to uncertainty and concern about whether the Bank's audit and fiduciary risk assessment policies in relation to PBOs are adequate and properly applied. The case study on the Egypt Financial Sector Reform Programme illustrates the problems that resulted from a lack of clarity about the appropriate audit requirements for that operation. There are also concerns about the appropriateness of the Bank's results framework for PBOs. The point was made a number of times by interviewees that the Bank remains fundamentally a "project Bank" whose policies and processes remain principally geared towards investment projects, rather than programmatic forms of support where fiduciary risk assessment and management depends on government systems.

Complex and time-consuming design and appraisal procedures which are not specifically tailored to the features of PBOs

3.4.11 The Bank's standard project procedures, designed principally for the needs of investment projects, are widely considered to be inflexible and outdated. They also do not appear to be fully documented or available in a consolidated form, for instance as an operations manual. These procedures have not been significantly adapted for PBOs, except to allow some accelerated processes to improve emergency response. In general, the requirements for peer review, translation, and different levels of approval impose significant constraints on how quickly operations can be prepared. The full set of project procedures must be gone through (including preparation of a full Project Completion Report) even in cases where a budget support operation may be a direct follow on to a series of annual operations. Once a Project Concept Note (PCN) has been prepared (which may in itself require several months of elapsed time) a minimum of 24 days is required for the necessary approvals. Then, once a Project Appraisal Report (PAR) has been prepared (which may again require several months), a minimum of 107 days is required to complete the defined steps in the process of approval of the PAR and to reach effectiveness for the operation, even if no further negotiation is required with the client during this process. Management of each step through the Bank (a timetable and process set out in the Appraisal Projects Processing Schedule – APPS) takes up a considerable amount of the time of Task Managers in a context where the staffing resources available are very limited. The PBO design and approval process appears therefore to be excessively complicated and bureaucratic and to emphasise the fulfilment of procedural requirements rather than encouraging flexibility, innovation and deeper analysis for instance through Economic and Sector Work. The requirement for each annual operation to have a complete design and appraisal process regardless of the medium term context also militates against a medium term framework for Bank budget support.

Constraints on taking a multisectoral approach to budget support

3.4.12 The Development Budget Support Lending (DBSL) instrument was conceived as a means to support the implementation of PRSPs and national development plans to achieve the MDGs. It has been the instrument the Bank has used to participate in joint general budget support arrangements. Since 2006, however, OSGE has designed and managed the large majority of the Bank's PBOs and has sought to provide a more streamlined governance focus in PBO design. OSGE is a sectoral department whose mandate covers governance – the strengthening of national systems for managing public resources, particularly oversight institutions and accountability systems (financial management), and promoting a sound business environment that encourages private investment to support pro-poor growth (economic management). OSGE has sought to use PBOs as one instrument to achieve governance sector objectives, with a strong focus on strengthening public finance management. It does not however appear to be using the "Policy Based Lending for Governance" instrument as it is described in the 2004 policy. Most PBOs are classified within the Bank's management information system (SAP) as "multisectoral" and are designed as DBSL. OSGE has however argued for these to be classified as governance sector operations on the grounds that the conditions and objectives selected for the operation (from a broader joint policy matrix) have related to public finance management and it has now become possible to classify PBOs as governance sector operations.

3.4.13 A strong focus on PFM reform (including through complementary forms of support such as technical assistance) may be justified in terms of its significance for improving the effectiveness of public expenditure. International evidence also suggests that the existence of budget support may play an important role in encouraging and supporting PFM reform. However, it does not appear in principle to be valid to claim that the main result of providing budget support (in terms of the marginal impact of each additional dollar spent) is on governance, rather than on government expenditure as a whole. The Bank's approach appears to militate against taking a wider multisectoral approach to budget support, including seeking synergies between the involvement in budget support and the Bank's investment operations. A further point is that if budget support is conceived as an instrument for public finance reform, the complete concentration of OSGE's (limited) staff resources at headquarters means that the Bank has limited capacity to engage directly in public finance reform processes at the country level.

Lack of skills and experience in PBO management and design outside OSGE, and dependence on a very small number of PBO specialists in OSGE relative to the share of Bank and ADF operations that PBOs now represent

3.4.14 These constraints on a multisectoral approach derive in part from the fact that skills and experience in the design and management of PBOs are heavily concentrated in OSGE. Responsibilities for PBO policy and for the development of appropriate policies for addressing fiduciary risk are located respectively in the Department for Operational Resources and Policies (ORPC), and the Department for Procurement & Fiduciary Services (ORPF). However, these departments have been felt to lack capacity (at least until recently) with the result that in practice OSGE has felt that it had to develop its own approaches and practices. Regional Departments are in charge of the decisions to use a PBO and the amount of resources to be allocated to PBOs within a country programme, as well as for managing the process of policy dialogue. Again, however, skills and experience with the use of PBOs within Regional Departments are limited, as they are in other sector departments. As a result, although other departments are represented in Country Teams and as peer reviewers in the design of PBOs, in practice the OSGE Task Manager plays a dominant role in taking PBOs to appraisal and in their management and there is often only limited substantive engagement from other parts of the Bank. The lack of effective incentives for cross-sectoral work was also identified as a possible constraint on the operation of effective teams. This dominant role of OSGE has led to concern that there may be insufficient internal checks and balances, particularly through independent fiduciary risk assessment.

ADB and ADF rules of origin have constrained the Bank from participating in pooled funding arrangements

3.4.15 The Bank and ADF rules of origin have been judged by the Bank's legal department as not constraining the Bank from providing budget support. However, they have constrained the Bank from participating in pooled funding arrangements with other donors which have been judged to be in breach of the rules of origin. This has required the Bank to use a parallel funding mechanism for its participation in sector budget support where other donors have used pooled funding as part of a Sector Wide Approach (SWAp). The rules of origin constraint has however now been removed for ADF operations so this is no longer a constraint. The rules of origin remain for ADB operations.

ADF cycles and rules impose constraints on the use of PBOs and the ability to develop multiyear programmes of budget support

3.4.16 There are several issues about the rules of operation of the ADF that create difficulties for its effective use to fund PBOs particularly for predictable multiyear programmes of budget support. The first is that policies towards PBOs have varied across ADF replenishments and there is uncertainty about the level of resources and the precise rules that will apply for the next three year ADF cycle which limits the ability to make longer-term ADF funding commitments.

3.4.17 Second, under both ADF-XI and ADF-XII there have been caps of 25 per cent imposed on the total amount of ADF resources allocated through the Performance Based Allocation process that can be used for PBOs. Since the cap applies across all ADF countries (and there is no cap at the national level) this constraint might potentially bite in an unpredictable way particularly on RMCs seeking to carry out relatively large PBOs. The cap was perceived by the authorities in Ethiopia to limit the willingness of the Bank to provide sectoral budget support. In general, the existence of the PBO cap militates against RMC choice of preferred aid modalities.

3.4.18 Third, the total level of grant resources available under ADF can fluctuate from year to year in relation to the level of debt distress. As a country moves from a moderate to a high risk of debt distress its ADF terms change from 50:50 loan and grant to all grant, but the total ADF allocation is also reduced because of a 20 percent discount on grants. Under ADF-XI (with three year allocations) any change in debt distress rating and thus financing mix from one year to the next would apply to the entire three-year allocation, i.e. also retroactively, thus leading in some cases to fluctuations in the financing mix and fluctuations in size due to the discount on grants.

3.4.19 For ADF-12, however, the Bank will calculate annual allocations, and any changes to the financing mix will only apply as of the year of the change and no longer retroactively which should make allocations more stable and predictable. In both Burkina Faso and Sierra Leone, levels of resources planned to be provided through PBOs under the assumption of a higher overall ADF allocation were reduced (while other parts of the country programme were protected) when debt distress was assessed as having increased and total ADF resources available were reduced.

3.4.20 Finally, the design processes for ADF PBOs tend to have to start early in the financial (and hence calendar) year when resource parameters are known, with the result (given the lengthy procedures described below) that ADF operations can rarely become effective before the middle of the year. This can create problems in aligning appropriately with national budget cycles or with the timing of joint review processes and leads to some inflexibility in the planned timing of disbursements.

4. Policy into Practice

4.1 Overview of the evidence

4.1.1 The evidence base used for drawing conclusions about the performance of the Bank's PBOs has included three main sources.

Bank evaluation material

4.1.2 The evaluation included an analysis of the Bank's own evaluation material, specifically project completion reports (PCRs) for PBOs and internal reviews of the Bank's experience with the use of PBOs undertaken at various points during the evaluation period. There are two main weaknesses with the PCR information. First, the Bank's systematic production of PCRs largely broke down in the early part of the period covered by the evaluation so that for the early period PCRs are either missing or were compiled a considerable time after the operation. Second, while the Bank is now producing PCRs systematically and using a format specifically designed for PBOs, the large number of operations that were approved in 2008 and 2009 had not generally reached the point in the project cycle at which PCRs are produced.

Country case studies

4.1.3 Six country case studies were carried out for the evaluation: Burkina Faso, Ethiopia, Morocco, Rwanda, Sierra Leone and Tanzania. The countries were selected to cover a range of contexts within which the Bank has provided PBOs but focusing on countries with a record of use of PBOs over the whole of the evaluation period so that changes in the Bank's approach and performance could be assessed. Five of the countries were ADF-only (Burkina Faso, Ethiopia, Rwanda, Sierra Leone and Tanzania) and one was ADB-only (Morocco – the RMC which has made the most, and the most diverse sectoral, use of PBOs). Sierra Leone was selected as a beneficiary of the Fragile States Facility. In Ethiopia, Rwanda, Sierra Leone and Tanzania the Bank had ongoing involvement in structural adjustment operations at the start of the evaluation period, but then shifted from structural adjustment lending to the provision of budget support over the evaluation period.

4.1.4 In each of these cases (and in Burkina Faso where budget support to the poverty reduction strategy was provided from 2001) there was a clear strengthening in the joint budget support arrangements over the evaluation period, with the Bank becoming a full participant in these arrangements in the latter part of the evaluation period generally following the establishment of Field Offices from 2006. In both Ethiopia and Tanzania significant difficulties in government-donor relations have affected the general budget support relationship, leading in the case of Ethiopia to a move to a more limited form of budget support focused on Protecting Basic Services[4].

4.1.5 Donor government relations around budget support were much stronger over the whole period in Burkina Faso, Rwanda, and Sierra Leone (despite a relatively weak performance in

[4] The evaluation period has seen significant tensions between Ethiopia and its development partners over the conduct of elections and the treatment of opposition groups.

meeting budget support conditions in the latter, largely reflecting capacity constraints in government). Rwanda and Tanzania were among the small number of ADF countries to have sectoral PBOs, in which the Bank participated in SWAp arrangements with other donors. Morocco presented a very different context from the other case studies with most PBOs representing support to sectoral reform processes, jointly funded with the World Bank and European Commission.

Additional case studies

4.1.6 In addition to the country case studies, four additional case studies of large and significant PBOs were carried out. Three of these operations were part of the Bank's response during 2009 to the sharp increase in demand for quick disbursing finance among RMCs in the light of the international financial crisis. The operations reviewed were:

- Botswana Economic Diversification Support Loan (approved 2nd June 2009). This was by far the largest PBO over the evaluation period, totalling UA 1 billion. This was requested in early 2009 in the face of a sharp fall in Botswana's diamond earnings that was anticipated to severely impact on the country's fiscal situation (while foreign exchange reserves remained substantial). The loan was intended to provide immediate fiscal support while also contributing to the longer run strategic objective of encouraging economic diversification.
- Nigeria Economic and Power Sector Reform Programme (approved 1st October 2009). This was the largest sectoral operation approved in Sub-Saharan Africa, and was designed to replace (or complement) planned power sector investment lending in response to a request from the Nigerian authorities for quick disbursing support in April 2009. The operation was envisaged as supporting reform in a sector identified as a critical bottleneck for growth as well as addressing short-term liquidity needs. In the event there was a long delay in approval of the operation by the Nigerian legislature (which occurred in December 2010) although a renewed programme for power sector reform was announced in August 2010 and sectoral reform has been identified as a critical priority of the Nigerian President.
- Egypt Financial Sector Reform Loan (approved 26th July 2006). This was the largest sectoral operation over the evaluation period (amounting to USD 500 million) provided along with World Bank finance to support the government of Egypt's Financial Sector Reform Programme. The programme encountered some delays in implementation but reform objectives were generally achieved. However, the Bank did not achieve its objectives of using this engagement to deepen its involvement in financial sector reform in Egypt. A lack of clarity about the audit conditions required for the loan also created some confusion within the Bank and with the client.
- Democratic Republic of Congo Emergency Programme to Mitigate the Impact of the Financial Crisis (approved 1st May 2009). This was an ADF grant which is the largest recent Bank operation undertaken in a fragile context. The programme was designed along with complementary support from the World Bank, IMF and European Commission to provide both foreign exchange for essential imports in the face of a near exhaustion of reserves, and to ensure specific public expenditure priorities were met (to contribute to meeting benchmarks for the enhanced HIPCI completion point, to meet teachers' salaries, to finance the crisis exit plan of the National Railways Corporation of Congo, and to ensure payment of water and electricity bills by public entities. Earmarking through special accounts was used to ensure that counterpart funds were indeed used for the specified objectives, and the programme appears to have been successful in meeting its objectives.

4.2 Evidence from project completion reports

4.2.1 Out of the 65 PBOs approved during the evaluation period for which Project Completion Reports had been prepared, 11 had overall ratings of two or less (no better than Fair), 43 a rating between two and three (Fair to Good), and 11 a rating greater than three (Good to Very Good). Sixteen operations had at least one element of the operations performance rated below two. The most common reasons cited for weak performance can be divided into those related to appraisal and design weaknesses, and those on implementation. Regarding programme design, the common reasons given were that:

- The matrix of measures was too ambitious;
- The indicators chosen were inadequate;
- There was no identification and preparation mission; and
- There was inadequate tranche design.

4.2.2 Regarding programme implementation, the common reasons cited were:

- Delays in the implementation of measures or non-implementation;
- Failure of performance indicators to improve; and
- Inadequate programme monitoring and supervision.

4.2.3 The review of Bank evaluation material (including Project Completion Reports and reviews of the PBO portfolio) suggested that there is a clear (underlying or implicit) model for what counts as good practice in the design and implementation of PBOs in the Bank. This model includes the following three main elements:

- A relatively small number of conditions which are clearly defined, and based on a realistic assessment of borrower capacity, with complementary support provided to ensure conditions can be fulfilled and a participatory approach to strengthen ownership of the programme.
- The allocation of sufficient resources and skills to design and supervision. It appears that supervision has improved over the evaluation period and that the capacity of the Bank to act independently of other development partners (particularly the World Bank) has improved.
- Clarity in the relationship between the objectives of the programme (which should be measurable) and the specific activities that are undertaken, with risk analysis focused on the critical actions and relationships that will determine whether objectives are achieved.

4.3 Findings from country case studies

Performance and impact

The move from structural adjustment to participation in joint budget support arrangements has involved an improvement in the performance of PBOs

4.3.1 There has generally been a significant improvement in the performance of Bank PBOs comparing recent operations that have taken place in the context of joint budget support arrangements with structural adjustment lending in the early part of the evaluation period. This includes both the evaluation rating given to operations and a reduction in disbursement delays.

The main value-added of AfDB engagement in PBOs has been through the additional funds that PBOs have channelled to government budgets along with other development partners

4.3.2 The main value-added of Bank support to the case-study countries appears to have been the funding provided as part of joint donor support. This has contributed to increased government spending and is likely to have assisted governments to expand pro-poor expenditure. The finding that the provision of additional resources to finance increased public expenditure is the main effect of budget support is in line with wider international experience in evaluating budget support. It was though difficult to identify either clear impacts from the Bank's complementary support to PBOs (for instance through the provision of technical assistance or policy advice) in most of the case study countries.

Joint budget support arrangements in which the AfDB has been a partner have contributed to policy, institutional and system improvements

4.3.3 Examples of this that were identified in the case studies included dialogue on budget support in Burkina Faso being used to engage the government on issues related to macroeconomic support, public finance and governance. Similarly in Tanzania a reallocation of the government budget to expenditure on social sectors, poverty reduction and development expenditure may have been encouraged by the budget support process. In Sierra Leone there has been significant progress in strengthening PFM systems to which Bank support has contributed (despite delays in implementing the Bank's complementary TA activities), while in Morocco support to the government reform programme from the AfDB, EC and World Bank has contributed to a strong macroeconomic and financial performance and the implementation of reforms in the social sectors (health and water). Where such progress has been made it appears to have been the result of dialogue and technical support rather than conditionality.

The Bank does not generally play an active role in policy dialogue around general budget support

4.3.4 The opening of Field Offices has allowed more engagement in policy dialogue and budget support processes, but this engagement was generally limited to Resident Representatives and economists, with sector staff rarely being involved, and with Field Office capacity to participate in the range of donor and government forums being limited. Overall, there was a view among both the Bank's development partners and RMC governments that given the substantial financial resources that the AfDB brings to PBOs they 'punch below their weight' by not having clear strategies to influence policy or bring issues to the table that are important to the AfDB. This has led to the perception that the AfDB provides financing but is not interested in, or capable of, effective and sustained engagement in policy dialogue.

Where the Bank has participated in sector PBOs it does not appear to have made significant contributions to policy dialogue

4.3.5 Sector PBOs have been used by the Bank to a significant extent in only a small number of countries (including Rwanda, Morocco and Tanzania) when governments have requested support to be provided through this modality. While the Bank's engagement in these operations appears to have been reasonably successful in terms of disbursements, the Bank has not provided significant contributions to policy dialogue and has lacked the staffing resources to engage fully in sectoral donor groupings.

4.3.6 One example of successful engagement by the Bank on public finance reform was in Burkina Faso, where the Bank has led the donor coordination group in the area of public sector reform, and has conducted studies in support of public expenditure programming and the institutions which monitor and control public spending. These studies were cited by various parties as having been instrumental in helping to frame thinking by the Government of Burkina Faso and its development partners on priorities and strategies for reform, and as having contributed to transparency. Since 2008, a clear and jointly agreed strategy, plan, and a timeline by the government and its development partners have been in place outlining the steps needed to improve public finance. The Bank played a lead role in achieving consensus around these priorities.

The most significant non-financial contribution of Bank engagement in PBOs has been through chairing donor budget support groups

4.3.7 The Bank Resident Representative has chaired the donor budget support group in Burkina Faso, Rwanda and Tanzania. In both Burkina Faso and Rwanda, this was judged to have made an important positive contribution to the smooth functioning of the budget support arrangements. The experience in Tanzania was less positive but this took place in the very difficult context of a series of high profile corruption scandals which damaged donor-government relations.

4.1 Chairing the budget support group in Burkina Faso

The Bank played an active role in chairing the budget support group in Burkina Faso and brought two main agenda points to the table which were seen as relevant and important. The first concerned the economic challenges in Burkina Faso which were becoming more evident at the time. The Bank emphasized the importance of a concerted dialogue around this issue, and of a joint approach addressing the implications for future economic growth. As Chair, the Bank encouraged partners collectively to examine the situation and to develop a plan of action to address these challenges. The Bank also provided valuable technical input, through its economist, into these discussions.

A second area of focus was governance and corruption, where AfDB took a strong critical position, and specifically called attention to the need to address the capacity of public institutions as a foundation for change in the area of governance. Other development partners felt that AfDB was well positioned to take on both these points, firstly because of its technical competence and secondly because the sensitive issues around governance could best be put forward by a more neutral partner, i.e. one that is not associated with a particular government and that is seen as representing African interests.

It was reported in interviews that this was “precisely the kind of role that the Bank should play more widely” and “the Bank’s added value lay in being able to raise issues and to work with Government and partners on finding solutions”.

PBOs appear generally to have outperformed the Bank’s portfolio as a whole in the case study countries

4.3.8 Portfolio reviews in the case study countries suggest that budget support PBOs perform better than the Bank’s portfolio as a whole (in terms of PCR ratings, timing delays, and disbursement rates), largely because of the less demanding capacity requirements for government of meeting conditions for PBOs compared to those for designing and implementing investment projects. For instance, the average time-lag between project approval and effectiveness for Bank operations in Sierra Leone was 19.6 months compared to a Bank-wide average of 14.4 months, while delays for the effectiveness of PBOs were less than half of this. In the Ethiopia case study, it was noted that capacity to handle the requirements of AfDB project instruments was very weak at the local level – and strengthening it was regarded as a lower priority than improving government systems. It was noted for instance in the Burkina Faso case study that the Bank's engagement in general budget support was much more harmonised than was the case with operations at the sectoral level.

Strategic issues

The Bank has been responsive to RMC demand for PBOs particularly for general budget support

4.3.9 In all the case study countries, the Bank's participation in joint budget support arrangements has reflected a strong demand from national governments for this form of support, though as noted there have more recently been tensions between donors and government over budget support arrangements in Ethiopia and Tanzania. The Bank's participation in sector budget support in Morocco, Rwanda and Tanzania also reflects the preferences of national government although in Rwanda and Tanzania national governments would prefer the Bank to be participating in sector pooled funding arrangements.

The Bank's Country Strategy Papers do not provide an adequate basis for determining the appropriate mix of aid instruments needed to achieve country programme goals

4.3.10 The Bank's CSPs are the main document providing guidance on which sectors PBOs will be used in and how PBOs will complement the rest of the programme. In practice CSPs state which sectors PBOs will be used in and why, but there is little discussion on the appropriate mix of aid instruments needed to achieve CSP goals. There is little consideration of how PBOs might complement the rest of the programme and how sectoral PBOs might provide synergies between the Bank's sectoral investment projects and other activities. There is also no guidance on when PBOs should be used as opposed to investment projects and what proportion of the country programme should be in the form of PBOs. This means that it is not clear how the amount of PBOs to be used is determined in the country budget.

There is lack of clarity as to how funding allocations are made for PBOs

4.3.11 PBOs in the case study countries appear generally to be designed in a way that means there is little relationship between the amount of money allocated for them and the objectives which they are supposed to achieve. The amount of resources allocated to PBOs appears in some cases to have been a residual between resources allocated to investment projects and the available ADF allocation. There are also year to year fluctuations in the amount of funding allocated to PBOs as a result of the ADF performance allocation system. In particular, increases in debt distress ratings, as occurred in Sierra Leone and Burkina Faso, led to unexpected cuts in the resources available for ADF budget support.

Design

The Bank's dependence on other development partners for PBO design has been reduced though only limited independent analytical work is carried out by the Bank

4.3.12 While the Bank is not fully dependent on other development partners (notably the World Bank) for analysis and design, as it was under structural adjustment during the 1990s, the Bank itself is carrying out only limited independent analytical work and has not, for example, systematically undertaken analysis of the political economy context of its operations.

The intervention logic to demonstrate the links between PBOs and the results they are expected to achieve has generally been unconvincing

4.3.13 The specification of the expected results of PBOs has been based on objectives identified in the (joint) performance matrix and items specified as conditions (including preconditions). PBOs have been defined as having project "components" (usually by the selection of particular objectives from a menu provided by the joint Performance Assessment Framework). However, in general no compelling case is made that the Bank's involvement in the operation is a necessary or sufficient condition for specific policy measures or institutional reforms to be implemented. Also, the results identified in project documents are not generally linked to the quantity of financial resources provided. In the absence of a properly articulated intervention logic it is questionable to what extent specific results can be attributed an operation.

The design of PBOs has been simplified over the evaluation period, with a reduction in the scope and number of conditions

4.3.14 The design of AfDB PBOs has been simplified over the past decade with a general move away from PBOs with multiple conditions covering a wide range of reforms, to simpler operations with fewer conditions, and a greater emphasis on prior actions. In all case study countries, multi-sector PBOs mainly focus (in terms of conditions specified for effectiveness and for tranche disbursement) on governance and PFM, with a reduction in conditions to highlight only key reforms.

There has been significant progress made by the AfDB in terms of harmonisation of the design and implementation of PBOs with other development partners

4.3.15 There has been a move by the Bank to engage in joint general budget support operations that involve joint working with other development partners in terms of design, PAFs and monitoring mechanisms. In all the case study countries there is now AfDB engagement in joint budget support operations. Despite this, the AfDB is still not fully engaged in all the processes related to joint budget support, with policy dialogue and analytical work being areas of weakness. The inability to participate in sector wide approach (SWAp) pooled funds has been a constraint resulting from ADF and ADB rules of origin and requiring the Bank to provide parallel financing. While the rule of origin restriction has been lifted for ADF it still applies for ADB operations.

PBOs have made strong use of government systems

4.3.16 All AfDB PBOs rely on government systems for funding, reporting, monitoring and evaluation and audit systems. The main exception which sets the AfDB apart from other general or budget support donors is that in all countries apart from Rwanda and Morocco PBO funds are paid into a Treasury Account at the Central Bank before being disbursed through national systems. This was highlighted in some studies such as Tanzania as setting the AfDB apart from other donors. Interestingly in Rwanda this was not the case as the government of Rwanda had not wanted to accept this requirement as they were introducing a single treasury account and the field office had argued successfully against this.

Predictability of PBO disbursements has improved over the evaluation period largely as a result of greater harmonisation and simplified conditions

4.3.17 The record on predictability of disbursement has generally improved for the case study countries, with year-to-year disbursement getting better, although in-year disbursement (i.e. disbursing as planned within the year designated for disbursement) and consequently alignment with RMC budget cycles still remains a problem. Medium-term predictability remains an issue as field offices are often not notified of ADF allocations and allocations for PBOs in a timely fashion.

While most Bank PBOs have been classified as multisectoral and are part of joint donor budget support that has multisectoral objectives, since 2006 there has been little cross-sectoral engagement in PBO design or management

4.3.18 Since 2006, the Bank's engagement in budget support PBOs has been led by OSGE whose mandate has focused principally on governance and public finance management reform. Although other sectors are represented in country teams and as peer reviewers, this appears to have militated against the taking of more fully cross-sectoral perspectives on the Bank's budget support PBOs.

Capacity to monitor PBOs and to engage more effectively with development partners and clients has improved in all the case study countries due to the opening of Field Offices but the Bank has insufficient staff with the skills for this engagement both in Field Offices and at Headquarters

4.3.19 The country case-studies show that during the evaluation period the AfDB has made significant progress in improving the way in which PBOs have been both designed and implemented. Key to this improvement has been the establishment of field offices, which has led to greater in-country engagement with government and other development partners, particularly regarding policy dialogue and participation in joint donor general budget support (GBS) and sector budget support (SBS) processes. Despite this, there was a widespread view within field offices, donors and recipient governments that the centralisation of decision-making in Tunis still hindered the effective operation of country programmes. This is due to lengthy processes for approval with often minor decisions having to be referred to Tunis, and recruitment which is handled centrally and significantly delays the filling of vacant posts. A significant constraint on decentralised engagement in PBOs, given their governance focus, is that the Bank's public finance management expertise has remained entirely centralised at Headquarters.

There has been no training or capacity building provided by the AfDB to assist staff in Field Offices in implementing PBOs

4.3.20 In none of the case study countries has there been training provided for staff engaged in PBOs on key areas such as design, implementation, engaging in negotiation and policy dialogue.

4.4 Findings from case studies of other operations

The Bank demonstrated in 2009 a capacity to respond flexibly and rapidly to urgent requirements of RMCs

4.4.1 The Bank's response to the urgent need of some RMCs for access to quick disbursing finance (or at least for access to a facility that provided this in the event that it proved to be required in the context of continuing uncertainty) in the wake of the international financial crisis was rapid and flexible and included a willingness to waive or to accelerate normal project procedures. This was possible in the cases reviewed because of the availability of unused resources (from the ADF for Nigeria and DRC) and in the case of Botswana because of the country's strong record on macroeconomic management, favourable risk rating and well-developed policy framework. These operations also demonstrated that categorising operations as either exclusively focused on balance of payments or on providing fiscal support was inappropriate as each operation had mixed objectives in this regard.

The Bank's capacity to use the PBOs as an entry point to engage substantially in sectoral reform processes or complementary investment operations remains to be demonstrated

4.4.2 The Botswana EDSL, Egypt FSRP and Nigeria EPSRF operations were all at least in part motivated by the desire of the Bank to use a large operation, whose primary purpose for the client (at least in the Botswana and Nigeria cases) was for short-term fiscal stabilisation purposes, as an entry point for deeper engagement in sectoral reform processes, including potentially investment lending. The Bank had also hoped that the Egypt FSRP would lead on to a continued engagement in financial sector reform in Egypt (the Egyptian authorities had expressed interest in having both the AfDB and World Bank participating) but this did not take place at least in the immediate aftermath of the project.

4.4.3 The country case studies show that the Bank has demonstrated little capacity to engage effectively in sector reform dialogue in sectors where there have been PBOs, or to build synergies between PBOs and investment operations. Both the Botswana and the Nigeria operation appear to provide an opportunity for the Bank to demonstrate it can follow through with sectoral policy dialogue and investment, but this potential has yet to be fully realised.

The Bank had demonstrated the capacity to use PBOs effectively in fragile contexts

4.4.4 In the case of PUMAIC in DRC there was effective collaboration with other development partners to ensure a sequenced joint response to address urgent financing and balance of payments needs. The approach of using earmarked special funds to ensure counterpart funds were used for agreed purposes appears to have been effective while reducing fiduciary risk in an environment of very weak government capacity.

4.4.5 This operation did not take place within the framework of the Fragile States Facility. However, experience in Sierra Leone (reviewed in the country case study) and Liberia has demonstrated that budget support can be designed and implemented successfully in weak institutional contexts where there are major constraints to the implementation of investment projects, while also supporting and encouraging the strengthening of country systems. The Bank's initiative in taking the lead among donors in providing budget support to Liberia is regarded by the Liberian authorities as of particular importance in helping to demonstrate the ability of government systems to manage and use funds effectively.

5. Conclusions

5.1 Overall assessment

5.1.1 Over the period covered by this evaluation, the African Development Bank has made substantial progress in its use of PBOs. In 1999, the Bank remained heavily dependent on the IMF and (in particular) the World Bank for analysis and design of PBOs. The only instruments available to the Bank were structural and sectoral adjustment operations (SALs and SECALs), which often encountered implementation difficulties and delays resulting from weak country ownership and the unsuccessful attempt to leverage policy change through the use of complex policy conditionality.

5.1.2 The Bank now operates as a significant partner in joint donor budget support arrangements, and the record of its engagement (reviewed through country case studies) is largely one of success. The Bank has developed a cadre of staff with strong experience in the design and management of budget support. The establishment of Field Offices (even though decentralisation has progressed less far than was planned) has significantly improved the ability of the Bank to engage in national policy and budget processes and has strengthened the Bank's monitoring and supervision of PBOs.

5.1.3 The Bank has developed a stronger organisational capacity and structure for the design, appraisal, and management and monitoring of PBOs although some aspects of this still require further development. In addition to this the Bank proved highly responsive to the challenges of international economic and financial instability as these have affected the Bank's RMCs during 2008 and 2009. The Bank was able to design and implement operations to meet the urgent financial requirements of its clients, which were also directed towards providing a platform to address longer term structural reform requirements. The Bank has also made important contributions to the development of budget support arrangements under the Fragile States Facility, for instance in Liberia where the Bank played a pioneering role in moving towards budget support.

5.1.4 While the Bank has succeeded in engaging effectively in joint budget support arrangements and in mobilising rapid responses for fragile and crisis affected countries, the Institutional and Policy Review in particular identified shortcomings in the Bank's policies and practices. These include a proliferation of policies and guidance that have not been consolidated and updated, project procedures that are not fully documented and are fundamentally designed for investment operations rather than being specifically tailored to PBOs, lack of clarity about how results should be defined and measured for PBOs, weaknesses in information systems and some persisting uncertainty about how audit and fiduciary risk issues should be addressed.

5.2 Comparison with other agencies providing PBOs

5.2.1 The review of experience from other agencies (especially the World Bank) suggests some more specific conclusions and comparisons with current African Development Bank practice:

- First, other agencies have simplified and unified the instruments they are using for PBOs, as well as preparing detailed procedures to guide all aspects of decision-making that are specific to the PBO instrument. The AfDB appears to significantly lag all the other agencies reviewed in both these respects with there being a considerable lack of clarity about the policies and guidance for PBOs.

- Second, there is a general (though not universal) move towards single tranche operations, often based on prior actions, though with these occurring, as with the World Bank, in a programmatic framework of repeated operations in support of a medium-term government plan of action such as a nationally owned poverty reduction strategy. This approach provides flexibility in the selection of conditions on a year to year basis but also allows engagement with sustained reform processes. The AfDB is currently constrained from developing a medium-term framework of this kind for budget support.
- Third, other agencies do not appear to operate specific quantitative restrictions over the proportion of total loans or grants that are provided using PBOs, unlike the situation for the African Development Fund where the share of PBOs is capped, although agencies may set targets for the use of PBOs for fiduciary risk management or other strategic purposes or as part of an overall country strategy.
- Fourth, the AfDB has lacked an aid instrument that is suitable for supporting a SWAp, similar to the World Bank's Sector Investment Loan or Adaptable Program Loan. The AfDB has sought to use SDBSL but this has had to be provided in parallel to pooled donor funding arrangements.
- Fifth, in comparison to other agencies using PBOs, and seeking to use these as a means to participate in policy dialogue, the AfDB lacks policy and analytical capacity, particularly in-country. This is reflected in the relative lack of economic and sector work that the Bank produces, the lack of staff available to participate in donor-government working groups and other forums, and the weak role that the Country Strategy Paper is perceived to have in shaping major decisions about budget support.

5.3 Challenges for the Bank

5.3.1 The evaluation has identified several issues which pose a challenge for the Bank if it is to build on its achievements and enhanced capacity for the effective use of PBOs. Specifically:

- While the Bank's engagement in budget support arrangements and its strengthened in-country capacity has enabled it to participate more fully in policy forums and processes, the Bank has in general contributed little to dialogue on substantive policy issues. The Bank's capacity to engage in sectoral policy dialogue (for instance where it has been providing sectoral budget support as in Morocco, Rwanda, and Tanzania) has been particularly constrained by its lack of senior level technical staff based in Field Offices. While the objective of most Bank PBOs since 2006 has been to strengthen public finance management, the Bank has had no public finance management specialists in its Field Offices, which has also limited its capacity to engage effectively in these processes though in some cases it has provided complementary technical assistance.
- There are few linkages between the Bank's engagement in PBOs and the rest of the Bank's programme (in particular the Bank's investment lending) so that potential synergies within the programme have not been developed or exploited. There have been initiatives to use PBOs as an entry point for deeper engagement in sectoral reform processes and to provide opportunities for subsequent investment operations (for instance the Botswana, Egypt and Nigeria operations reviewed for the evaluation) but these have yet to generate substantive results.

- With the establishment of OSGE and its assumption of a dominant role in the design and management of PBOs, the Bank's technical capacity in this area has significantly improved although this capacity has remained concentrated in a small number of staff within OSGE. This improvement in capacity is reflected in the evidence of improving PBO design and performance over the evaluation period, and the Bank's ability successfully to handle a substantial increase in the volume of PBOs during 2008 and 2009. However, the concentration of capacity within OSGE has reinforced the tendency for budget support PBOs to be managed as governance "sector" operations even though the majority of these are multisectoral in the sense of supporting the whole government budget.

5.3.2 These issues confront a number of features of the Bank's organisational culture. Regional Departments have responsibility for the strategic approach of the country programme as a whole, including decisions on instruments and for policy dialogue but appear to lack the staffing resources (and possibly authority) to fulfil this role effectively. In addition, while the Bank has made some progress towards decentralisation, this has lagged behind what was planned and project management responsibility remains overwhelmingly located in the Banks headquarters in Tunis. Although the Bank has strengthened its staffing capacity to engage with policy issues (rather than focusing exclusively on capacity for the design and implementation of investment projects) this capacity remains limited both within sectors and on macroeconomic policy and governance.

5.3.3 The Bank's capacity to use PBOs more strategically in relation to the whole of its country portfolio, and effectively to bring to bear a greater level of sectoral and thematic expertise therefore depends on both capacity (the extent to which the Bank possesses or can mobilise the required skills centrally and in Field Offices) and organisational issues (whether incentives and management structures favour cross-sectoral working, and the extent to which the Bank is prepared to implement decentralisation).

5.3.4 The Bank therefore faces a choice as to whether it seeks to build its capacity to engage in policy dialogue around PBOs, particularly within Field Offices, or to add additional value through seeking to develop complementarities between PBOs and the rest of the Bank's programme, or whether its role is limited to the provision of finance. While for lending on ADB terms this may be an appropriate strategy, the Bank is likely to need to demonstrate to donors providing ADF resources that it is providing some significant value added through its use of ADF resources for PBOs.

5.3.4 A further issue identified in the evaluation has been the lack of convincing intervention logic in the design of PBOs to link the results claimed to the inputs actually provided (potentially comprising finance, engagement in policy dialogue, the agreement of conditions, and complementary support such as technical assistance or advice). The results claimed for PBOs generally comprise a selection of items from a joint policy matrix (with a particular focus on governance and public finance reforms) and the implementation of measures agreed as conditions of the PBO. In most of the PBOs reviewed the results identified appear to be largely independent of the amount of finance that the Bank is providing.[5]

[5] An exception is the DRC Emergency Programme (2009) where specific expenditure items were defined and resources earmarked for these through special accounts.

5.3.5 It is also problematic to claim measures defined as conditions as "results" of a PBO, when the practice has increasingly been to define as conditions measures to which governments are already committed and which are likely to be implemented regardless of whether the PBO proceeds. These issues apply in principle to budget support considered jointly as well as to the small number of operations where the Bank is providing PBOs independently of a joint budget support or adjustment operation. Even in joint operations though, the Bank should be seeking to identify and measure the value that it is adding through its engagement, both in financial and non-financial terms.

5.3.6 Going forward, while the evidence collected for this study suggests that joint budget support arrangements are working well and there is scope for them to continue in the short- to medium-term, there are several factors that may call into question the role of budget support over the longer term in at least some contexts. First, fiscal pressures on many of the main bilateral donors who have promoted budget support, and increased concerns to demonstrate results to their constituencies, may lead to a reduction in the willingness of these donors to provide budget support (either directly or indirectly for instance through the ADF). Second, some RMC governments may decide that joint budget support arrangements are either too unwieldy, too unreliable (if donors withdraw from funding pledges) or generate an excessively confrontational dialogue over policy and governance issues.

5.4 Recommendations

5.4.1 Three main points can be made about the action that the Bank needs to take to use PBOs more effectively in support of its overall objectives and the needs of its clients:

- First, the Bank needs to define more clearly and authoritatively the role that PBOs have in advancing the Bank's strategy both in relation to its overall mandate and objectives, and its engagement at country level. In the majority of cases the Bank has been participating in joint operations with other multilateral agencies and in some cases bilateral donors so that the specific value added from the Bank's participation needs to be identified, as well as the potential synergies between the Bank's use of PBOs and its other activities, notably its investment lending and support to capacity development.
- Second, whatever specific decision is made on the definition of this role, the Bank needs to produce a (single) comprehensive policy and supporting guidance on PBOs (replacing where necessary existing policies and guidance). This policy and guidance should build on existing policies (notably the 2004 policy on Direct Budget Support Lending) but should have a clearer statement of the intervention logic that should be used in the statement of the objectives of PBOs and their design, as well as drawing on lessons and best practice on the appropriate definition of objectives, choice of conditions, and other design aspects such as tranching.
- Third, the organisational and management implications of the policy that is adopted will need to be addressed and followed through to support its effective implementation. This will include (i) clarifying the role of different Bank departments and organisational units (including in particular OSGE and Field Offices) in the design and management of PBOs; (ii) the building of capacity within the Bank to ensure these policies are effectively implemented; (iii) the development where feasible of procedures for the design, appraisal and management of PBOs that are specifically tailored to the requirements of PBOs rather than the use of generic project preparation procedures, and (iv) the improvement of information systems to

enable the performance and results of PBOs to be more effectively monitored and lessons identified.

5.4.2 To some extent recommendations at the level of policy and guidance and organisation and management can be taken forward independently of the broader strategic decisions to be taken about the role of PBOs in the Bank, but the high level strategic decisions will have further implications at the policy and organisational level.

5.4.3 The recommendations from the evaluation are the following:

1) The Bank should take a decision about how PBOs are to be used as an instrument to support the Bank's wider strategic objectives and the needs of its RMC clients. To the extent that the Bank decides that PBOs should be used to strengthen engagement in policy dialogue, rather than just a financing mechanism, the Bank needs to build its capacity and develop its policies and procedures to fulfil this role more appropriately. This would require stronger technical and policy capacity particularly in Field Offices and a deeper engagement in carrying out Economic and Sector Work, as well as ensuring that departmental and individual incentives encourage cross-sectoral working.
2) Guidance for the design of PBOs and the identification of results should be developed based on a more fully developed model of the intervention logic for PBOs. The framework should provide an approach for linking the scale of potential results claimed to the actual level of financing that is provided. The Bank's results reporting should be based on the contribution that is made to government expenditure, while also identifying additional value added through the Bank's participation in policy dialogue and through complementary support, and clarifying outstanding issues about fiduciary risk management for PBOs.
3) Existing Bank PBO policies and guidance should be consolidated into a single policy. This may involve consolidation of the existing instruments into a single instrument based on the current DBSL instrument. The use of the terminology of "Policy Based Operations" as a collective term for these operations within the Bank should be reviewed because it tends to have the inappropriate connotation that these operations seek to bring about policy reform through conditionality, unless the Bank takes a strategic decision to strengthen its capacity to engage in policy dialogue.
4) The Bank should identify potential synergies between the Bank's engagement in general budget support and related PBOs and other parts of the Bank's programme, especially investment operations. This should take place as part of the preparation and review of Country Strategy Papers as well as during the design of individual operations.
5) To the extent that the Bank identifies potential synergies and contributions that it can make through policy dialogue or complementary activities these should be explicitly built into the design of PBOs and sufficient capacity and resources should be made available (especially in Field Offices) to enable these contributions to be made effectively, including for the Bank's role in chairing joint budget support groups. This may include use of political economy analysis as a more integral part of the design and monitoring of PBOs.
6) Each sectoral area of the Bank should undertake a review of the scope for the use of sectoral PBOs, for providing contributions to multisectoral PBOs, or for finding more effective ways for participating in SWAps. This review should take place as part of the process of the development of the Bank's new policy on PBOs, and this policy should include a discussion of specific issues relating to PBOs for that sector, while recognising that the scope for sectoral PBOs depends on both the preferences of clients and the extent to which sectoral (rather than

general) budget support programmes are able to address key constraints on sectoral performance which may require cross-sectoral action.

7) The Bank should examine how policies and procedures (especially relating to ADF) can be adapted to allow a more programmatic medium-term approach to budget support. This could be modelled on the World Bank's programmatic approach to Development Policy Operations, based on the use of single tranche operations within a multi-year framework.
8) The Bank should develop, fully document, and provide comprehensive training for staff in a set of procedures and timetables for PBOs that is specifically tailored to the needs of this instrument. This should take account of lessons that have been learned from the Bank's ability to provide a rapid response to urgent needs of RMCs in response to the international financial crisis in 2009 and seek to introduce a more flexible approach than that which is currently set out in the APPS, while encouraging greater attention to analysis and more effective cross-sectoral team-working than currently occurs.
9) The Bank should review and substantially strengthen its information systems and procedures for PBOs which currently (within SAP) contain significant weaknesses and apparent inconsistencies, as well as making it very difficult to undertake effective evaluation and monitoring of the Bank's PBO portfolio as a whole.

Annex A Data on Policy Based Operations[6]

Table A.1 Approvals of PBOs (UA million, by Financial Year)

	ADB Loans		ADF Loans		ADF Grants		Total	
Year	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1999	1	140.8	2	15.0	1	1.3	4	157.2
2000	0	0.0	5	120.8	0	0.0	5	120.8
2001	2	316.0	11	242.6	1	0.5	14	559.2
2002	1	110.0	6	91.4	0	0.0	7	201.4
2003	1	215.0	8	206.7	0	0.0	10	421.7
2004	3	419.6	9	207.5	2	57.1	14	684.2
2005	1	101.3	4	127.0	3	73.3	8	301.6
2006	2	407.5	8	218.3	5	94.7	15	720.4
2007	1	20.0	3	74.9	2	39.5	6	134.4
2008	2	127.2	9	413.0	5	162.5	16	702.7
2009	7	1,780.7	4	119.2	13	234.2	23	2,134.2
Total	21	3,638.1	68	1,813.2	31	663.1	123	6,137.6

Table A.2 Sectoral distribution of PBOs

	Number				Amount			
	ADB Loan	**ADF Loan**	**ADF Grant**	**Total**	**ADB Loan**	**ADF Loan**	**ADF Grant**	**Total**
Agriculture	0	2	1	3	0.0	43.5	1.3	44.8
Communications	1	0	0	1	100.0	0.0	0.0	0.0
Finance	4	1	0	5	791.5	10.0	0.0	801.5
Power	0	1	0	1	0.0	100.0	0.0	100.0
Social	2	2	0	4	180.0	35.0	0.0	215.0
Transport	1	0	0	1	240.0	0.0	0.0	240.0
Water/Sanitation	1	0	0	1	215.0	0.0	0.0	215.0
Multisector	12	63	31	106	2,111.6	1,646.6	661.8	4,420.0
Total	21	69	32	123	3,638.1	1,834.9	663.1	6,137.6

[6] Source: Institutional and Policy Review

Table A.3 PBOs by country and financing source

	ADB	ADF Loan	ADF Grant	Total		ADB	ADF Loan	ADF Grant	Total
Morocco	9	0	0	9		1,110.9	0.0	0.0	1,110.9
Botswana	1	0	0	1		1,001.6	0.0	0.0	1,001.6
Tunisia	4	0	0	4		625.1	0.0	0.0	625.1
Mauritius	3	0	0	3		461.6	0.0	0.0	461.6
Egypt	1	0	0	1		333.9	0.0	0.0	333.9
Ethiopia	0	3	2	5		0.0	209.7	120.0	329.7
Tanzania	0	0	6	6		0.0	0.0	300.0	300.0
Ghana	0	0	4	4		0.0	0.0	207.6	207.6
Mozambique	0	0	4	4		0.0	0.0	200.0	200.0
Burkina Faso	0	1	5	6		0.0	25.0	113.6	138.6
Madagascar	0	0	4	4		0.0	0.0	136.0	136.0
Dem Rep Congo	0	1	1	2		0.0	65.0	44.5	109.5
Mali	0	0	5	5		0.0	0.0	104.4	104.4
Multinational	0	3	0	3		0.0	103.0	0.0	103.0
Rwanda	0	2	2	4		0.0	63.3	36.9	100.2
Nigeria	0	0	1	1		0.0	0.0	100.0	100.0
Côte D'Ivoire	0	2	1	3		0.0	83.9	15.0	98.9
Gabon	1	0	0	1		74.8	0.0	0.0	74.8
Senegal	0	0	3	3		0.0	0.0	74.0	74.0
Zambia	0	1	4	5		0.0	0.5	62.7	63.2
Benin	0	2	3	5		0.0	16.1	44.2	60.3
Sierra Leone	0	2	2	4		0.0	20.7	27.3	48.0
Cameroon	0	0	2	2		0.0	0.0	45.5	45.5
Niger	0	0	3	3		0.0	0.0	41.1	41.1
Uganda	0	0	1	1		0.0	0.0	40.5	40.5
Malawi	0	1	2	3		0.0	10.0	26.9	36.9
Cape Verde	1	1	4	6		17.3	0.8	13.4	31.5
Kenya	0	0	1	1		0.0	0.0	28.3	28.3
Chad	0	1	1	2		0.0	17.6	8.7	26.3
Burundi	0	3	0	3		0.0	21.4	0.0	21.4
Lesotho	0	2	3	5		0.0	7.0	10.7	17.7
Centrafrique	0	2	0	2		0.0	13.0	0.0	13.0
Seychelles	1	0	0	1		13.0	0.0	0.0	13.0
Liberia	0	2	0	2		0.0	12.4	0.0	12.4
Guinea	0	0	1	1		0.0	0.0	12.3	12.3
Mauritania	0	0	1	1		0.0	0.0	10.0	10.0
Togo	0	1	0	1		0.0	10.0	0.0	10.0
Congo CG	0	0	1	1		0.0	0.0	7.0	7.0
Comoros	0	1	1	2		0.0	2.0	2.0	4.0
Gambia	0	1	0	1		0.0	3.0	0.0	3.0
Djibouti	0	0	1	1		0.0	0.0	2.4	2.4
Sao Tome	0	0	1	1		0.0	0.0	1.6	1.6
Total	21	31	69	123		3,638.1	663.1	1,834.4	6,158.8

Table A.4 Share of PBOs in total Bank operations, 1999-2009, by country (million UA)

Country	Category	All Bank Operations	PBOs	% PBOs
Botswana	ADB	1,186.9	1,001.6	84.4%
Mauritius	ADB	599.2	461.6	77.0%
Seychelles	ADB	21.7	13.0	59.9%
Morocco	ADB	2,427.3	1,110.9	45.8%
Tunisia	ADB	2,007.1	625.1	31.1%
Egypt	ADB	1,674.8	333.9	19.9%
Gambia	ADB	73.3	3.0	4.1%
Algeria	ADB	397.0	0.0	0.0%
Equatorial Guinea	ADB	63.5	0.0	0.0%
Namibia	ADB	113.4	0.0	0.0%
South Africa	ADB	2,666.6	0.0	0.0%
Swaziland	ADB	111.2	0.0	0.0%
Libya	ADB	0.0	0.0	..
Total ADB		11,342.0	3,549.0	31.3%
Cape Verde	ADF	69.1	31.5	45.5%
Ethiopia	ADF	793.7	318.5	40.1%
Rwanda	ADF	259.3	100.2	38.6%
Mozambique	ADF	544.0	200.0	36.8%
Tanzania	ADF	889.9	300.0	33.7%
Central African Rep.	ADF	38.8	13.0	33.5%
Madagascar	ADF	426.3	136.0	31.9%
Burkina Faso	ADF	446.4	138.6	31.0%
Sierra Leone	ADF	169.0	48.0	28.4%
Liberia	ADF	44.7	12.4	27.7%
Mali	ADF	389.5	104.4	26.8%
Burundi	ADF	81.2	21.4	26.4%
Zambia	ADF	242.3	63.2	26.1%
Ghana	ADF *	815.6	207.6	25.5%
Lesotho	ADF	73.9	17.7	24.0%
Comoros	ADF	17.4	4.0	23.0%
Niger	ADF	192.9	41.1	21.3%
Benin	ADF	286.5	60.3	21.0%
Congo, Dem. Rep.	ADF	523.2	109.5	20.9%
Côte d'Ivoire	ADF	489.8	98.9	20.2%
Congo, Rep. of	ADF	39.0	7.0	18.0%
Togo	ADF	56.3	10.0	17.7%
Gabon	ADF	432.1	74.8	17.3%
Senegal	ADF	459.8	74.0	16.1%
Chad	ADF	167.4	26.3	15.7%
Malawi	ADF	254.0	36.9	14.5%
Cameroon	ADF	388.7	45.5	11.7%

Country	Category	All Bank Operations	PBOs	% PBOs
Sao Tome and Principe	ADF	15.0	1.6	10.6%
Guinea	ADF	261.1	12.3	4.7%
Kenya	ADF	623.0	28.3	4.5%
Uganda	ADF	969.7	40.5	4.2%
Mauritania	ADF	257.0	10.0	3.9%
Djibouti	ADF	88.2	2.4	2.7%
Angola	ADF *	75.2	0.0	0.0%
Eritrea	ADF	43.2	0.0	0.0%
Guinea-Bissau	ADF	44.1	0.0	0.0%
Total ADF		10,967.4	2,395.6	21.8%
Nigeria	Blend	1,019.2	100.0	9.8%
Zimbabwe	Blend	120.2	0.0	0.0%
Total Blend		1,139.4	100.0	8.8%
Somalia	Inactive	1.0	0.0	0.0%
Sudan	Inactive	11.0	0.0	0.0%
Total Inactive		12.1	0.0	0.0%
All Countries		23,460.9	6,044.6	25.8%
Multinational		2,949.0	103.0	3.5%

Note: ADF *: Hardened terms