ADB

Evaluation Study

Reference Number: EVU:OTH 2007-18
Special Evaluation Study Update
August 2007

Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
DAC	–	Development Assistance Committee (of OECD)
DMC	–	developing member country
ERD	–	Economics and Research Department
FDI	–	foreign direct investment
GBS	–	general budget support
IDA	–	International Development Association (of The World Bank)
IEG	–	Independent Evaluation Group
IMF	–	International Monetary Fund
MTFF	–	medium-term fiscal framework
PCR	–	program completion report
PPAR	–	program performance audit report
PPER	–	program performance evaluation report
OCR	–	ordinary capital resources
OECD	–	Organisation for Economic Co-operation and Development
OED	–	Operations Evaluation Department
PPAR	–	program performance audit report
PPER	–	program performance evaluation report
PPR	–	program performance report
SCB	–	state commercial bank
SOE	–	state-owned enterprise
SWOT	–	strengths, weaknesses, opportunities, and threats (analysis)
TA	–	technical assistance

Key Words

policy-based lending, program lending, development effectiveness, evaluation, conditions, conditionality, development policy lending, lessons learned, asia, asian development bank, adb

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The guidelines formally adopted by the Operations Evaluation Department (OED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of OED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

EXECUTIVE SUMMARY

This report was prepared by the Asian Development Bank's (ADB) Operations Evaluation Department (OED) as an input into an ongoing review of ADB's program lending policy being carried out by the Strategy and Policy Department. The last full OED evaluation of ADB's program lending was carried out in 2001. Given the relevance of many of the findings from the 2001 evaluation, it was assessed that an evaluation update would meet the needs of OED's input to the Strategy and Policy Department policy review.

The report adopts a meta-evaluation approach, building on past ADB evaluations of policy-based lending, further analyzes recent post-program performance evaluation reports, updates program lend success rate statistics, and reviews external evaluations of policy-based lending and general budget support (GBS). The analysis and reviews are used to identify good practices for ADB's policy-based lending and highlights key considerations for improving the current ADB policy for program lending.

ADB introduced policy-based lending, or program lending, in 1978 to assist developing member countries (DMC) in addressing balance of payments constraints and capacity utilization. In 1983, the rationale for program lending began to widen to facilitate policy reforms needed to improve country and sector efficiency. Program lending policies and practices have continued to evolve to address policy and institutional reforms. Although demand and use of the modality has increased, overall performance at evaluation is lower compared with ADB-supported investment projects.

Since introducing program lending, 31 DMCs have used the modality. A total of 184 program loans were approved from 1978 to 2006 for an aggregate $23.9 billion from ordinary capital resources (OCR) and the Asian Development Fund (ADF), or 24% of total ADB public sector lending. Program lending initially focused on balance of payments support, with little policy content. Through the 1980s and into the 1990s, program lending increasingly addressed policy issues needed to support policy and institutional reform. The 1997 Asian financial crisis caused a shift in program lending priorities to address the symptoms and causes of the crisis. Since 2001, program lending has increasingly addressed issues in the finance sector, particularly those related to public resource management and governance. From 1978 to 2006, program loans supported the following sectors: finance (43%); law, economic management, and public policy (19%); and agriculture and natural resources (12%). OCR funded $19.2 billion of total program lending, compared with $4.6 billion from ADF.

Program completion reports and OED evaluations have been prepared for 101 program loans up to 2006. Of these, 51% were rated "successful", 46% "partly successful", and 3% "unsuccessful". Performance has improved since the disappointing results achieved by program loans approved in the 1980s and early 1990s. Of the program loans approved since 1996, 69% were rated successful. The finance sector program loans had a success rate of 74%. Law, economic management, and public policy program loans had a 61% success rate. Success rates of agriculture sector program loans were lowest among the sectors (28% successful or above and 72% partly successful). There is a need and demand for policy and institutional reform in the agriculture sector, although reform issues in the sector are often challenging.

Overall, 67% of OCR-funded programs were rated successful compared with 46% of ADF-funded programs. The performance of ADF-financed program loans has improved over time, achieving a 70% success rate between 1996 and 2000 compared with an OCR program loan success rate of 67%. Although the policy reform environments of ADF countries are often more challenging, the overall ratings have improved to match those of OCR program loans. Program lending appears to have performed better in countries with policy and institutional environments that are amenable to reform, and where stronger institutions are in place to manage the required changes. Nevertheless, reforms are more likely to be needed in countries that have less capacity for reform and in sectors with greater policy and institutional problems.

Key findings from OED's 2001 special evaluation study on program lending included the need to see policy-based lending as a change process that combines international practice with the domestic policy process in program designs. Areas identified as needing improved practices were (i) adequate policy analysis as the basis for policy dialogue; (ii) gauging and building government commitment, ideally with government authorship; and (iii) a realistic policy framework and matrix incorporating a manageable approach to conditions for loans. The special evaluation's findings included concerns about complicated policy matrixes and excessive use of conditions that affected program performance at several levels. OED continues to find implementation delays caused by complex reform requirements, complex and numerous conditions, and lengthy legislative processes. The lesson is not to focus excessively on conditions in program lending as a tool for managing reforms and assessing development effectiveness.

Since OED completed its 2001 special evaluation of program lending, a further 27 completion reports and 18 evaluation reports have been prepared for program loans approved in the late 1990s. A sample of these evaluations was reviewed to identify factors affecting the relevance, effectiveness, and efficiency of impacts, outcomes, and outputs. Factors contributing to desired results and within ADB's influence included (i) consistency of reform outcomes with government reform agendas and priorities, (ii) sufficient analysis and dialogue, (iii) well-targeted reforms and policy change consensus among decision makers and stakeholders, (iv) coherence of program design and policy matrixes, (v) focused and manageable conditions that were acted upon before program start-up, (vi) implementing agency capacity was sufficient, and (vii) reform costs were identified and met by the program or counterpart funding.

Factors detracting from results that were within ADB's influence included (i) insufficient consideration of macroeconomic and wider sector policies, (ii) inconsistency of reform outcomes with government priorities, (iii) lack of counterfactual analysis and poorly understood outcome and policy alternatives, (iv) complex and ambitious reforms, (v) poor decision maker and stakeholder support and awareness, (vi) overly complex designs with too many tranche release conditions specified in the policy matrix, (vii) backloading of conditions to second and subsequent tranches, (viii) weak capacity of implementing agencies, and (ix) failure to identify or manage key direct and indirect costs.

Factors outside ADB's influence but providing an opportunity for a favorable reform result included (i) stable global and regional markets; (ii) stable country economic, social, and political contexts; and (iii) complementary macroeconomic and institutional reforms beyond the boundaries of programs. External factors that were a threat or risk to reform programs included (i) negative changes in the broader market and policy environment; (ii) complementary macroeconomic and institutional reforms that did not occur; (iii) changes of government, policy swings, and competing and conflicting interests that stalled reforms; and (iv) wavering government commitment.

The mixed performance of structural adjustment lending in the 1980s led the World Bank to rethink how to support reforms in its DMCs. Following its 2001 review of structural adjustment lending, the World Bank shifted from adjustment lending to a development policy approach that supports structural, social, and institutional reforms over the medium-term linked to country assistance strategies. The number of conditions used in the World Bank policy-based loans has decreased and more process-type conditions with a results focus are used, especially in International Development Association countries. Development policy support and lending is based on an assessment of the country's economic situation, policies, governance and institutional capacity, as well as a country policy ownership assessment. The World Bank does not limit the proportion of its total annual lending used for development policy lending.

The World Bank's Independent Evaluation Group 2003 *Annual Review of Development Effectiveness* focused on policy reform. In line with OED's 2001 special evaluation on program lending, reforms were less successful in countries with weak track records, or where environments were fluid or uncertain. The instruments used by the World Bank to link lending to policy performance—conditions that required pre-specified prior actions by borrowers—had not resulted in good outcomes in highly uncertain situations. In such cases, the evaluation concluded that large-scale lending normally should be undertaken only when there are clear signals that policy reform is under way. Given the emphasis on partnership approaches, the report recommended long-term assistance for capacity building, and predictable, transparent, and reliable financing.

The World Bank evaluation looked at the use of programmatic lending that preceded the introduction of development policy lending in 2004. There was not enough evidence on the effectiveness of programmatic approaches, and there was concern that conditions may still not be linked clearly to outcomes. This finding is consistent with an OED paper (Quibria, M. G. 2004. *Development Effectiveness: What Does the Research Tell Us?* OED Working Paper 1) which suggested that rather than using conditions and selectivity, the basis for allocating support should be poverty reduction strategies, the Millennium Development Goals, and shortfalls in targets. Performance incentives can be provided by offering greater allocations for countries making progress in meeting the Millennium Development Goals.

An evaluation sponsored by the Organisation for Economic Co-operation and Development of GBS also relates to several ADB evaluation findings and good practice in policy-based lending. Aid agencies are actors in political systems, not just an external influence, which suggests that a judicious role in supporting proponents with an understanding of local institutions and political context can help to improve and accelerate reforms. Characteristics of GBS are stepwise changes involving dialogue, conditions that are consistent with poverty reduction support programs, use of a longer term approach, and consistency with country capacity. The GBS modality has been effective in strengthening public finance management, planning and budgeting, and budget transparency and accountability, and in bringing aid agency funds on-budget. Greater coherence and coordination in providing technical assistance is needed. The impact on poverty reduction has not yet been determined.

ADB has begun to adopt development policy lending and practices through partnerships with other aid agencies. The issues identified in OED evaluations of program lending are relevant for this modality. ADB's Economics and Research Department has carried out good practice economic analysis of policy-based operations, and political economy approaches to policy-based lending. ADB's South Asia Department has assessed ADB-supported public resource management programs. A range of good policy-based lending practices are recommended summarized by strengths to build into designs, weaknesses to avoid, opportunities to capitalize upon, and threats to manage.

The following policy and procedural considerations would help in applying a wider range of good practices to ADB's program lending:

(i) Clarify the link between the purpose and use of program lending financing.
(ii) Clarify operational guidance to ensure that existing modalities are applied in line with donor harmonization principles of flexibility, predictability, and aid agency partnership approaches.
(iii) Clarify the use of conditions ensuring judicious use in line with a partner's development strategy, agreed policy measures, steps, and triggers, and in a way that helps reformers to manage the process, not control it.
(iv) Continue to strengthen understanding of the results chain in program lending.
(v) Review and consider relaxing the 3-year 20% (22.5% for ADF loans) moving average ceiling for program lending value to bring it more into line with DMC needs and demands for the program loans modality.

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I. INTRODUCTION AND APPROACH

1. The purpose of this report is to assess recent performance, trends, and practice in the Asian Development Bank's (ADB) program lending as an Operations Evaluation Department (OED) input into an ongoing review of program lending policy being carried out by ADB's Strategy and Policy Department. The last full OED evaluation of ADB's program lending was carried out in 2001.[1] Given the relevance of many of the findings from the 2001 evaluation, it was assessed that an evaluation update would meet the needs of the policy review.

2. The report begins by reviewing the evolution of ADB's policy in program lending, updating portfolio changes, and updating trends in evaluation ratings. Sample program loan evaluations carried out since 2001 are further analyzed to identify factors that influence program lending results within and outside ADB's influence. Recent directions and evaluation evidence from other international development agencies in supporting policy change are summarized and assessed in light of developments in ADB practice. The evaluation concludes by summarizing good practices identified through internal and external evaluations, and identifies policy and procedural modifications that would help in applying a wider range of good practices to ADB's program lending.[2]

3. The report adopts a meta-evaluation approach that aggregates and further analyzes findings from several evaluations. The approach updates available evaluation findings in support of an ongoing review of program lending by ADB's Strategy and Policy Department. Findings and results were shared with concerned staff as they emerged during the course of the evaluation. A meta-evaluation approach was adopted that draws on ADB and external reviews and evaluations of policy-based lending and related modalities. The method was limited by the absence of field visits, while reviews of ADB evaluation evidence were based on a sample of past evaluations and not all program modality types. New and emerging practices in ADB are discussed. Views on these practices are based on emerging evaluation lessons from other international agencies.

II. TRENDS IN PROGRAM LENDING AND PERFORMANCE

A. Developments in ADB's Policies on Program Lending

4. ADB introduced policy-based lending, or program lending as it is called in ADB's Operations Manual, in 1978. At that time, many developing member countries (DMC) did not have convertible currencies and experienced shortages of foreign exchange. The initial rationale was to promote fuller capacity utilization by providing financing to DMCs to import goods considered essential for growth in priority sectors. In 1983, the rationale for program lending began to widen to include facilitating policy reforms. The lending amount under this modality also has increased, and ADB currently has a portfolio cap on new program lending set at a rolling 20% annual average. In 2006, program lending accounted for 46% of ADB's annual new lending, suggesting a further rise in demand for the instrument. Despite the demand, program lending tends not to perform as well as ADB-supported investment projects. This requires continued attention to improving the modality's performance. Evaluation can contribute to informing improvements by helping to learn from past practice to improve future practice.

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[1] ADB. 2001. *Special Evaluation Study on Program Lending*. Manila. Available: http://www.adb.org/Documents/PERs/sst_stu200116.pdf.

[2] Given the shift over the past 20 years in ADB's program lending toward supporting policy reform, program lending is also called policy-based lending in this report.

5. Following the introduction of program lending in 1978, the first lending review was carried out in 1983.[3] The review supported improving policy to relieve longer-term economy-wide and sector production constraints in priority sectors. Policy changes were seen as desirable but not as prerequisites for a loan. Needed changes were identified through studies and dialogue. A program lending review in 1987 further articulated the shift toward policy-based operations.[4] The change, in line with emerging practices in other international financial institutions toward structural adjustment, emphasized a medium-term contribution to sector development involving policy change consistent with the context of a country's overall policies and institutional readiness for policy change. The rationale for program lending described in the review was to remove policy and institutional constraints affecting a country's economic performance. The 1987 review also introduced policy change with conditionality. Government compliance with ex ante conditions (or prior actions) was a requirement that was to be met after Board approval to release loan tranches. Conditions for tranche releases would be derived from plans for reforms, sector conditions, and performance. Informed and continuous policy dialogue and policy change that is not imposed externally was stressed as important for design and implementation.

6. Additional program lending reviews, carried out in 1996[5] and 1999,[6] addressed the need for balance of payments support and policy change processes. The 1996 review further stressed the need for program loans to be based on a comprehensive sector analysis and policy dialogue covering sector investment plans, institutional development needs, and social and environmental issues. The review described the rationale for program loans as quick-disbursing, policy-based assistance from multilateral development banks to alleviate foreign currency and budgetary constraints, thereby helping to maintain basic output and consumption while a government undertakes needed reforms (footnote 4). The budgetary support provided by a program loan was expected to help a government undertake reforms by partly defraying costs, in instances such as loss of revenue through tariff reductions, financing the restructuring of state-owned enterprise, or mitigating a reform's social impacts. The budgetary support role for program lending is also reflected in ADB's policies and operational guidance.[7]

7. The 1999 review led to the introduction of emergency program loans, in essence re-emphasizing the need for balance of payments support under particular circumstances, largely in response to the Asian financial crisis.[8] The review also introduced cluster program loans involving a series of linked subprograms designed to address a flexible approach to policy change over the medium term. The move stemmed from continuing design problems such as reforms that were not sequenced properly, proliferation of policy conditions, and unrealistic targets. The problems also reflected inadequate attention to institutional and political issues that undermine implementation. Factors identified included weak implementation capacity, unanticipated political problems, budgetary constraints, procedural hurdles in enacting needed legislation, weak government commitment, and inadequate follow-up policy dialogue.

8. References in the 1996 and 1999 reviews to support for sector development through policy change, budget support, and balance of payments raises two issues. First, the rationale

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[3] ADB. 1983. *A Review of Program Lending Policies*. Manila.
[4] ADB. 1987. *A Review of Program Lending Policies*. Manila.
[5] ADB. 1996. *Review of the Bank's Program-Lending Policies*. Manila.
[6] ADB. 1999. *Review of ADB's Program Lending Policies*. Manila.
[7] Operations Manual, Section D4/BP, para. 35.
[8] The emergency program loan modality introduced a quick-disbursing instrument to be used in highly selective circumstances, such as helping to mitigate the balance of payments and fiscal consequences of a crisis and addressing the structural causes.

for each loan needs to be clear—whether it is to meet an immediate balance of payments need, to facilitate a policy change process that incurs costs, to provide fiscal space to implement a reform agenda, or a combination of purposes. Second, once the rationale for a loan is clear, the use of funds can be determined and an appropriate accounting method selected. Balance of payments support requires monitoring imports. Budget support requires monitoring public expenditure. The costs incurred as a result of the reform process requires monitoring those costs and related funds use (such as compensation payments to retrenched workers). In this way, a clear distinction between a program loan's purpose and its fund use is important.

9. The 1996 and 1999 reviews also addressed the problem of delays in tranche releases, which were a key reason for the low ratings of program loans in the early 1990s. Delays and a progressive decline in the compliance rate in successive tranches were traced to condition-based program design. The upfront detailed design of each tranche can create rigidities and difficulties in implementation, with failure to implement any part of the required conditions delaying the tranche release for the entire program. Events beyond a government's control also can make some conditions inappropriate. The major drawback of linking the flow of assistance to multiple conditions was that the penalty was often out of line with the policy failure that triggered the need for assistance. A further shortcoming identified in setting conditions for the release of funds was that it undermined a borrowing government's ownership of the reform. The Operations Manual subsequently addressed this issue.[9]

B. Program Lending Trends

10. Since program lending was introduced in 1978, 31 DMCs have used the modality. From 1978 to 2006, 185 programs covering 204 loans were approved for an aggregate $23.9 billion from ordinary capital resources (OCR) and the Asian Development Fund (ADF). This represents 24% of total ADB public sector lending. The volume and sector distribution for program lending has changed over time, as shown in Table 1.

Table 1: Trends in Program Lending
(Volume of Lending by Approval Period and Sector)

	1978-1986		1987-1995		1996-2000		2001-2006		Total	
Sector	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)
Agriculture and Natural Resources	12	486.4	19	1,448.5	5	315.7	4	517.7	40	2,768.3
Education					2	25.2	6	182.0	8	207.2
Energy			1	125.0	4	1,033.4	5	880.6	10	2,039.0
Finance			7	1,176.5	15	6,103.8	23	2,985.8	45	10,266.2
Health, Nutrition, and Social Protection	1	11.9			6	763.6	2	209.3	9	984.7
Industry and Trade	2	10.2	6	529.5	2	450.0	7	288.1	17	1,277.7
Law, Economic Management, and Public Policy					13	1,038.9	26	3,621.9	39	4,660.8
Multisector	1	12.6			3	267.9	8	1,175.7	12	1,456.2
Transport and Communications			2	187.3			2	80.8	4	268.1
Water Supply Sanitation and Waste Management							1	5.1	1	5.1
Total Program Lending	**16**	**521.0**	**35**	**3,466.8**	**50**	**9,998.5**	**84**	**9,946.9**	**185**	**23,933.2**
% of Total Public Sector Lending	**3.8**	**4.3**	**7.2**	**11.4**	**16.7**	**38.9**	**23.5**	**29.8**	**11.9**	**23.6**

mn = million.
[a] Blended program loans counted as one program. Excludes one cancelled program with no disbursement.
[b] Net of cancellation. Dollar equivalent of SDR-denominated loans based on exchange rate on 7 March 2007, the time the data was downloaded.
Source: Asian Development Bank Loan Financial Information System.

[9] Operations Manual, Section D4/OP, para. 6.

11. Program lending initially focused on balance of payments support, with little policy content. However, through the 1980s and into the 1990s, program lending increasingly addressed policy issues needed to support policy and institutional reform. The agriculture sector and related trade policy and market distortions were seen as requiring priority reforms to improve rural producer incentives and to develop agriculture to drive growth in the industrializing economies of South Asia, Southeast Asia, and East Asia. Adjustment loans also were used to assist transitional economies in Mongolia and Central Asia. The 1997–1998 Asian financial crisis caused a shift in program lending priorities to provide necessary liquidity support, ameliorate the short-term impacts of the crisis, and address the causes of the crisis and limit its spread. Large program loans were provided to support finance sector reforms in the Republic of Korea and Indonesia. Program loans to Thailand, which were intended to address the social effects of the crisis, identified distortions in the agriculture sector. Finance sector programs also were provided to Bangladesh, Lao People's Democratic Republic (Lao PDR), Mongolia, Pakistan, Philippines, Sri Lanka, and Central Asian republics.

12. From 1978 to 2006, program loans were most commonly used to support the following sectors: finance (43%); law, economic management, and public policy (19%); and agriculture and natural resources (12%). OCR funded $19.2 billion of total program lending, compared with $4.6 billion from ADF. Of the 184 program loans, ADF funded 122 programs lending by sector and fund source are shown in Table 2. Since 2001, program lending has increasingly addressed issues in the finance sector, particularly those related to public resource management and governance. Public management and policy operations have addressed public resource management, intergovernmental fiscal relations, decentralization, civil service reforms, and related sector structural reforms. ADB's policy on program lending limits total annual program lending for program loans to 20% of total OCR lending on a 3-year moving average basis, and 22.5% of total ADF lending.[10] Although special program loans do not count toward the ceiling, the 3-year moving average for program lending has exceeded 20% of total public sector lending (Appendix 1) between 2001 and 2006, and program loans have accounted for 30% of total public sector lending.

Table 2: Total Program Lending (Net Loan Amount) by Sector and Source of Funds
(1978–2006)

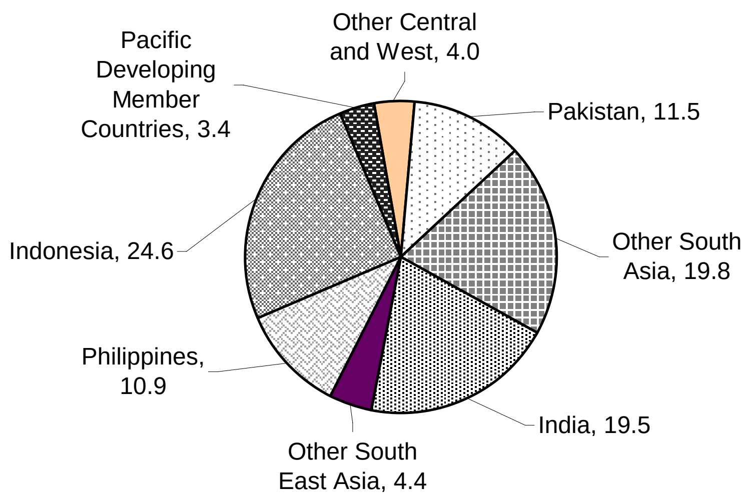
		ADF			OCR			Total		
Sector	No. of Programs[a]	No. of Loans	Net Loan Amount[b] ($ mn)	% Share of Total Amount	No. of Loans	Net Loan Amount[b] ($ mn)	% Share of Total Amount	No. of Loans	Net Loan Amount[b] ($ mn)	% Share of Total Amount
Agriculture and Natural Resources	40	34	1,682.5	35.9	12	1,085.8	5.6	46	2,768.3	11.6
Education	8	7	137.2	2.9	1	70.0	0.4	8	207.2	0.9
Energy	10	1	50.4	1.1	10	1,988.6	10.3	11	2,039.0	8.5
Finance	45	25	768.9	16.4	22	9,497.3	49.3	47	10,266.2	42.9
Health, Nutrition, and Social Protection	9	5	39.7	0.8	5	945.0	4.9	10	984.7	4.1
Industry and Trade	17	14	508.7	10.9	5	769.0	4.0	19	1,277.7	5.3
Law, Economic Management, and Public Policy	39	24	806.4	17.2	21	3,854.4	20.0	45	4,660.8	19.5
Multisector	12	10	550.7	11.7	5	905.5	4.7	15	1,456.2	6.1
Transport and Communications	4	2	137.3	2.9	3	130.8	0.7	5	268.1	1.1
Water Supply Sanitation and Waste Management	1	1	5.1	0.1			0.0	1	5.1	0.0
Total	**185**	**123**	**4,686.9**	**100.0**	**84**	**19,246.3**	**100.0**	**207**	**23,933.2**	**100.0**

ADF = Asian Development Fund, mn = million, OCR = ordinary capital resources.
[a] Blended program loans counted as one program. Excludes one cancelled program with no disbursement.
[b] Net of cancellation. Dollar equivalent of SDR-denominated loans based on exchange rate on 7 March 2007, the time the data was downloaded.
Source: Asian Development Bank Loan Financial Information System.

[10] Operations Manual, Section D4/BP, para. 30.

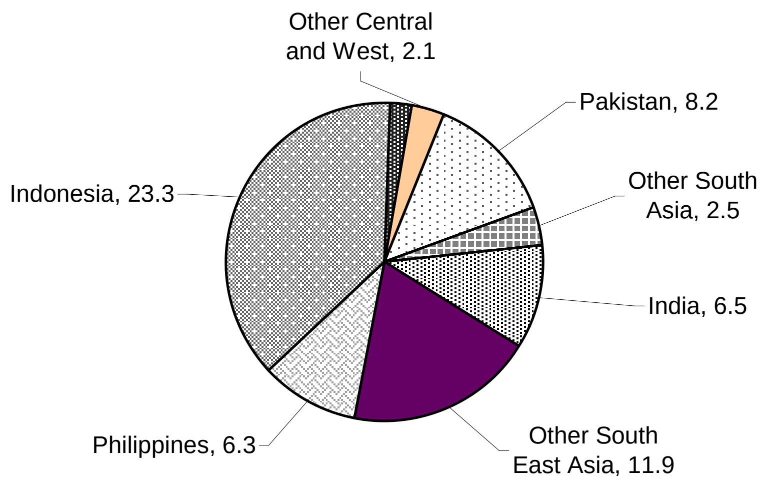
13. Figures 1 to 3 show that program lending to DMCs also has shifted. (A detailed breakdown of program lending by country is in Appendix 2.) From 1987 to 1995, program lending totaled $3.4 billion. Major borrowers included Bangladesh, India, Indonesia, Pakistan, and Philippines. After the Asian financial crisis, the largest loans were provided to the Republic of Korea (which borrowed $4 billion in one loan), Indonesia, and Thailand. Program lending also increased to Pakistan, Philippines, and Sri Lanka. From 2001 to 2006, program lending to Pakistan rose more than fourfold from the previous period, almost tripled to India, and doubled to the Philippines.

Figure 1: Trends in Program Lending by DMC
(% share of program lending by country)
1987–1995



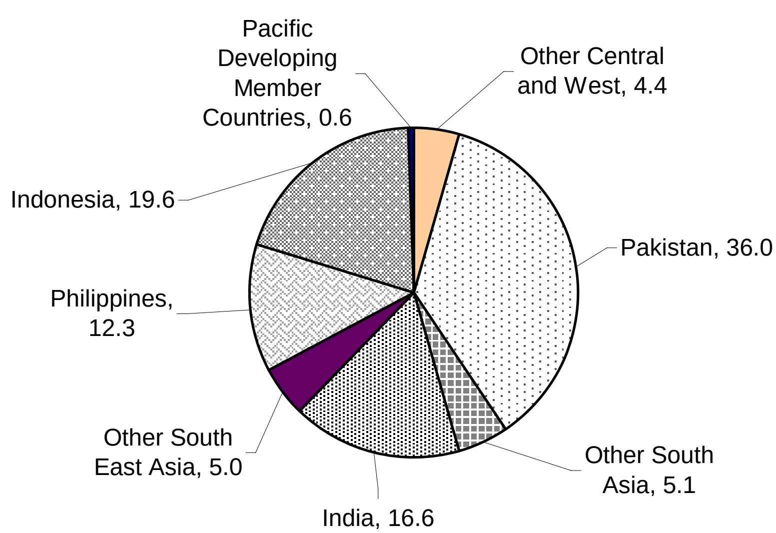
DMC = developing member country.
Source: Asian Development Bank's Operations Evaluation Department estimates.

Figure 2: Trends in Program Lending by DMC
(% share of program lending by country)
1996–2001 Excluding Republic of Korea



DMC = developing member country.
Source: Asian Development Bank's Operations Evaluation Department estimates.

Figure 3: Trends in Program Lending by DMC
(% share of program lending by country) 2001–2006



DMC = developing member country.
Source: Asian Development Bank's Operations Evaluation Department estimates.

C. Performance

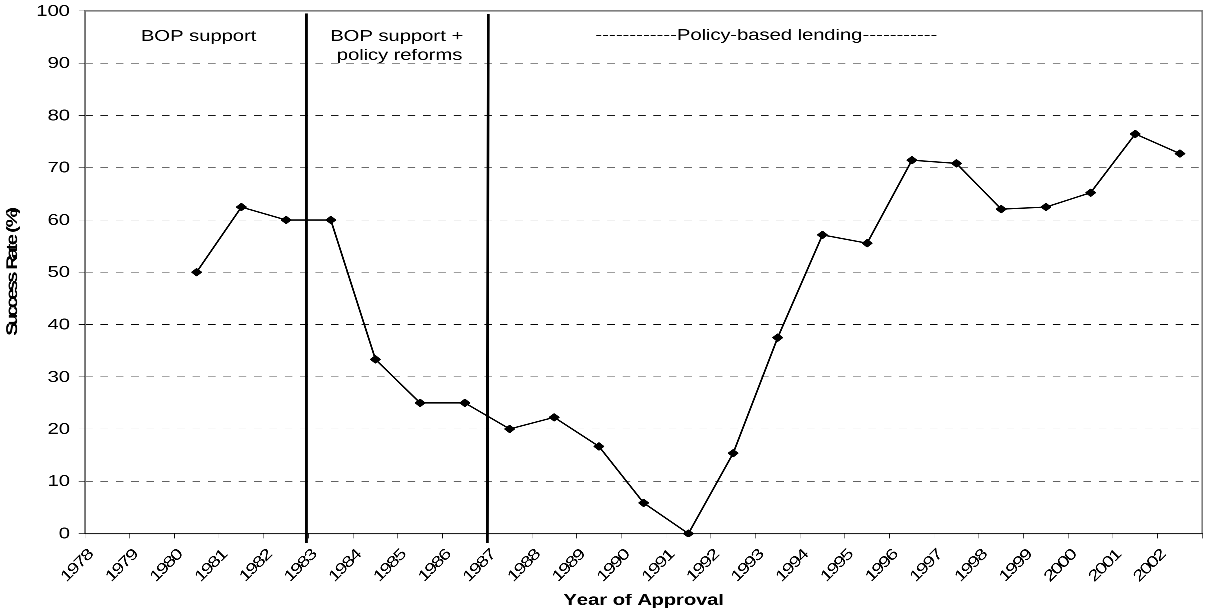
14. Program completion reports (PCR) and OED evaluations were prepared for 101 program loans up to 2006. Of these, 51% were rated "successful", 46% "partly successful", and 3% "unsuccessful". Figure 4 shows the percentage of program loans rated successful, by year of approval. The percentage of successful ratings for program loans approved after the 1987 policy change until 1992 was unacceptably low but improved thereafter. Of the program loans approved in or after 1996, 69% were rated successful.[11] Reasons for improvement, albeit at a lower rate than investment projects, include better practice such as improved sector analysis, specification of assumptions in logical frameworks, policy dialogue, government commitment, and better specification and timing of conditions and more realistic tranching.[12] In the first part of the 1990s, loans to the agriculture sector (which were often especially challenging, partly because of inherently complex sector policy issues) dominated program lending. However, the focus shifted in the latter part of the decade to generally more successful finance and public sector management program loans. Although fewer post-evaluations are available to estimate trends since 2000, the recent performance is largely attributable to successful program loans in finance, law, economic management, and public policy (24 programs). Other sectors with successful ratings included agriculture (5), industry including regional trade facilitation (5), social infrastructure (5), and multisector (2).

15. Program loan performance differed by funding source. Overall, 67% of the OCR-funded programs were rated successful, compared with 46% of ADF-funded programs. However, the performance of ADF-financed program loans—based on PCRs and program performance audit reports (PPAR)—has improved over time, reaching a 70% success rate between 1996 and 2000, compared with an OCR program loan success rate of 67%. The success rate of ADF program loans declined slightly to 67% for programs approved between 2001 and 2004, while the rate for OCR loans rose to 75% over the same period. Although the policy reform environments of ADF countries are often more challenging than in OCR countries. Despite this, the overall ADF ratings have improved to match those of OCR program loans. Appendixes 5 and 6 provide a breakdown of program loan numbers and performance by funding source.

[11] The success rate for public sector projects approved in 1996 or later is 83%.

[12] Prior weaknesses were identified in ADB. 1992. *Report of the President to the Board of Directors on Post-Evaluation Activities during 1991 and the Fourteenth Annual Review of Post-Evaluation Reports*. Manila.

Figure 4: Trends in Program Ratings by Year of Approval
(% of Program Loans Rated as Successful Based on 3-Year Moving Average)



BOP = balance of payment.
Source: Asian Development Bank's Operations Evaluation Department program ratings.

16. As shown in Table 3, program lending was commonly used in the agriculture sector, although success rates have been lowest in this sector. Policy and institutional reform issues in agriculture and rural areas often particularly challenging. The finance program loans achieved a better success rate (74%). The success rate for ADF-financed program loans in the finance sector was lower (60%) than loans financed through OCR (85%). Economic and public management program loans rank third, achieving a 61% success rate, with similar performance ratings for ADF (60%) and OCR (67%) financing.

17. The correlation between policy reform performance and country program performance has not been assessed across ADB. However, earlier success rates showed that program loans performed better in countries with policy and institutional environments that are amenable to reform, and where stronger institutions are in place to manage the required changes, as shown in the higher success rates for PCR countries prior to 2001. While ADF country program lending performance has improved recently, intuitively reforms are more likely to be needed in countries that have less capacity for reform and in sectors with greater policy and institutional problems.

Table 3: Program Loan Performance by Sector
(Combined PCR and PPAR and/or PPER Ratings of Loans Approved from 1978 to 2004)

	No. of Rated Programs				Proportion (%)		
Sector	**HS/GS/S**	**PS**	**US**	**Total**	**HS/GS/S**	**PS**	**US**
Agriculture and Natural Resources	9	23		32	28	72	0
Education	2			2	100	0	0
Energy	3[a]	3		6	50	50	0
Finance	17	5	1	23	74	22	4
Health, Nutrition, and Social Protection	4	3		7	57	43	0
Industry and Trade	7	3	1	11	64	27	9
Law, Economic Management, and Public Policy	11	6	1	18	61	33	6
Multisector	2	1		3	67	33	0
Transport and Communications		2		2	0	100	0
Total	**55**	**46**	**3**	**104**	**53**	**44**	**3**

GS = generally successful, HS = highly successful, PS= partly successful, S = successful, US = unsuccessful.
PCR = program completion report, PPAR = program performance audit report, PPER = program performance evaluation report.
[a] Includes ratings for three program loans rated in 2007. *India Energy Sector Assistance Program Evaluation.* Forthcoming.
Source: Compiled from Operations Evaluation Department database.

III. EXPLAINING RESULTS FROM OED EVALUATION

18. The 2001 *Special Evaluation Study on Program Lending* (see footnote 1) addressed a wide range of issues covering ADB's policy-based lending policy, practice, and processes. Since the study, OED's annual evaluation and portfolio reports,[13] ongoing end-of-operation reports and evaluations, country assistance program evaluations (or country evaluations), and in-house studies continue to assess policy-based lending. The reports analyze results and performance, looking at ways to improve design, quality at entry, and reform management. A review of program loan evaluation reports prepared since 2002 helps to assess specific aspects of performance and practice.

A. Findings from OED's Evaluations and Reports on Program Lending

19. Key findings from the 2001 study included the need to see policy-based lending as a change process that combines international practice with the domestic policy process in designs. Areas identified as needing improved practices were (i) adequate policy analysis as the basis for policy dialogue; (ii) gauging and building government commitment, ideally with government authorship; and (iii) a realistic policy framework and matrix incorporating a manageable approach to conditions. Underpinning these findings were concerns about complicated policy matrixes and excessive use of conditions that had an impact on program performance at several levels.

[13] ADB. 2005. *Annual Evaluation Review*. Available: http://adb.org/Documents/PERs/pre-oth-2005-10.pdf; ADB. 2006. *Annual Evaluation Review*. Manila. Available: http://adb.org/Documents/PERs/2006-AER.pdf; ADB. 2005. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005*. Manila. Available: http://adb.org/Documents/Reports/Portfolio_Performance/2006/default.asp.

20. At the activity level of the program framework, the special evaluation study found that disbursements were good for the 58 programs approved and completed between 1987 and 2000, and in aggregate were only 9% below the approved loan amount. However, release of the secured tranches typically took longer than planned. Although program lending was intended to be a quick-disbursing modality, the study showed that this was not the case based on the time it took to effect policy changes. Disbursement was expected to be completed in an average of 15 months, with a maximum of 24 months, from loan effectiveness. Actual disbursement took place over an average of 24 months, with a maximum of 52 months. Conditionality practices and borrower capacity to comply with conditions were identified as key reasons for tranche release delays and loan extensions.

21. The special evaluation study found that a high proportion of conditions were met and outputs, such as a change in legislation or reform of an institution, were often achieved. However, designs were characterized as too ambitious for the time provided. Delays were experienced in tranche releases and waivers on conditions, especially for the second and subsequent tranches. A proliferation of conditions, inflexibility in condition compliance, and unrealistic assumptions about the rate of policy change usually caused program loan extensions.[14]

22. Given these patterns in applying conditions, the study stressed that conditions attached to program loans should be seen as a means to an end (i.e., policy reform). Emphasis on formal compliance with conditions might not reflect the depth to which conditions are implemented and sustained. Meeting conditions does not guarantee reform output and outcome achievement, either because the conditions were specified correctly or because they did not have the desired reform outputs or produce sustainable effects.

23. Policy reform packages that tend to focus on changes in the formal rules of sector operation was one reason identified for mixed outcomes. The study suggested that not enough attention was paid to the informal rules that characterize economic structures, and that the incentive structure of those whose behavior should change was not analyzed sufficiently. The risks borne by some groups were not always identified. Political economy factors internal to borrowers have a strong influence on the success or failure of program lending outcomes. Yet program lending often has failed to recognize political processes, frequently due to insufficient understanding of country circumstances, including the timing and feasibility of reforms. Political economy factors identified that influence whether a borrower meets reform conditions include (i) commitment to reform, (ii) social cohesion, (iii) timing and accountability, (iv)

Box 1: Policy Conditions in Sri Lanka's Program Loans

- Ten policy-based loans approved for Sri Lanka included 352 policy conditions (193 in seven completed programs and 159 in three ongoing programs).
- Of the 352 loan conditions in policy matrixes, 49 were non-tranche conditions.
- At the time the program completion reports were prepared, compliance was achieved for 78% of the 193 conditions, partly achieved for 11%, not achieved for 9%, and amended for 2%.
- Bottlenecks occurred in enacting and implementing measures that called for restructuring enterprises and related sectors and pension reforms, and in cases where reforms were particularly contentious.
- During the program implementation period, some policy conditions became less appropriate or stakeholders reversed their stance.

Source: ADB. 2007. *Sri Lanka Country Assistance Program Evaluation: Evaluation of Policy-Based Lending in Sri Lanka*. Manila.

[14] On average, each program since 1987 had 38 conditions. Of second tranches for closed programs, 72% were delayed and 11% were canceled. Delays in second tranche release were the norm rather than the exception.

length of government tenure, and (v) the depth of a pre-reform crisis. A more recent evaluation of policy-based lending in Sri Lanka[15] exemplifies the continued proliferation of program loan conditions (Box 1) that are difficult to implement, often because of political economy issues.

24. Inflexibility in responding to the policy making and challenges that can arise during implementation might exacerbate the already challenging situations described in the special evaluation study and the Sri Lanka country evaluation. The special evaluation study noted that overly complex logical frameworks and policy matrixes that do not accommodate alternative ways to implement reforms when needed added to this inflexibility. The usefulness of policy matrixes is decreased when they lack links between conditions and program purposes, and between purposes and impacts. Furthermore, logical frameworks do not depict the pre-program scenario, from which program impact should be defined. If the link between policy reforms and desired impacts is not understood properly, the prospect of reaching desired outcomes and impacts declines.

25. OED has provided updates on program lending performance in its annual reports. Its assessment of program lending in 2005 examined the reasons for tranche release delays.[16] Two key causes were long legislative processes in passing laws and promulgation, and complex reform requirements. Underestimating the time needed to enact legislation and limited government capacity to implement reforms reflected weaknesses in program design. A 2004 OED paper[17] advised against focusing excessively on conditions in program lending as a tool for managing reforms and assessing development effectiveness (Box 2). The paper discussed selectivity based on performance in policy and institutions as a problem where aid agencies only supported countries with good policies. OED's 2005 annual evaluation report (see footnote 13) noted that conditions were not necessarily the main limiting factor; the type and complexity of stated conditions and sufficiency of ADB resources applied before program start-up were important. In cases where ex ante conditions are not appropriate, the paper supported approaches that use ex post conditions, in effect single-tranche program loans that retroactively help to finance reforms that governments have completed as part of a program of medium-term reforms.

Box 2: Development Effectiveness and Conditionality

- The basis for aid agencies assessing the performance of a country should be development results in terms of economic and social outcomes and not subjective assessments of policies and institutions.
- Country ownership of reforms is essential to improve the effectiveness of conditions. Putting a country genuinely in charge of the development process helps to foster a sense of identification with policies and institutions and incorporates local knowledge.
- Rather than using conditions (and selectivity), the basis for allocating support should be poverty reduction strategies, the Millennium Development Goals, and shortfalls in targets. Incentives for performance can be provided by offering greater allocations for countries making progress in meeting the Millennium Development Goals.
- Identifying and eliminating institutional and policy constraints is a challenge to improving growth and aid agency support effectiveness, but successful reform has often taken the path of gradual experimentation rather than across-the-board transformation.

Source: Quibria, M. G. 2004. *Development Effectiveness: What Does Recent Research Tell Us?* OED Working Paper 1. Manila: ADB.

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15 ADB. 2007. *Sri Lanka Country Assistance Program Evaluation: Evaluation of Policy-Based Lending in Sri Lanka*. Manila.

16 Of 38 program loans to 23 DMCs approved between 1995 and 2002, delays in tranche releases averaged 11 months, ranging from 4 to 39 months with concomitant loan extensions.

17 Quibria, M. G. 2004. OED Working Paper 1: *Development Effectiveness: What Does the Research Tell Us?* Manila; and ADB. 2005. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005*. Manila. Available: http://www.adb.org/documents/reports/portfolio_performance/2006/rpe-oth-2006-10.pdf.

B. Success Factors in Recent Policy-Based Loans

26. Since the 2001 special evaluation study, an additional 27 PCRs and 18 PPERs have been prepared for loans approved in the late 1990s. This section looks at a sample of evaluation reports for program loans.[18] Factors are identified regarding impacts, outcomes, and outputs that affected program relevance, effectiveness, efficiency, and, to a lesser extent, sustainability. An assessment is made of factors that are within ADB's influence and those that are not. Appendix 3 summarizes the design and evaluation assessments of impacts, outcomes, and outputs. Appendix 4 lists factors identified that contributed to, or detracted from, success.

1. Program Impacts

27. **Was the Reform the Right Thing for the Economy and the Society?** Impact assessment looks at the contribution of reform outcomes to development goals. Evaluating impacts involves understanding sector and economy-wide effects of reforms, and whether changes can be attributed to program reforms and actions. In assessing the relevance of reform to development goals, the sample evaluation reports generally used the broadest impact level and related indicators. Examples from sample evaluations included the highest order impact level (e.g., economic growth and poverty levels) for which program attribution is difficult to assess. Sector-specific impact indicators included sector growth (e.g., agriculture programs). Social sector impact and outcome indicators included education transition and completion rates, vocational education enrollments, and employment and social security data. The sample evaluations reviewed used indicators sourced from government statistics to assess impacts, mostly through simple before and after comparisons, although practice varied.

28. The sample evaluation reports show that impact (and outcome) assessments pose a particular challenge. Identifying impacts during a program's administrative life in many instances is not realistic given the time lags in realizing the full intended benefits of reforms. Positive and negative exogenous factors can have a far-reaching effect on a program's impacts. In most cases, a program loan can contribute to reforms, and part of the ensuing change can be attributed to the program's measures. Full counterfactual analyses (what would have happened without the reform) can be demanding and costly, involving macro and micro analysis and modeling to explain and attribute changes arising from reforms. A simple counterfactual analysis involving a comparison of what was anticipated and what happened can provide an order of magnitude assessment of a program's impacts.[19] Because evaluations have limited resources, more formal counterfactual techniques usually are replaced by qualitative techniques for benchmarking and before and after comparisons.[20] Of the evaluation reports reviewed, all used qualitative assessment techniques for assessing impacts and outcomes.

29. Given the influences outside the control of one program loan's measures and the analytical challenges, it is more realistic to look for contributions to changes arising from the program loan rather than trying to attribute changes fully to the program loan measures.

[18] These evaluation reports were selected to represent each of ADB's five regional departments and a cross-section of sectors supported with policy-based operations.
[19] Evaluation Cooperation Group. 2005. *Good Practices for the Evaluation of Policy-Based Lending by Multilateral Development Banks.* Washington, DC. Available: http://www.adb.org/Evaluation/r-pbl.pdf.
[20] Such approaches involve historical and trend analyses, descriptive statistics, ad hoc calculations, and one-off surveys to assess benefit (or cost) incidence or response. Policy and change targets at design are compared with values at completion and evaluation. To the extent possible, available data is collected, analyzed, and supplemented by surveys for evidence of post-program outcomes and longer-term impacts.

Nevertheless, factors identified as influencing a successful contribution by a program loan at the impact level included economic and social stability, government stability and commitment to policy changes, and strong markets. Conversely, political instability, policy reversals, and exogenous market changes weaken impact.

2. Program Outcomes

30. **Were Reforms the Right Thing to Do to Bring About Change?** Outcome assessment looks at changes in the enabling environment and institutions, economic and social activity, and behaviors resulting from reform implementation. A range of indicators was evaluated to assess whether reforms were relevant to intended changes in, for example, the enabling environment, economic and social activity, and behavior. These included whether reforms changed the way sector institutions operated, performance indicators in subsectors, change indicators for the enabling environment, and how intended beneficiaries responded.

31. Factors influencing outcome relevance and contributions to the intended impact included (i) consistency of reform measures with a government's reform agenda and development priorities, (ii) sound government understanding of alternative policy solutions and support for the selected option, (iii) strong government ownership at the right levels and stakeholder support for the changes, and (iv) consistency between ADB and other aid agency support programs. Political economy factors, in particular, can affect reform relevance positively or negatively depending on the views of different stakeholder groups and political alignments. Thailand's social sector program loan[21] was strongly supported by a Government facing the Asian financial crisis. Relevant agencies implemented key agreed measures and the crisis-affected people were assisted. However, as the crisis subsided, a new Government was elected and some reforms were canceled (e.g., decentralizing education services, because teachers did not support the reform). Conversely, Nepal's Ministry of Agriculture did not fully support removing agricultural input subsidies. However, strong cabinet-level support and commitment to wider economic and market reforms ensured passage of the reforms. In the Kyrgyz Republic, rapid privatization of agricultural land, which was politically supported, helped facilitate the country's economic transition to a market economy.

Box 3: Evaluation Illustrations

- Kyrgyz Republic's agriculture sector program was part of the Government's transition reform process intended to contribute to economic recovery and improve medium-term growth prospects for the sector. The program did not set specific targets, but it anticipated trends in sector growth. The former Soviet republic was in transition, and reforms elsewhere in the economy meant that the impacts of sector reforms were difficult to predict with accuracy. The agriculture sector program was part of a series of reforms during the transition. As such, contribution rather than attribution was a more realistic way to view the impact, despite the positive contributions of reforms.
- At the time of the assessment of Nepal's agriculture program loan, agriculture exports to India had risen by 45%. How much the reforms in Nepal contributed to this growth was not modeled, but before and after analysis of the effects of a price change in fertilizer using farm budget analyses showed that program measures probably made a significant contribution. A conclusion of positive attribution was sufficient.
- Bangladesh and Pakistan financial and capital market program loans were intended to contribute to more efficient and better allocation of capital in each economy. However, their level of success also depended on factors influencing the wider investment climate beyond the program boundary.

Source: Operations Evaluation Department staff evaluation.

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[21] ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to Thailand for the Social Sector Program* (Loan 1611, approved for $500 million). Manila.

32. As with impacts, factors influencing outcomes are often exogenous to a reform program. Examples are factors that might affect the intended response of beneficiaries, needed but unfulfilled complementary policy changes that are exogenous to the program, and resistance from influential stakeholders or those negatively affected who do not see the reform as in their interests. The prospects for influencing relevance improve with sound analytical work, early dialogue, government understanding of reform issues to be addressed, an understanding of how far the policy reform process has progressed, and setting realistic program outcomes. Examples from sample evaluations of ways in which ADB influenced the outcome relevance included (i) in-depth country and sector knowledge and adequate dialogue with stakeholders and agencies, (ii) inclusion of sector analysis in country partnerships and strategies, (iii) adequate analysis and discussion with stakeholders of alternative policy solutions, (iv) ensuring that needed complementary reforms were in place, (v) adequate public awareness of the proposed reforms, and (vi) realistic specification of outcomes. Factors that decreased the relevance of outcomes included (i) poor understanding of the wider economic and social context; (ii) reforms that were not demanded by, or were unpopular with, key stakeholders or coalitions of stakeholders; and (iii) reform measures that were not consistent with the institutional or political economy contexts.

33. **Were Reforms Done the Right Way?** Evaluations assessed how the program loans contributed to relevant reforms, or the effectiveness of reforms. Typically, high-level sector or subsector, context-specific indicators are used. Attributing the extent of change to one program loan and its component reform measures is not always clear at this level, even if contributions can be identified. Example questions concerned (i) whether reform-induced changes in the enabling environment made a difference in the sector's resource allocation or efficiency, (ii) the extent of improvement in subsector indicators, and (iii) responses to price changes.

34. Factors from sample evaluations that influenced outcome effectiveness included (i) the right timing for the reform, (ii) political consensus for the reform and passage and promulgation of associated regulations, (iii) continuity in reform efforts, (iv) positive stakeholder response to reforms, and (v) a conducive wider macroeconomic and sector environment. Conversely, factors that reduced reform effectiveness and depth included a lack of links between reforms and complementary macroeconomic and sector reforms, lack of continuity and links to earlier reform programs, poor sequencing, exclusion of key complementary reform outputs, and inaccurate outcome-level assumptions.

Box 4: Evaluation Illustrations

- Following completion of the Pakistan capital market development program, there were indications of higher participation in capital markets, improved regulation and supervision, and growth in the mutual fund and leasing industry. However, less market development was evident for corporate debt, private insurance, and provident funds. These issues subsequently were addressed, highlighting the importance of sequencing reform operations.
- Nepal's agriculture program loan removed fertilizer subsidies and liberalized the fertilizer market, resulting in more timely delivery of fertilizers and a rise in fertilizer use. However, the removal of subsidies for shallow tube wells lowered equipment purchases, hindering groundwater development plans. The reforms' outcomes and net effects were positive, but complementary reforms either were not present or the response was neutral or negative, raising questions about the design of some reform measures.
- Thailand's social sector program loan helped to extend health service coverage to the poor when the Government was concerned about the effects of the financial crisis on the poor. Intended outcomes were seen as highly relevant.
- In the Lao People's Democratic Republic, the second financial sector program was intended to increase financial intermediation. However, a lack of political commitment to making the Bank of Laos independent and limitations in the macroeconomic environment raised questions as to whether the program was a priority and relevant to the Government's stated agenda at the time.

Source: Operations Evaluation Department staff evaluation.

35. Again, many endogenous factors are likely to affect reform outcome effectiveness. While these might extend beyond the control of a program, they can be influenced. At the design stage, issues identified included (i) program alignment with an ongoing reform process, (ii) government understanding of the intended reform outcomes, and (iii) significant government actions before program start-up. Implementation issues identified included (i) maintaining a regular dialogue with government to gauge commitment; (ii) clarifying the principles underlying the reform areas; and (iii) modifying the reform approach and mix in line with intended outcomes, where justified. Assigning staff or hiring consultants with country and sector knowledge and understanding of the reform issues was identified as important to determining whether desired outcomes were being realized due to a combination of reform measures.

36. **Did Reforms Lead to the Intended Outcome Efficiently, and Were They Sustained?** Relevant and effective reform areas are basic building blocks, but at what cost and is the approach the best use of resources? The basic questions on outcome efficiency and indications of likely sustainability concern whether a reform results in net social welfare gains and productivity improvements, and whether the short-term costs lead to longer-term benefits. Individual program evaluations often only partly cover these questions due to difficulties in assessing contributions in complex reforms and in assessing whether the reforms were a least-cost way to reach the desired outcome.[22] An assessment of the full range of future influences that are likely to sustain a reform's outcomes is subject to many assumptions. State-owned enterprise (SOE) or public service reforms often have a clearer boundary, allowing an assessment of efficiency gains. Similarly, price and trade policy reforms can be assessed for efficiency aspects. However, many reforms, by their nature, have direct and indirect economic, social, and political costs and benefits. Managing the reform might involve additional costs that could not be foreseen during the design, especially for complex reforms involving institutional realignments that change power and control over resources.

Box 5: Evaluation Illustrations

- Kazakhstan's pension reform program had significant institutional reform content, but was well-focused in terms of the desired outcome and intended benefits being quickly reached.
- Kyrgyz Republic's agriculture sector program was wide-ranging and ambitious. The Government faced rapid downsizing and repeated reorganizations while implementing the reform. Resources were inadequate to support realigned functions, personnel were changed frequently, and resistance to change was evident. The evaluation assessed the program as successful. However, given the scope of reforms and the time allocated to achieve them, an assessment of efficiency, especially at the outcome level, would not have been practical.

Source: Operations Evaluation Department staff evaluation.

37. Factors identified in evaluations that positively influenced efficiency and sustainability of reform outcomes included the following: (i) priority reform measures were selected that resulted in expected and desired efficiency gains or resource reallocations, (ii) stakeholder response timing was as expected and sustained, (iii) reliable and timely information was provided on implementation and response to reforms to manage the reform process, and (iv) budget realignments were maintained and recurrent expenditure increments needed to maintain the reform were provided after program implementation. Monitoring of the change process beyond the end of the program period helped to inform effectiveness and efficiency evaluation ratings. Factors that undermined reform outcome efficiency and sustainability included (i) an absence of

[22] A rationale for reforms continues to be the removal of policy distortions that limit the productivity and returns from public and private sector investments. Therefore, efficiency should be seen not just in terms of the program but also in terms of the efficiency effects it will have on subsequent public investments. See Isham J. and Kaufmann, D. 1995. *The Forgotten Rationale of Policy Reform: The Productivity of Investment Projects*. Policy Research Working Paper 1549. Washington, DC: World Bank.

or failure to realize complementary reforms in areas outside the program; (ii) delays in realizing reform outputs that in turn delayed or undermined realization of outcomes; (iii) failure to sustain the reform effort beyond the program, undermining efforts to date or leading to wasteful policy reversals; and (iv) high reform maintenance costs through recurrent spending. Factors that are within ADB's influence include design and implementation features, such as a focus on priority reform areas and development of information and monitoring systems that inform outcomes, and continued dialogue and responses to emerging outcomes. Box 6 highlights factors intended to improve outcomes in the World Bank's development policy lending, with relevance to ADB's policy-based lending.

Box 6: Do's and Don'ts in Specifying Outcomes in World Bank's Development Policy Lending

- Outcomes are included in the policy matrix
- At least one end-of-program outcome is recommended for each component
- Don't identify an end-of-program outcome for each action
- Don't use milestones or short-term outcomes that cannot be achieved quickly or monitored frequently
- Don't include outcomes that are beyond the time frame of the program. If outcomes unavoidably go beyond the time frame, explain how they will be monitored
- Check whether outcomes are consistent with the country strategy
- Don't use outcomes that are beyond a government's control
- Don't use outcomes that are not directly influenced by actions that are part of the program
- Show links between actions, milestones, and outcomes

Source: World Bank. 2004. *Good Practice Notes for Development Policy Lending.* Washington, DC.

3. Program Outputs

38. **Were Reform Areas and Steps Relevant?** A straightforward aspect of evaluations is to identify whether reform areas were accomplished because a government followed reform actions and steps, met conditions, used loan and counterpart funds, and delivered and used advisory and capacity building technical assistance (TA). Such indicators are more clear-cut than outcome and impact indicators and result directly from program activities. Examples include the passing of legislation that removed the fertilizer subsidy in Nepal, implementation of early retirement programs for civil servants in the Federated States of Micronesia, and the creation of a legal and regulatory framework and establishment of a state pension payments center and state accumulation fund as the key institutions for Kazakhstan's new pension system.

39. Factors that contribute to relevant reform outputs begin with a good understanding of reform needs, options, and feasibility. Staffing factors that influenced positively the selection of relevant reform areas included the processing team's capacity to conduct fact finding, manage or carry out technical analysis, and hold dialogues with stakeholders inside and outside the government. Design process factors that contributed positively to the selection of relevant reform areas included (i) processing teams identifying and discussing alternative policy solutions with the government, thereby raising government ownership of selected measures; (ii) adequate prior stakeholder and public awareness and support for reform areas; (iii) identification of a realistic number of reforms; and (iv) the executing agency understanding the need and purpose of the reforms. Factors contributing to partly relevant reform outputs included (i) lack of understanding by processing teams of relevant and related policy and legal issues, either due to lack of knowledge or experience in the country and sector or low prior technical support; and (ii) poor understanding by the executing agency of the need for and purpose of the reforms. ADB can influence output relevance in several ways. First, it can provide TA where needed to

undertake necessary analyses that can help legislatures and government agencies to understand and develop relevant policies, and to draft and support the passage of laws. Second, ADB can develop the capacity of executing agencies to implement reforms and carry out studies and monitoring to help ensure specific outputs are relevant.

40. **Were Reforms Implemented Effectively?** Assuming reforms were relevant, factors that contributed to effectiveness of implementation related to the way actions, steps, and conditions were managed leading up to, and during, the program period. Factors that influenced output effectiveness included (i) ADB staff continuity during program design and implementation to ensure consistent understanding and dialogue about the details of reform implementation; (ii) a clear understanding between the mission and the implementing agency about reform steps and actions; (iii) early drafting of a policy matrix to help discussions and prior government actions taken before loan approval; (iv) building of capacity in executing agencies through TA and training; and (v) where delays are experienced, a justified program period extension to ensure reform measures can be implemented effectively. The policy matrix design was cited in several evaluations as a help or a hindrance depending on its cohesiveness and inclusion of appropriate and realistic actions and conditions that facilitated effective reform implementation. Despite the 2- to 3-year time horizon for most program loans, and the need to affect reforms as quickly as possible, extending the implementation period to reflect ground realities was mentioned as helping to achieve effective reform implementation in some cases.

41. Evaluations identified several factors detracting from effective reform implementation. These included (i) inadequate identification and selection of reform measures; (ii) program design flaws, including unclear actions, steps, and performance targets; (iii) linking of tranche releases to inappropriate performance indicators; (iv) unrealistic timelines for second and subsequent tranche releases; (v) poorly prioritized and unclear conditions, actions, and targets; (vi) lack of understanding by executing or implementing agencies and stakeholders of the steps needed to effect reforms; and (vii) frequent changes in ADB staff assigned to the program. This is exemplified in areas of the public sector reforms in the Marshall Islands, where insufficient stakeholder consultation and public understanding of the measures, as well as a sense that the measures were externally imposed, did not help to raise the necessary public support. Some reform measures, such as cuts in public expenditures and the civil service and transfers to SOEs, were then vulnerable to opposition and reversal. ADB can influence output effectiveness by (i) ensuring that reforms and the steps needed for their implementation are understood by executing and implementing agencies, (ii) supporting implementation using a policy matrix and conditions that guide rather than control detailed steps, and (iii) building local capacity to implement reforms.

42. **Were Reform Measures Implemented Efficiently?** Assessing the efficiency of reform outputs and implementation is conceptually possible but practically difficult. For example, the cost of reforms, especially indirect costs that arise over the medium term, are often difficult to identify. Still, reform outputs (reform measures implemented) are more tangible than outcome efficiency if measured by the time taken to realize outputs, activities completed, and inputs provided. Proxy indicators used for reform output efficiency include compliance with policy conditions, loan funds disbursed against the approved loan amount, adjustment cost estimates against actual costs, fiscal indicators, timing of tranche releases, and the time needed to complete reforms.

43. Using these proxy indicators, factors identified in evaluations that lower direct and tangible reform costs included the following: (i) loan and counterpart funds generated were used to finance tangible reform costs, (ii) reliable information was provided on the processes and

progress to help make timely decisions, (iii) institutions carrying out reforms had the capacity to implement them, and (iv) the steps and actions needed to fulfill conditions were clearly specified. Factors that increase the cost and time needed to implement reforms successfully included (i) an excessive number of program conditions that were beyond institutional capacity; (ii) loan and counterpart funding that were not well linked or not channeled to reform implementation, resulting in delays or unimplemented reforms and steps; and (iii) ineffective use and management of advisory and capacity building TA resources. A policy matrix guides the way to reach reform outputs. ADB can influence the appropriate design of policy matrixes, supervision, dialogue, and monitoring.

4. Summary Findings from OED Evaluation

44. The factors positively influencing or limiting success that were identified in the review of recent program loan evaluations are consistent with observations and recommendations in the 2001 evaluation of program lending, and in annual evaluation and portfolio review reports. Table 4 uses a strengths, weaknesses, opportunities, and threats (SWOT) summary of key factors that were either within ADB's influence or contributed to evaluated results. Strengths and weaknesses identified from the program evaluations are largely design issues. Opportunities improve the prospects for successful program loan outcomes. Threats represent risks that should be factored into program design, decisions, and dialogue.

Table 4: Factors Contributing to and Detracting from Results: A SWOT Summary

Item	Factors Contributing to the Desired Result	Factors Detracting from the Desired Result
Factors internal to ADB	**Strengths** • Reform outcomes were consistent with and tailored to government reform agenda and priorities • Sufficient analysis and dialogue on sector and policy issues and policy alternatives were understood by client decision makers • Reforms were well targeted • Reforms had sufficient consensus among decision makers and stakeholders • Sufficient government and public awareness of reform intentions and implications • Program design and policy matrix were coherent and implementable • Conditions were focused, manageable, and some were acted upon before program start-up • Implementing agency was correctly selected and had sufficient capacity • The length of the program period was sufficient • Direct and indirect costs were identified and met by the program or counterpart funding	**Weaknesses** • Insufficient consideration of macroeconomic and wider sector policies • Reform outcomes were inconsistent with government priorities • Poorly understood outcome arising from lack of counterfactual analysis • Policy alternatives were not understood • Reform program was too complex/ambitious • Reforms proceeded despite poor decision maker and stakeholder support and awareness • Reform outputs did not meet desired outcomes • Over-complex design and too many tranche-release conditions in the policy matrix • Conditions were backloaded to second and subsequent tranches • Implementing agencies did not have the capacity to carry out reforms or functions • The program period was too short to allow for the expected depth of reforms • Key direct and indirect costs were not identified
Factors external to ADB	**Opportunities** • Stable global and regional markets • Stable country economic, social, and political context • Complementary macroeconomic and institutional reforms beyond the program boundary	**Threats and Risks** • Negative changes in the broader market and policy environment • Complementary macroeconomic and institutional reforms do not occur • Changes in governments, policy swings, competing and conflicting interests that stall reforms, and wavering commitment

ADB = Asian Development Bank.
Source: Operations Evaluation Department staff compilation.

IV. EMERGING INTERNATIONAL AND ADB PRACTICES

45. The concerns over past practice in policy-based lending have received wide and ongoing attention by other international agencies and researchers. This section reviews developments in policy-based lending practice in other international agencies and in ADB. The review of external agencies focuses on practice in the World Bank's development policy lending, evaluations by the World Bank's Independent Evaluation Group of the support for reforms, and an evaluation by Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) of general budgetary support. This is followed by a review of ADB's developing practice, which reflects more flexible medium-term approaches, partly due to concerns about the use of conditions in policy-based lending.

A. International Development Agency Practice

1. World Bank's Development Policy Lending: An Overview

46. The mixed performance of structural adjustment lending in the 1980s led the World Bank to rethink its approach on how best to support reforms in its DMCs. Following its 2001 review of structural adjustment lending,[23] the World Bank introduced a shift from adjustment lending to a development policy approach that supported medium-term structural, social, and institutional reform through medium-term strategies.[24] Changes that are integral to development policy lending include (i) a greater emphasis on country ownership for policy-based lending, (ii) an enhanced results focus with a stronger link to supporting country agendas and poverty reduction plans that contribute to the attainment of the Millennium Development Goals, and (iii) modernization of the operational policy framework for World Bank lending. The World Bank 2004 policy revision describes the rationale for development policy lending as "rapidly disbursing policy-based financing, which the Bank provides in the form of loans or grants to help a borrower address its actual or anticipated development financing requirements that have domestic or external origins." The World Bank does not limit the proportion of its total annual lending for development policy lending.

47. The World Bank has developed a unified framework to implement development policy lending. The previous names for sectoral adjustment loans, including sectoral adjustment loans and/or credits, structural adjustment loans and/or credits, and programmatic structural adjustment loans and/or credits, were subsumed under the development policy lending framework. The programmatic structural adjustment loan, subsumed in the framework, provides a multiyear framework of phased support for a medium-term government program of policy reforms and institutional development. The World Bank provides such assistance through a series of single-tranche program loans that are linked to poverty reduction strategy partnerships and released based on agreed performance. These credits are a series of operations, usually two or three, that support International Development Association (IDA) countries' medium-term policy and institutional reform programs to help carry out their poverty reduction strategies. They include poverty reduction support credits that are also subsumed under the policy, but retain their name for continuity purposes.

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[23] World Bank. 2001. *Adjustment Lending Retrospective.* Washington, DC.

[24] World Bank. 2004. *Operations Policy and Country Services: From Adjustment Lending to Development Policy Lending: Update of World Bank Policy*. Washington, DC.

48. The World Bank reviewed its use of conditions in 2005.[25] The review found that the number of conditions in World Bank policy-based loans had dropped from an average of 33 in 1995 to 12 in 2005, but the use of policy benchmarks had increased in IDA country programmatic operations. This reflects greater alignment of policy-based operations with government programs and broader sectoral coverage. The World Bank has moved away from short-term reforms addressing economic distortions to medium-term institutional reforms. Process-type conditions with a results focus are used increasingly, especially in below-average-performing IDA countries. Box 7 summarizes World Bank good practice in the use of conditions for development policy lending.

Box 7: Good Practice Use of Conditions in Achieving Outcomes in World Bank Development Policy Lending

- Conditions are critical before actions to release a loan. Triggers are expected prior to actions for subsequent loan release.
- Milestones are progress markers and can be an action or an outcome. However, they are not legal conditions for disbursement.
- Results are completed actions or outcomes. Avoid tying results to loan release.
- Use only highest priority actions as conditions and triggers. Do not use outcomes as conditions or triggers. Use conditions flexibly and be specific about who, what, and when.
- Include conditions and triggers that signal a government is committed and on schedule.

Source: World Bank. 2004. *Good Practice Notes for Development Policy Lending.* Washington, DC.

49. The World Bank's development policy lending is linked directly to country assistance strategies. The country strategies are based on analyses of a country's economic policy, institutional environment, and capacity. They emphasize a country's policy status and potential for policy improvements with World Bank assistance. Policy reform objectives are integral to most country strategies, whether or not policy-based lending is planned, to promote better long-term development outcomes. Development policy support and lending is based on an assessment of the country's economic situation, policies, governance, institutional capacity, and a country policy ownership assessment. For this, the World Bank relies on core economic sector work products including poverty assessments, public expenditure reviews, fiduciary assessments, country financial accountability assessments, and country policy and institutional assessments.[26] The latter assesses cumulative policy reform achievements and are central to developing lending assessments in the World Bank. The country strategy specifies triggers that link World Bank support to progress on a policy agenda and conditions or covenants of specific lending operations that link disbursements to satisfaction of specific conditions.

[25] World Bank. Operations Policy and Country Services. 2005. *Review of World Bank Conditionality: Recent Trends and Practices.* Washington, DC.

[26] This covers macroeconomic management; structural policies; and policies for social inclusion and equity, environmental sustainability, public sector management, and institutions. See World Bank. Operations Policy and Country Services. 2004. *Country Policy and Institutional Assessments, 2004 Assessment Questionnaire*. Washington, DC.

50. ADB has begun to adopt and finance development policy lending. Box 8 provides an example in which ADB partnered with the World Bank and several bilateral aid agencies to support implementing Viet Nam's national poverty reduction strategy and related medium-term development plan. The loan was provided in one tranche, released on declaring the loan effective, and is likely to be followed by further single-tranche operations based on developments and results following the first operation. Similar single-tranche operations supporting reforms within a target sector and linked to a medium-term development plan were made to the Philippines through a cluster program approach.[27] A similar approach was taken for Indonesia's Second Development Policy Support Program[28] and the Philippines' Power Sector Development Program.[29]

Box 8: Support for Implementation of Viet Nam's Poverty Reduction Program

As part of Viet Nam's comprehensive poverty reduction and growth strategy ADB is supporting the Fifth Poverty Reduction Support Credit funded by the Government and its development partners. The strategy implements poverty reduction policies, programs, and actions over the medium term against targets for specific development outcomes from 2002 to 2006. Reforms include (i) further development of the regulatory framework for private sector development; (ii) securing asset ownership; (iii) recapitalization of Government-owned banks; (iv) development of the safety net for redundant workers; (v) increased education budget allocation and access to health services; (vi) increased maintenance of transport infrastructure; and (vii) improved public finance accountability, development, adoption of medium-term expenditure frameworks, and coordinated plans and budgets. The budget implications for increased targeted spending during the program period justified the program amount and partner contributions.

ADB = Asian Development Bank.
Source: ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan [to] Support the Implementation of the Poverty Reduction Program III (Socialist Republic of Viet Nam)*. Manila.

2. World Bank Evaluation Findings[30]

51. As development policy lending was introduced in 2004, a comprehensive evaluation is not yet available. In 2003, the World Bank's Independent Evaluation Group's (IEG) *Annual Review of Development Effectiveness* focused on policy reform before the new modality was introduced. The evaluation findings are consistent with OED's 2001 special evaluation study in several areas. For example, reforms were less successful in countries with weak track records, or where environments were fluid or uncertain. The instruments used by the World Bank to link lending to policy performance—country assistance strategy triggers and conditions that pre-specify World Bank responses to borrower performance—have not resulted in good outcomes in highly uncertain situations. In such situations, the IEG evaluation report concluded, large-scale lending normally should be undertaken only when there are clear signals that policy reform is under way. Given the emphasis on partnership approaches, the evaluation report recommended that aid agencies should provide long-term assistance for capacity building, as well as predictable, transparent, and reliable financing. Budget support and program aid should be based on mutually agreed country performance criteria.

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[27] ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Program Cluster Loan and Technical Assistance Grant, Financial Market Regulation and Intermediation Program (Republic of the Philippines)*. Manila.
[28] ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Program Cluster and Loan, Second Development Policy Support Program (Republic of Indonesia).* Manila.
[29] ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Program Cluster and Loan, Power Sector Development Program (Republic of the Philippines).* Manila.
[30] This section draws on findings in World Bank. 2003. *Annual Review of Development Effectiveness, The Effectiveness of Bank Support for Policy Reform*. Washington, DC.

52. Since the assessment of trends in policy and institutional performance is based on the country policy and institutional assessments, the IEG compared these results with the Heritage Foundation's Index of Economic Freedom, the Economist Intelligence Unit's Index of Country Risk, and the Political Risk Services Group's International Country Risk Guide. The coverage of each indicator overlaps with others, and each group individually provides a partial assessment of policy. However, the IEG concluded that (i) all four analyses and/or indexes point in the same direction, although they are based on different criteria; (ii) the modest scale of improvements is plausible because the indicators are based on variables that tend to change slowly; and (iii) significantly more countries' ratings increased than decreased. The country policy and institutional assessments provide a key basis for assessing policy progress and inform country strategies.

53. The World Bank evaluation also addressed conditionality based on completion of actions before disbursement within a programmatic framework. (ADB has used this approach only where it has cofinanced poverty reduction support credits.) Condition-setting based on prior actions was introduced to address some of the problems of traditional approaches while retaining dimensions of outcome-based conditions. Borrowers were assessed to want programmatic lending, as seen in its rapid growth. However, little evidence was available on the effectiveness of programmatic approaches, as well as concern that conditions still might not be linked clearly to outcomes. Consequently, the evaluation raised two questions: Why is traditional condition-setting still so widely used? Have reforms grounded in country-owned programs and programmatic lending approaches that disburse on completed actions with fewer conditions made conditions more effective? The evaluation concluded that these questions needed further attention as new flexible instruments to support policy reform progress. Key findings of the IEG assessment of World Bank's support for policy reform are summarized in Box 9.

Box 9: The Effectiveness of World Bank Support for Policy Reform

- Two thirds of World Bank developing member countries (low- and middle-income) have improved their development policies, as reflected by trends in policy indicators. The most widespread increases occurred in gender, financial stability, efficiency of resource mobilization, and quality of budget and financial management policies.
- Countries whose policies improved grew in per capita terms at more than twice the rate of countries where policies did not improve.
- Bank lending, overall and on a per capita basis, was concentrated in countries that had "relatively good" policy environments. Bank support was also linked to improvements in policy at the country and project levels, and to higher levels of indicators related to Millennium Development Goals.
- World Bank was less successful in linking support to policy reform in countries with no or weak track records, and where the environment for reform was fluid or highly uncertain. Here, large-scale lending should normally be undertaken only when there are clear signals that policy reform is under way.
- Good results have been obtained with very different policies and institutions, supported by different combinations of Bank instruments and thematic and/or sectoral mixes, with the mix tailored to the country situation and country preferences, and usually evolving over time.
- Economic and sector work is critical for good outcomes as it informs the country assistance strategy, contributes to the policy dialogue, and shapes the design of World Bank operations. World Bank normally should not engage in lending before economic and sector work has established an adequate base of country and sector knowledge.
- The knowledge content of World Bank products needs to be adapted to country circumstances and should favor efforts to customize and adapt knowledge to localized problems in collaboration with in-country expertise.

Source: World Bank. 2003. *Annual Review of Development Effectiveness: The Effectiveness of Bank Support for Policy Reform*, Washington, DC.

3. OECD DAC Evaluation Findings

54. General budget support (GBS) involving several aid agencies and a recipient government has been used since the late 1990s to try to improve aid effectiveness. GBS is a way to improve aid agency harmonization, align partner country systems and policies, lower transaction costs, raise public expenditure allocation efficiency, improve funding predictability, and improve links between public administrations. These outcomes are expected to be achieved by aligning GBS with government financial systems and improving domestic accountability. In 2006, seven bilateral and multilateral aid agencies carried out a joint evaluation of GBS through OECD's DAC Network on Development Evaluation. It assessed the relevance, efficiency, and effectiveness of this modality in achieving sustainable impacts on poverty and growth. The study covered seven developing countries including Viet Nam as the only ADB DMC. Box 10 shows key findings.

Box 10: Key Findings from the Evaluation of Partnership General Budget Support

- Partnership GBS was a relevant response to certain problems in aid effectiveness.
- Partnership GBS can be an efficient, effective, and sustainable way of supporting a national poverty reduction strategy.
- Discretionary funds provision through national budget systems has produced systemic effects on evaluated aspects of capacity, especially financial management, strengthening government ownership, and accountability in the short run.
- Partnership GBS had useful effects on allocation and operational efficiency of public expenditure, including aid.
- Positive spillover effects suggest that partnership GBS can be more than the sum of its parts.
- An assessment of poverty reduction impacts for initial support for expansion of basic public services would be premature.
- Overloading the partnership GBS modality should be avoided.
- Partnership GBS has the potential to be a part of anticorruption efforts, but corruption also might represent a risk.
- Partnership GBS is vulnerable to risks, including political risks.
- Findings are relevant to performance-based allocation.

GBS = general budget support.
Source: IDD and Associates. 2006. *Evaluation of General Budget Support.* International Development Department, School of Public Policy, University of Birmingham. United Kingdom. The evaluation was undertaken for the Organisation for Economic Co-operation and Development's Development Assistance Committee.

55. Several evaluation findings of the GBS modality relate to evaluation findings and good practice in ADB's policy-based lending. On the political economy of reform, the evaluation points out that aid agencies are actors in political systems and not just an external influence. This also points to aid agencies' judicious role in supporting proponents, with an understanding of local institutions and political context helping to improve and accelerate reforms. The report also notes that a defining characteristic of GBS is the use of a stepwise approach to change through dialogue and condition-setting in line with poverty reduction support programs, and that partnership GBS requires a long-term approach. At the same time, it is important not to overload GBS despite the many potential issues it can address. The agenda's scope should be consistent with country circumstances and capacity. GBS can be used effectively to support poverty reduction programs and priority pro-poor expenditures, but improvements are needed in poverty analysis of public expenditures. Despite this room for improvement, the GBS modality has been effective in strengthening public finance management, planning and budgeting, budget transparency, and accountability. It has also been able to bring aid agency funds on-budget and to strengthen budget processes. However, continuing off-budget aid modalities can undermine progress. On capacity development, the evaluation found that GBS partnerships can

have a positive effect, although greater coherence and coordination in providing TA among providers is needed. Use of medium-term expenditure frameworks was identified as critical in linking policy reform to budgets.

56. The GBS evaluation also addressed conditionality. While aid agencies and governments might have differing interests, the report points out that partners do not have to have identical views or interests. However, partnerships do need transparency on interests. All parties have a choice on whether to partner. The evaluation also concluded that GBS should not be used as a way of imposing aid agency strategies on unwilling governments. Once mutual interests and common objectives are found, then performance targets and conditions become a managerial rather than a political pressure tool. Conditions should focus on when and how. They should take on the role of prioritizing and providing time-bound actions needed to implement mutually agreed reform. Where reform has ownership and at least minimum consensus between a government and affected stakeholders, then conditions are more likely to be seen as a management tool.

B. Emerging Practices in ADB

57. ADB has begun to adopt development policy lending and practices through partnerships with other aid agencies. The issues identified in OED evaluations of program lending are relevant for this modality. ADB's Economics and Research Department (ERD) has carried out ex ante methods research on poverty reduction and program lending, good practice economic analysis of policy-based operations, and political economy approaches to policy-based lending.[31] Further guidance has been developed in ADB's project performance management system and related guidelines for preparing design and monitoring frameworks.[32] ADB's South Asia Department has prepared an assessment of ADB-supported public resource management programs.[33]

1. Distribution Analysis and Use of Conditions in Policy-Based Lending

58. ERD's methods work, which was carried out at the time of OED's 2001 special evaluation study on program lending, addressed issues and approaches to country and sector analysis work to improve identification of policy problems and reforms, and alternatives and solutions. Specific attention was paid to the political economy implications and risks of policy-based lending. A framework was used to analyze the timing and distribution effects of reform. This included estimating the profile of reform costs and benefits over time and identifying "gainers" and "losers" as part of designing reform management measures. Understanding the distribution and timing dimensions of policy reforms and their political economy dimensions helps to identify the indirect social and political costs of reforms and inform the size of the program loan that is needed to compensate short-term "losers".

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[31] ADB. 2003. *Economic Analysis of Policy Based Lending: Key Dimensions*. Manila. Available: http://www.adb.org/Documents/Books/Eco_Analysis_PBO/default.asp#contents; and Abonyi, G. 2004. *Political Economy of Reform: Case Studies of Asian Development Bank Supported Policy-Based Operations*. Manila: ADB's Economics Research Department.

[32] ADB. 2005. *Project Performance Management System: Guidelines for Preparing a Design and Monitoring Framework.* Manila. Available: http://www.adb.org/Documents/Guidelines/PPMS/Guidelines-on-Preparing-a-Design-and-Monitoring-Framework.pdf.

[33] ADB. March 2007. A *Comparative Assessment of Asian Development Bank's Public Resource Management Reform Programs*. Draft. Manila.

59. ERD's work concluded that once the main policy changes are identified and agreed upon, conditions should embody the mutually agreed key reform steps to be achieved, including preconditions, or trigger actions for loan tranche releases. Excessive use of fixed conditions and a rigid implementation time frame were not advised. To avoid the risk of conditions taking on an administrative function for loan implementation, a focus on results-based conditions and outcomes is preferable to an extensive list of detailed compliance conditions. A process approach to implementation that can be sequenced over time is better, although it might be incongruous with a short program period and the demanding conditions seen in some examples.

2. A Political Economy Approach to Policy-Based Lending

60. Recent ERD work on a political economy approach to policy-based lending proposes a framework to help with the design of policy reform programs, and in explaining the results of policy reforms at the evaluation stage. The three studies of ADB program loans recognized that policy reforms and policy-based lending supporting reforms often are not implemented as planned and can have unexpected negative consequences.[34] The paper argues that reforms which are proposed as a "technical exercise in optimal policy design" is not always realistic (footnote 34). Rather, reforms are a "complicated, long-term, and uncertain process of societal change in incentives, behaviors, institutions, relationships, and power alignments" (footnote 34). Reforms sometimes involve political considerations because choices often involve conflicting views and interests, commonly with no clear incentive for settling differences. Institutions influence the reform process, and where reforms involve organizational change there are further risks and uncertainties. Political economy and institutional factors influence and are shaped by policy reform and supporting policy-based loans. The process might involve several attempts in different ways rather than being strictly sequential in nature. Box 11 summarizes critical points that influenced a successful reform process for Viet Nam's SOEs.

Box 11: Viet Nam's State-Owned Enterprise Reforms: Improving the Odds

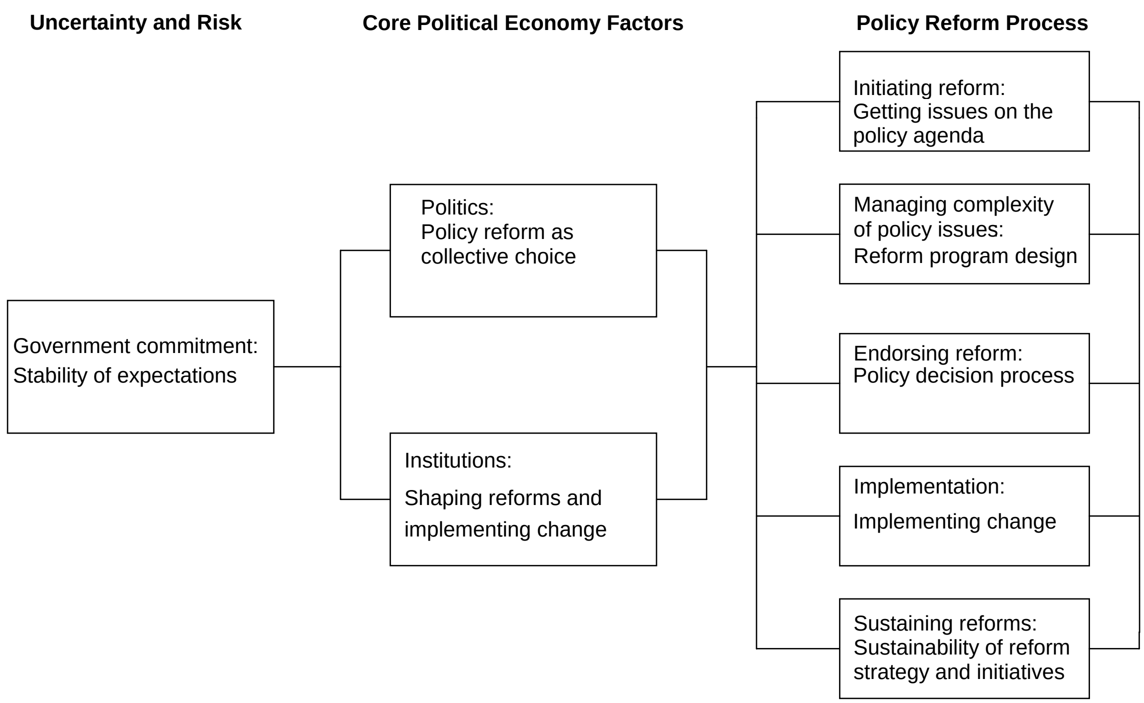
- Understanding key stakeholder motivations, capabilities, and relationships, as well as the political decision-making process, helps to inform how reforms are helped or hindered by the political and institutional environment.
- An alternative design focused on removing impediments to private sector development arising from a large number of small state-owned enterprises (SOE), rather than a focus on large SOEs, would have provided a different scope.
- If the objective of the reform is to implant change as distinct from putting rules, regulations, and decrees in place, the design should reflect the long-term and uncertain nature of reform.
- Understand the political acceptability of reforms with key stakeholders and coalitions, and that political support can change over time.
- Political sequencing of reforms is as important as technical sequencing of reforms.
- Policy reforms are institutionally sensitive and capacity needs to be in place, which might require time and resources.

Source: Abonyi, G. 2005. ERD Working Paper 70: *Policy Reform in Viet Nam and the Asian Development Bank's State-Owned Enterprise Reform and Corporate Governance Program Loan*. Manila. Available: http://www.adb.org/Documents/ERD/Working_Papers/WP070.pdf.

[34] Abonyi, G. 2005. ERD Working Paper 70: *Policy Reform in Viet Nam and the Asian Development Bank's State-Owned Enterprise Reform and Corporate Governance Program Loan*. Manila. Available: http://www.adb.org/Documents/ERD/Working_Papers/WP070.pdf; ERD Working Paper 71: *Policy Reform in Thailand and the Asian Development Bank's Agricultural Sector Development Program Loan*. Manila. Available: http://www.adb.org/Documents/ERD/Working_Papers/WP071.pdf; and ERD Working Paper 76: *Policy Reform in Indonesia and the Asian Development Bank's Financial Sector Governance Reforms Program Loan*. Manila. Available: http://www.adb.org/Documents/ERD/Working_Papers/ WP076.pdf.

61. Figure 5 shows the stages of the reform process. This can be used to determine at which stage the process has progressed and how the related political economy factors, such as government commitment, are sources of risk and uncertainty. Reforms that must start by being placed on the policy agenda are likely to have higher risks and uncertainty, especially in times of crisis. This was the case in Thailand's agriculture sector program loan (footnote 34). The public sector reforms in the Marshall Islands were on the agenda in part due to external pressures and a key domestic champion, but opposition and the complexity of the reforms made endorsement difficult and reversal easy. Kazakhstan's pension reforms were at an advanced stage in terms of endorsement by the Government, which worked to gain public support and implement and sustain the reforms.

Figure 5: Political Economy of Policy Reform and Policy-Based Lending: A Framework



Source: Abonyi, G. 2005. ERD Working Paper 70: *Policy Reform in Viet Nam and the Asian Development Bank's State-Owned Enterprise Reform and Corporate Governance Program Loan*. Manila. Available: http://www.adb.org/Documents/ERD/Working_Papers/WP070.pdf.

62. As policy reforms are often complex, the design of a program loan, the policy matrix, and conditions can be a way of reducing complexity rather than adding to it. Reforms need to be endorsed and approved through a formal decision-making process as a way of signaling government commitment. Understanding the process of how and when this takes place is critical to program design and the time needed, for example, to pass legislation. Once policy changes are endorsed, they still need to be implemented by institutions and stakeholders. For example, agriculture sector reforms in Kyrgyz Republic were on the policy reform agenda and endorsed, but implementation and the design used proved institutionally complex, with several unpredicted institutional realignments during the process. Furthermore, capacity development is often needed to affect the new or realigned role. Reform is often a medium- to long-term process of change requiring a sustained effort to enable sustained change. Program loans that

enter or support this stage might have less political risk, but the institutional risk and uncertainties can be significant where capacity is weak or needs significant and sustained budget realignment. The Independent Evaluation Office of the International Monetary Fund (IMF) supported preparation of a useful set of tools for assessing the feasibility and sustainability of reforms from a political economy perspective.[35]

3. Alternative Approaches to Adjustment Costs, Monitoring, and Evaluation

63. ERD's work on policy-based lending suggests reform be seen as a new policy asset that needs an initial "investment" (one-off costs for those negatively affected by the reform or to establish or realign institutions). As with investment projects, reform sustainability often needs recurrent expenditures (e.g., improved social or decentralized services). The impact of reforms on recurrent expenditure can be looked at in terms of net fiscal impact through, for example, the medium-term fiscal framework (MTFF).[36] Better consideration of complex intersectoral and institutional situations, and the developing medium-term budget situation, is needed for such an approach.

64. Medium-term fiscal and expenditure frameworks to understand the financing of reforms are used increasingly to better inform estimates of adjustment costs and to carry out risk assessment.[37] ADB's public resource management reform programs in South Asia are examples of complex public sector reforms that focus on fiscal consolidation as a means of creating fiscal space for a series of poverty-reducing and growth-enhancing measures.[38] Such programs involve multiple sectors and impacts on public investment and recurrent expenditures, and analyze and monitor reforms using an MTFF approach. This requires upfront assessments of public expenditure, as opposed to traditional adjustment cost estimation, medium-term support, and close monitoring during implementation. Programs such as the Gujarat public resource management program loan are an example of a fully owned policy agenda that can make effective use of MTFFs.

65. However, basing a loan's size solely on adjustment cost estimations can miss the point that large public resource realignments are complicated processes that need regular course adjustments to address uncertainties in behavioral response, institutional absorption and response capacity, and unanticipated indirect costs that might affect the reform process. These considerations should not compromise the core outputs and outcomes of the reform and should avoid recipe-driven fiscal reforms, build understanding and consensus on the reform agenda, and promote a measured approach based on continuous support. ADB has recognized the need for systematic monitoring indicators and approaches that focus on public-sector-wide fiscal management information systems, although this is not yet practiced as a matter of course.

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[35] Wimmer, et al for IMF. 2002. *Political Science Tools for Assessing Feasibility and Sustainability of Reforms*. Bonn.

[36] MTFFs examine the revenue and expenditure side of the equation, while medium-term expenditure frameworks look at the expenditure side of, for example, a public service and its allocation and operational efficiency.

[37] Examples include ADB. 1996. *Program Completion Report on the Gujarat Public Sector Resource Management Program in India*. Manila (for $250 million); ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster of Loans Modernizing Government and Fiscal Reform in Kerala Program in India*. Manila (for $300 million); and ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster of Loans Punjab Resource Management Program (Subprogram 1) in Pakistan*. Manila (for $500 million).

[38] ADB. 2007. *A Comparative Assessment of Asian Development Bank's Public Resource Management Reform Programs*. Draft. Manila.

66. ADB's project performance monitoring system defines the requirements for monitoring and evaluating program loans.[39] Although the system is logical, a review of ADB practice in the sample evaluation reports found scope for improving the system's application. The indicators used show a need for more systematic approaches to identifying and applying monitoring and evaluation indicators for assessing program loan performance in the wider sector or country context. The sample evaluation reports reviewed show that the same indicators often are used for assessing impacts and outcomes, or that impact indicators are at such a high level that impacts from the program are hard to identify. Monitoring is especially important in cases where up-front analysis is limited by data availability, behavioral response is less predictable, risks and uncertainties surround the reform process and cannot be predetermined or prepared for in advance, or where a medium-term policy reform process is being supported but real-time results are needed to manage the reforms.

67. Since 2001, ADB has used performance-based allocations of ADF funds that involve country performance assessments similar to the World Bank's country policy and institutional assessments.[40] The performance-based allocation policy was revised in 2004 to make the country performance assessment process more transparent and to harmonize ADB's process better. The revised policy assesses the policy and institutional framework for promoting poverty reduction, sustainable growth, and concessional fund use. To derive country performance indicators, the system uses the IDA's country policy and institutional assessment questionnaire. Indicators covered include the quality of macroeconomic management, coherence of structural policies, the degree to which policies and institutions promote equity and inclusion, the quality of governance and public sector management, and the performance of the ongoing ADF loan portfolio. Post-conflict countries use a modified IDA framework-based system. The application of country performance assessments as a policy and institutional performance indicator for country allocation purposes offers the potential to expand the use of the related indicators for planning and monitoring and evaluation of broad-based, medium-term policy-based operations.

V. FINDINGS AND IMPLICATIONS

68. This report has reviewed policy changes; portfolio composition changes; evaluation ratings; and key findings in OED's 2001 special evaluation study, annual reports, and research. A further review of a sample of individual program loan evaluations carried out since 2001 identifies factors that influence program lending results and success factors. A review of changes in policy, practice, and evaluations at other international development organizations, in particular the World Bank and OECD development partners, provides insights into future practices in policy-based lending in the Asia and Pacific region. Emerging ADB practices in analyzing, designing, monitoring, and evaluating also were outlined. The report concludes by summarizing the main implications for improving the results of ADB's future policy-based lending.

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[39] ADB's project performance management system comprises the design and monitoring framework that theoretically provides the basis for the system, including indicators for progress and results; program performance reports and TA performance reports; borrower monitoring and evaluation; PCRs and TA completion reports; and program performance evaluation reports and TA performance evaluation reports, and selected evaluation studies. Although quality is improving, OED has documented systemic weaknesses in design and monitoring frameworks in addition to problems with the quality of information in project performance reports and TA completion reports.

[40] ADB. 2001. *Policy in Performance-Based Allocation for Asian Development Fund Resources*. Manila.

A. Good Practices for Policy Lending

69. Based on the body of evaluation evidence and analysis undertaken in this report, recommended practices based on lessons learned, methods research, and internal and external reviews are summarized in paras. 70–73. Building on the SWOT summary adopted in para. 44, a range of good policy-based lending practices that are recommended by way of strengths to build into designs, weaknesses to avoid, opportunities to capitalize upon, and threats to manage.

1. Strengths to Build into Design

70. The following identified practices can be built into operational designs and implementation management.

(i) Developing sufficient understanding of the sector before policy reform package formulation helps to strengthen understanding of the reform context, and in identifying relevant policy change areas and the desired outcomes from reforms.
(ii) Use sector analysis and dialogue that covers economic, social, and institutional dimensions as well as stakeholder, vested interest, and political economy dimensions.
(iii) Use sector analysis results to develop a clear rationale, whether for balance of payments support, public finance needs, or short-term costs of adjustment arising from the reform process.[41] A sound sector analysis helps designers to identify influences that can and cannot be internalized into an operation's design.
(iv) Assess possible feedback effects from sector policy change on the macroeconomy.[42]
(v) Program designers can be better informed about how to target reforms, the relevance and likely effectiveness of specific reform outputs, and the nature and extent of costs when they understand the stage that a reform has already reached within a country, who stands to gain or lose in furthering the reform, and the political economy of decision making.
(vi) Program designers need to be resourced adequately in terms of timely understanding of issues and access to country and sector knowledge, and if necessary with support from consultants who are knowledge of the region and sector.
(vii) Early access to key agencies and domestic networks improves dialogue and aids mutual understanding and agreement on the needs and circumstances of a reform.
(viii) To raise the prospects for achieving design outputs that are as efficient as possible and lead to relevant and effective outcomes and impacts, a clear explanation of cause and effect in the results chain is needed. This should be based on practical and appropriate modeling and counterfactual analysis.
(ix) Sector analysis helps to identify relevant monitoring and evaluation indicators. Use of outcome- and impact-level indicators that are collected routinely and used by relevant government agencies and in-country research institutions, or that are compiled regularly by other aid agencies, helps to lower the cost to ADB and the borrower of monitoring.

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[41] For further good practice, see ADB. 2006. *Second Governance and Anticorruption Action Plan* (GACAP II). Manila. The plan includes public financial management practices, procurement and corruption risk assessments at the country level, and governance institutional and corruption risk assessments at the sector level.
[42] See, for example, ADB. 2003. *Economic Analysis of Policy Based Lending: Key Dimensions*. Manila.

2. Weaknesses to Avoid

71. The following design weaknesses and risks can be avoided which can be managed by adopting risk mitigating and associated practices during the design and implementation stages.

(i) Uninformed designs, misunderstood solutions, changed circumstances, or low and wavering commitment will risk reducing output relevance, effectiveness, and efficiency. Further, these jeopardize stakeholder response, outcomes, and impacts.
(ii) Pursuing a weak rationale and flawed design to meet conditions and tranche releases undermines the credibility of ADB and reformers. A phased flexible design with a clear rationale is more likely to see design weaknesses addressed during implementation.
(iii) Where a government and stakeholders are not familiar with needed or proposed reforms, monitoring the effects of reforms and a well-managed awareness building exercise can improve design and results for ongoing or follow-on designs.
(iv) Too much focus on conditions might not be an effective way to influence outcomes, and can undermine or delay a reform when poorly designed and used. Conditions, best phrased as policy measures and triggers, should reflect clear reform steps and output targets for implementing reform measures. Judiciously used, policy triggers can help reformers manage the process.
(v) Limited or no specific provision for change management in the reform process can cause difficulties. Understanding the political economy of the policy reform process is a basis for planning and managing the change process.

3. Opportunities to Capitalize Upon

72. The following are opportunities that often present themselves and should be explored and capitalized upon in designs and implementation management.

(i) A design that is driven by government and reflected in early actions provides a strong platform for effective and efficient implementation.
(ii) Backing an influential reform champion helps to design and implement reforms and manage opposition or reluctant stakeholders.
(iii) Severe economic crisis can provide an opportunity for initiating reforms, but this should be handled in a way that considers possible political volatility during such processes.
(iv) Reform is a dynamic process. Timing and sequencing operations to follow needed prior reforms, such as removal of a constraint in a key sector, will help target subsequent reforms to deepen ongoing changes.
(v) Use of country performance assessments and collaboration between ADB and the World Bank in generating analyses, such as public expenditure reviews and fiduciary and risk assessments, provides a common basis for assessments and monitoring and evaluation of program loans. It also promotes harmonization of objectives.
(vi) Participation in multi-aid agency-funded policy-based lending to support structural reforms to improve the enabling environment and to support country-driven poverty reduction programs can be cost-effective and results-effective.

4. Threats to Manage

73. The following are threats and risks that are largely exogenous to a program's design but can be managed as the implementation proceeds through good practice.

(i) The higher in the results chain a program seeks to have an effect, especially at the impact level, the greater the range of external factors, threats, and risks to an operation.
(ii) Even if the need for reforms is understood and accepted by stakeholders up-front, the relevance and effectiveness of areas where reforms are implemented will influence the response of stakeholders as well as the relevance and effectiveness of outcomes. Where the response is unknown, monitoring is needed to strengthen ongoing or follow-on designs.
(iii) Reforms that are at an early stage in the policy change process, and are unavoidably complex, are likely to be influenced by a wide range of exogenous factors. A medium-term flexible approach is more likely to be effective than an inflexible conditions-driven approach.
(iv) Too many external factors, combined with overly complex and poorly targeted designs, increase the range of influences that cannot be managed by reform implementers and place the operation at greater risk. Prioritizing immediate policy changes and focusing on key measures and steps in a design with realistic outputs, and using a phased longer-term approach where necessary, will more likely reduce risks or make them more manageable.
(v) Where a focus on a sector or a narrow set of reform issues is not practical, such as a response to a major economic crisis, then the policy change needs to focus on the fundamental cause while providing sufficient space for flexibility in measures and steps in the design. This should be complemented with progress monitoring to identify and justify course changes as needed rather than avoiding such changes as the reform progresses.

B. Issues to Consider Further

74. Many of the above good practices can be applied within the current ADB policies on program lending. Others would be more easily applied by refining or updating policy and/or procedures. The following policy and procedural considerations would help in applying a wider range of good practices to ADB's progam lending.

1. Clarify the Purpose and Use of Program Loan Financing

75. ADB's program-lending policy allows for support for balance of payments, budgets, and development policy change. The rationale and purpose for each program loan depends on the country circumstances and specific needs. This outlook highlights the need to explain the use of funds and the basis for improving accountability in program loans. Balance of payments support requires a focus on imports, budget support a focus on public finances, and development policy support a focus on the processes and, in some cases, the costs of adjustment. Under any circumstances, adjustment costs are better seen in the context of a medium-term fiscal and expenditure framework. Embedding a reform in the public financial structure and government development plans helps to mainstream and sustain reforms, as well as assess risks. Where reform adjustment costs are not clear or appropriate, budget and development financing needs should be a key basis for the size of a program loan.

2. Program Loan Modalities

76. ADB’s current program loan modalities provide for a range of circumstances and needs. These modalities range from quick-disbursing, one-off program assistance following a crisis to medium-term support for policy and institutional reforms through single- or multiple-tranche support. This could be interpreted as encompassing a full range of development policy and budget support approaches. Clarification in guidance is needed to ensure that modalities are applied appropriately where flexibility, predictability, and aid agency partnerships are needed and justified. Partnership single-tranche lending, which ADB already practices, can help to avoid the difficulties of condition compliance to trigger tranche release. Provided that up-front analytical work and due diligence are done to required standards, dialogue is continuous, commitment is for the medium term, and ADB’s value addition is clear, then this form of program lending offers the potential for expanding the principles of flexibility, predictability, and partnering in support of, for example, national poverty reduction strategies and other medium-term development plans.

3. Conditionality versus Partnerships on Implementing Agreed Policy Measures

77. Recent literature[43] and internal and external evaluations support the view that a focus on compliance with conditions can undermine ownership and is not always an effective way to reach intended outcomes. Inflexibility or reluctance to change or waiver a condition may undermine or delay more important aspects of a reform when a condition is found to be inappropriate. Conditions should be a reflection of clear policy measures, steps, and triggers in the context of output targets as the basis for effective implementation of reform measures. Use of conditions is unavoidable in the sense that agreement is needed about policy changes, whether financed retroactively or beforehand. As increasing use is made of single-tranche loans for supporting medium-term reform agendas, the distinction and application between prior and post-action conditions will need to be clarified in ADB-supported policy-based loans. As a signatory to the Paris Declaration on Aid Effectiveness, ADB is committed to basing conditions as far as possible on a partner’s national development strategy or its annual reviews.[44] Other conditions should be based on sound justification and consultations with other aid agencies and stakeholders.

78. Judiciously used, conditions in the form of agreed policy measures, steps, and triggers guide reform implementation and help reformers to manage the process. They should be used to monitor and manage not to control the reform process. How reformers and stakeholders respond and maintain a reform effort is largely in their hands. ADB’s continuous effective dialogue during and after the program period is necessary to help sustain results and inform the next steps for aiding further reform as needed.

[43] See, for example: Koeberle, S.G. 2003. *Should Policy-Based Lending Still Involve Conditionality?* The World Bank Research Observer, Vol. 18, No. 2, Washington, DC; Dollar, D. and Svensson, J. 1998. *What Explains the Success or Failure of Structural Adjustment Programs?* Policy Research Working Paper 1998. World Bank. Washington, DC; Killick, T. 2004. *Politics, Evidence and the New Aid Agenda*. Development Policy Review, Vol. 22, No. 1, pp. 5–29. UK: Overseas Development Institute.

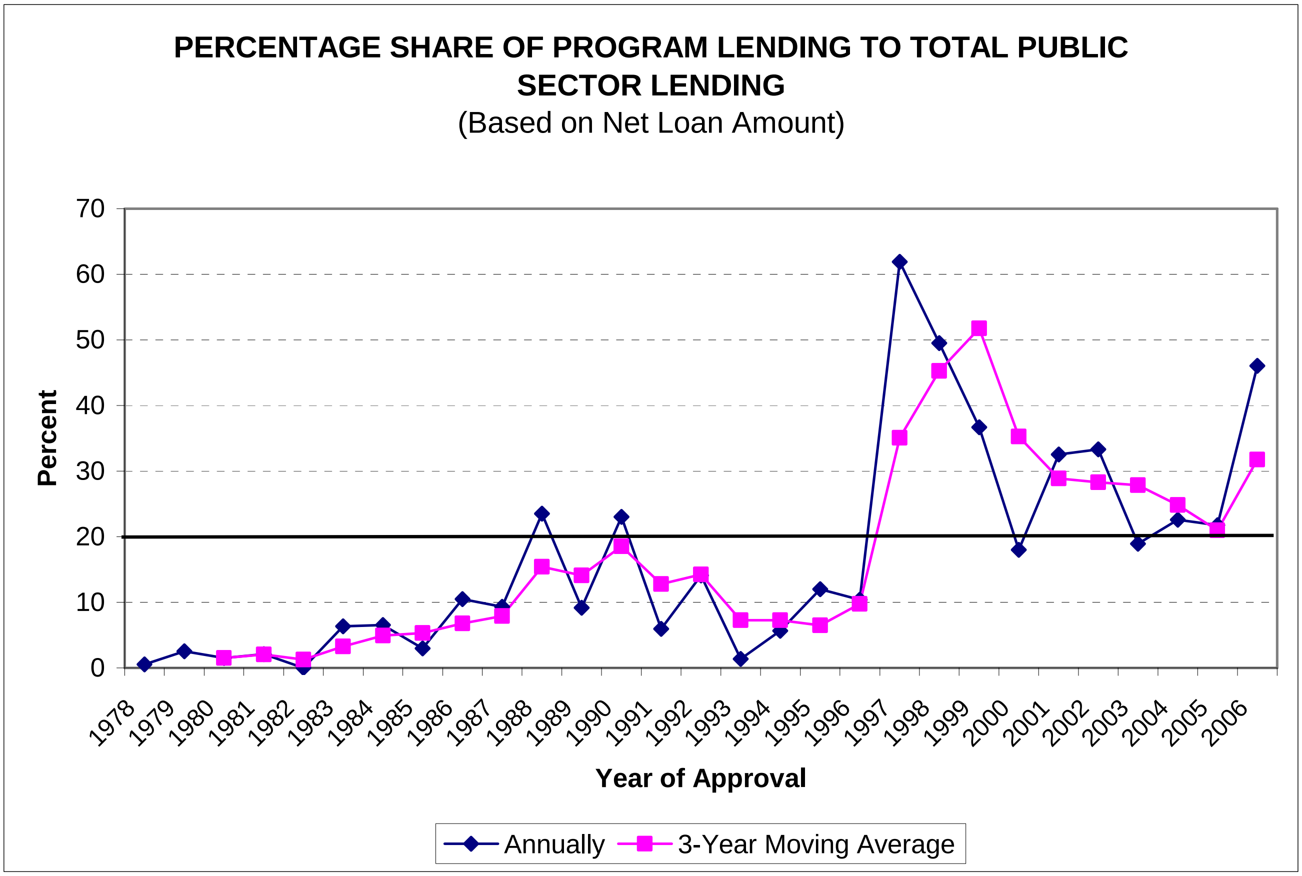
[44] ADB. 2005. *Paris Declaration on Aid Effectiveness*. Manila.

4. Understanding the Results Chain to Inform Design, Monitoring, and Evaluation

79. Understanding and articulating the results chain at the design stage, including how program activities will lead to outputs and outputs will lead to outcomes and impacts, continues to be stressed for good practice design, and monitoring and evaluation. Lack of evidence of a relevant or effective outcome, which leads to low impact, implies problems, in particular with the relevance and effectiveness of outputs. In such cases, an evaluation can be focused on the output level and below to find the cause of poor results. Evaluations of policy-based operations that cross-tabulate the criteria for relevance, effectiveness, and efficiency with a focus on outputs and outcomes will help to pinpoint key factors that contribute to or detract from success. This approach helps to focus evaluations.

5. Relax the 3-Year 20% Moving Average Ceiling for Total Program Lending Volume

80. In response to the circumstances of Asian financial crisis, ADB's program lending rose significantly above the 3-year 20% (22.5% for ADF loans) moving average ceiling of program lending as part of total ADB lending. The percentage share of program lending to total public sector lending on a 3-year moving average basis has not fallen below 20% since 1998. Since then, the needs and combined demand for program lending in the finance, law, economic management and public policy areas, as well as other sectors, has continued to exceed the policy ceiling. This suggests a need to review and consider relaxing the current 20% moving average ceiling for program lending value to bring it more into line with DMC needs and demand for the program loans modality.



Source: Asian Development Bank's Operations Evaluation Department estimates.

TRENDS IN PROGRAM LENDING, BY COUNTRY AND BY APPROVAL PERIOD

Country	1978–1986		1987–1995		1996–2000		2001–2006		Total		% Share (Total)		% Share (w/o Rep. of Korea)	
	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No. of Programs[a]	Net Loan Amount[b] ($ mn)	No.	Amount	No.	Amount
Afghanistan	0	0.0	0	0.0	0	0.0	3	278.2	3	278.2	1.6	1.2	1.6	1.4
Bangladesh	6	163.8	5	393.6	1	77.2	3	145.6	15	780.2	8.1	3.3	8.2	3.9
Bhutan	0	0.0	0	0.0	2	13.8	1	11.3	3	25.1	1.6	0.1	1.6	0.1
Cambodia	0	0.0	0	0.0	1	28.4	7	119.3	8	147.7	4.3	0.6	4.3	0.7
Cook Islands	0	0.0	0	0.0	1	4.8	0	0.0	1	4.8	0.5	0.0	0.5	0.0
Fiji Islands	0	0.0	1	20.0	0	0.0	0	0.0	1	20.0	0.5	0.1	0.5	0.1
India	0	0.0	3	675.0	3	650.0	6	1,655.0	12	2,980.0	6.5	12.5	6.5	14.7
Indonesia	0	0.0	4	853.3	6	2,330.0	7	1,950.0	17	5,133.3	9.2	21.4	9.2	25.4
Kazakhstan	0	0.0	1	100.0	1	100.0	0	0.0	2	200.0	1.1	0.8	1.1	1.0
Korea, Rep. of	0	0.0	0	0.0	1	3,700.0	0	0.0	1	3,700.0	0.5	15.5	0	0
Kyrgyz Rep	0	0.0	1	37.9	3	91.3	3	69.5	7	198.7	3.8	0.8	3.8	1.0
Lao PDR	0	0.0	3	75.4	1	23.6	4	55.3	8	154.3	4.3	0.6	4.3	0.8
Marshall Islands	0	0.0	0	0.0	1	11.3	1	12.4	2	23.7	1.1	0.1	1.1	0.1
Micronesia, Federal States of	0	0.0	0	0.0	1	17.7	1	3.6	2	21.2	1.1	0.1	1.1	0.1
Mongolia	0	0.0	2	65.4	6	90.4	3	33.7	11	189.6	5.9	0.8	6.0	0.9
Myanmar	4	24.2	0	0.0	0	0.0	0	0.0	4	24.2	2.2	0.1	2.2	0.1
Nauru	0	0.0	0	0.0	1	2.3	0	0.0	1	2.3	0.5	0.0	0.5	0.0
Nepal	2	18.3	3	97.4	1	48.9	5	145.2	11	309.8	5.9	1.3	6.0	1.5
Pakistan	2	164.8	2	399.2	4	824.3	15	3,579.8	23	4,968.1	12.4	20.8	12.5	24.6
Papua New Guinea	0	0.0	1	83.3	1	49.8	1	34.9	3	168.0	1.6	0.7	1.6	0.8
Philippines	1	117.3	4	377.4	4	630.0	6	1,225.0	15	2,349.7	8.1	9.8	8.2	11.6
Samoa	0	0.0	1	16.3	1	7.3	0	0.0	2	23.6	1.1	0.1	1.1	0.1
Solomon Islands	0	0.0	0	0.0	1	15.7	0	0.0	1	15.7	0.5	0.1	0.5	0.1
Sri Lanka	1	32.5	3	193.8	1	105.2	5	206.7	10	538.2	5.4	2.2	5.4	2.7
Tajikistan	0	0.0	0	0.0	1	19.0	2	15.2	3	34.3	1.6	0.1	1.6	0.2
Thailand	0	0.0	0	0.0	3	950.0	0	0.0	3	950.0	1.6	4.0	1.6	4.7
Tonga	0	0.0	0	0.0	0	0.0	1	11.1	1	11.1	0.5	0.0	0.5	0.1
Tuvalu	0	0.0	0	0.0	1	4.0	0	0.0	1	4.0	0.5	0.0	0.5	0.0
Uzbekistan	0	0.0	0	0.0	0	0.0	1	70.0	1	70.0	0.5	0.3	0.5	0.3
Vanuatu	0	0.0	0	0.0	1	19.9	0	0.0	1	19.9	0.5	0.1	0.5	0.1
Viet Nam	0	0.0	1	78.8	2	183.5	9	325.2	12	587.4	6.5	2.5	6.5	2.9
	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0	0	0
Total	**16**	**521.0**	**35**	**3,466.8**	**50**	**9,998.5**	**84**	**9,946.9**	**185**	**23,933.2**	**100.0**	**100.0**	**100.0**	**100.0**

mn = million, No. = number, Lao PDR = Lao People's Democratic Republic, Rep. = Republic, w/o = without.

[a] Blended program loans counted as one program. Excludes one cancelled program with no disbursement.

[b] Net of cancellation. Dollar equivalent of special drawing right-denominated loans based on exchange rate on 7 March 2007, the time the data was downloaded.

Source: Asian Development Bank Loan Financial Information System.

SUMMARY OF PROGRAM EVALUATION REPORTS PREPARED SINCE 2001

Program Loan	**Impact** Design and evaluated contribution to development goals	**Outcomes** Design and evaluated changes as a result of reforms	**Outputs** Reforms put into effect following reform steps, conditions, technical assistance
Loan: PAK 1576/1577 Capital Market Development Program Loan amount: $250 million $3.5 million Date approved: 6 November 1997 Date completed: 21 October 2001, 30 July 2001 PE-667: 2005 Program Performance Evaluation Report (PPER) Rating: S	• *Design impact*: to mobilize and allocate financial resources efficiently through capital markets • *Evaluation of impact*: the program was consistent with DMC development priorities, the ADB country strategy and program as appraisal and evaluation, and related IMF and World Bank adjustment loans • *Indicators and analysis used*: same indicators used to assess outcomes. No explicit statement to indicate how the program contributed to the impact, but indicators were used to evaluate component impact including capital market growth, investment levels in provident funds, insurance markets, and growth in commercial mutual funds and leasing industry	• *Design outcome*: a diversified and efficient capital market • *Evaluation of outcome*: increased competition and participation in capital markets, improved regulation and supervision, automated and more transparent trading system, development of mutual fund and leasing industry, limited development of corporate debt, and private insurance and provident markets • *Indicators and analysis used*: trends in number and size of equity initial public offerings, trends in daily trading volumes, market capitalization, total investments in lease finance as a percentage of gross domestic product (GDP), total mutual funds assets, and total premiums collected by general and life insurance companies	• *Design outputs*: policies for enhanced competition in financial market; develop security market institutions, corporate debt market, supervision regulation; enhanced private entry, regulation, and supervision of the leasing and insurance industry • *Evaluation of outputs*: 79% condition compliance, delays in meeting second-tranche condition compliance
Loan: LAO 1458 (SF): Second Financial Sector Program Loan amount: $25.0 million Date approved: 12 September 1996 Date completed: 30 April 2001 Actual loan amount: $23.6 million PE-678: 2006 PPER Rating: PS	• *Design impact*: increased financial intermediation supporting economic growth • *Evaluation of impact*: measures to improve financial infrastructure were not effective, insignificant improvement in credit allocation mechanisms and credit to private enterprise sector, no evidence that the program accelerated reforms in other economic sectors. Needs identified for improving impact and outcomes: continuing state-owned enterprise, fiscal and governance reforms, political commitment to Bank of Lao independence, macro-economic conditions conducive to achieving outputs, policy measures	• *Design outcome*: establish a sound and responsive banking system, develop an efficient financial system to mobilize more domestic savings, particularly long-term savings and allocate them efficiently to promote private sector development • *Evaluation of outcome*: More effective measures included chart of accounts adopted by banks, audits of state commercial banks (SCBs) completed; legal basis adopted for negotiable instruments; establishment of a credit information bureau within Bank of Laos; legislation to establish a social security fund/pension scheme for public and private enterprise employees. Ineffective measures included: SCB restructuring, development of a formal interbank market, developing a leasing market**,** establishing an effective secured	• *Design outputs*: strengthening the autonomy and commercial orientation of SCBs, strengthening BOL's supervisory function, institutional strengthening through restructuring and consolidating the SCBs, establishment of market infrastructure, and upgrade staff commercial banking skills. • *Evaluation of outputs*: individual program measures within the broad output areas were not always identified, formulated, and sequenced in a way that was appropriate and suitable for the country. In view of the envisaged policy content and costs associated with SCB restructuring and the development of the financial infrastructure, individual program measures within the broad output areas

Program Loan	**Impact** Design and evaluated contribution to development goals	**Outcomes** Design and evaluated changes as a result of reforms	**Outputs** Reforms put into effect following reform steps, conditions, technical assistance
	are effectively implemented. • *Indicators and analysis used*: GDP indicators of M2 and deposits regarding financial position of SCBs, levels of nonperforming loans for SCBs, inflow of foreign direct investment (FDI), share of private sector credit in total net domestic credit to the economy, interest rate margins	transactions regime. • *Indicators and analysis used*: change in investment rate and ratio of market capitalization to GDP, annual increase in number of listed companies, number of initial public offerings, range of securities available to investors, FDI inflow. The PPER concluded, in that the role the capital market plays in the economy remains below its potential	were not always identified, formulated, and sequenced in a way that was appropriate and suitable for the country. Tranche releases under the Program should have been linked to improvements in bank performance, debt recovery, and meaningful operational restructuring, not operational restructuring measures and indicators
Loan: 1580-BAN(SF): Capital Market Development Program Loan amount: $77.2 million Date approved: 20 November 1997 Date completed: 22 December 2000 Actual loan amount: $77.2 million PE-662: 2005 PPER Rating: PS	• *Design impact*: widen resource mobilization through the banking system and improve efficiency in allocating resources • *Evaluation of impact*: the program objective was consistent with the Government's strategy over the years and comprehensive in scope • *Indicators and analysis used*: ratio of market capitalization to GDP, annual increase in number of listed companies, number of initial public offerings, foreign investment in equity securities, trading volume, trading volume as a percentage of market capitalization (note: except for the ratio of market capitalization/GDP, all the others are the same as outcome indicators)	• *Design outcome*: broaden market capacity and develop a fair, transparent, and efficient domestic capital market to attract larger amounts of investment capital to augment the capital resources provided through the banking system • *Evaluation of outcome*: reform measures achieved but concerns remained about conflicts of interest, poor inter-agency coordination and commitment by major sector institutions to reform objectives. Performance measures indicate that the capital market has not developed as expected, with little increase in supply of securities to the market and developed institutional sources of medium to long-term funds to raise demand for securities • *Indicators and analysis used*: annual increase in number of listed companies, number of initial public offerings, foreign investment in equity securities, trading volume, trading volume as a percentage of market capitalization	• *Design outputs*: strengthen market regulation and supervision, develop capital market infrastructure, modernize capital market support facilities, increase securities in the market, develop institutional sources of demand for securities in the market, improve policy coordination • *Evaluation of outputs*: capital markets were modernized and support facilities, a central depository system and automated trading systems in stock exchanges were successfully implemented. Market regulation and supervision of brokers, dealers, merchant banks, and other market participants enhanced accountability. Improvements to operations of stock exchanges and upgraded accounting and auditing standards were rated partly successful.

Program Loan	**Impact** Design and evaluated contribution to development goals	**Outcomes** Design and evaluated changes as a result of reforms	**Outputs** Reforms put into effect following reform steps, conditions, technical assistance
Loan: 1611-THA: Social Sector Program (SSP) Loan amount: $500.0 million Date approved: 12 March 1998 Date completed: September 2001 Actual loan amount: $500.0 million PE-661: 2005 PPER Rating: PS	• *Design impact*: no medium or long-term goal indicated. The program was part of an overall economic restructuring framework agreed to by the Government and IMF at the time of the Asian financial crisis • *Evaluation of impact*: policies and reforms required were consistent with Thailand’s 8th National Economic and Social Development Plan. SSP contributed to strengthening social safety nets, better targeting of poverty funding, extended health coverage for the poor, and broader social security coverage. The success of the Government’s broad program to mitigate the impact of the financial crisis on the social sectors was a result of collaboration between agencies • *Indicators and analysis used*: education transition and completion rates, employment rates, vaccine coverage rates, child and maternal mortality rates, new HIV infections	• *Design outcome*: mitigate the short-term adverse impact of the financial crisis on society, especially vulnerable groups and the unemployed; initiate structural reforms to enhance the competitiveness of Thailand’s economy through the development of human resources; and reduce inefficiencies in the provision of social services • *Evaluation of outcome*: Mitigation of short-term impact of the financial crisis was achieved. Implicit purpose to provide budget support during the crisis was met. Many SSP projects were existing proposals by ministries. Enhancing competitiveness of human resources and reducing inefficiencies in social services provision were partially achieved. SSP did not have a significant impact on the longer-term policy framework for social sector development after the change in government post-crisis and policy changes • *Indicators and analysis used*: student loan budget; enrollments in vocational education; social security data; coverage by physicians, dentists and nurses; HIV/AIDS program financing	• *Design outputs*: provision of social protection for the unemployed; develop and improve competitiveness of the labor market; improve the quality of and access to education services for low-income households; improve access to health services in rural areas and by women, children and the poor; restructuring hospitals as corporations • *Evaluation of outputs*: of SSP’s 30 conditions, 28 were implemented to varying degrees. The Government demonstrated commitment to the reform process at the highest level, but interest declined in the policy conditions and activities as the crisis abated. Many of the action plans in SSP were revised or canceled after the change of government in 2001. TAs assisted with management and implementation processes used by the National Economic Social Development Board for formulating the 9th national plan and influenced the drafting of legal measures for decentralizing education, but use was confined to the national agency

Program Loan	**Impact** Design and evaluated contribution to development goals	**Outcomes** Design and evaluated changes as a result of reforms	**Outputs** Reforms put into effect following reform steps, conditions, technical assistance
Loan: 1604-NEP(SF) Second Agriculture Program (SAP) Loan amount: $48.9 million Date approved: 22 January 1998 Date completed: 31 December 2000 Actual loan amount: $48.9 million PE-655: 2004 PPER Rating: S	• *Design impact*: to contribute to sustainable economic growth and to the reduction of rural poverty • *Evaluation of impact*: the program was rated relevant and contributed to the intended impact by accelerating growth of agricultural production, consistent with the Agriculture Perspective Plan and ADB's country strategy and program. Complementary structural reforms assisted • *Indicators and analysis used*: Average real growth of the sector and poverty levels. ADB financed an impact survey. An overall lesson was that policy reform targets under a program loan need to be specified in a way that can be verified and monitored	• *Design outcome*: increase productivity in the agriculture sector, promote market-oriented agricultural development, establish legal and institutional framework for liberalization of the agriculture sector • *Evaluation of outcome*: despite lack of analysis, dialogue, and Ministry of Agriculture ownership, wider government familiarity with liberalization helped. Complete deregulation of the fertilizer sector and removal of subsidies for fertilizer, shallow tube wells and food grain procurement resulted. Fertilizer use increased by 20% but groundwater development was hindered by subsidy removal. Subsidy removals led to budget savings, but no evidence was found of their use in other public goods and services in the sector. The Agriculture Perspective Plan and SAP were not fully consistent. Privatization of state-owned enterprises (SOEs) and strengthening of institutional and legal frameworks was not completed • *Indicators and analysis used*: average annual increase in the use of fertilizer, reduction of subsidy costs/fertilizer subsidies, production of cereal crops and other basic grains, fertilizer use and prices, no indicators of changes in agricultural productivity	• *Design outputs*: implement medium-term sector strategy, fertilizer sector deregulation, reform the Agriculture Inputs Corporation, promote efficient use of water resources, promote competitive agricultural produce markets, develop rural infrastructure, strengthen sector institutional and legal framework, disposal of obsolete pesticides • *Evaluation of outputs*: Of the 28 SAP reforms and measures, 22 were implemented or substantially completed/complied with or completed with delay. Second-tranche release delays were due to delays in meeting conditions related to disposal of obsolete pesticides, shallow tube well subsidy removal, organizational reforms of the National Food Corporation and Agriculture Inputs Corporation, and a financial plan for rural road maintenance, none of which were fully effective at closure
Loan: 1513-RMI(SF) Public Sector Reform Program (PSRP) Date approved: 30 January 1997 Date completed: June 2000 Actual loan amount: $11.3 million PE-638: 2003 PPER Rating: PS	• *Design impact*: to initiate reform to avert a looming financial and economic crisis in the short term, and to set the economy on a more sustainable growth path in the long term • *Evaluation impact*: program was relevant and consistent with the Government's plan to revive the economy, and with ADB's strategy, but the economy remained dependent on external flows; failed to get political commitment and	• *Design outcome*: fiscal stabilization and sound fiscal policies, privatization of public enterprises, public service reform, measures to stimulate private sector development • *Evaluation outcome*: policies for longer-term fiscal stabilization well-designed and coherent, but SOE reforms and private sector regulatory environment reforms were less detailed. PSRP lost its main advocate just before the Board approved the loan, and there was little public consultation during loan design or implementation. Short-term adjustment costs were high, but the program placed greater	• *Design outputs*: reduce expenditures by at least 20% during the program period, improve domestic revenue collection, establish sound management of government trust funds, reduce the Government's role in the economy, improve the regulatory environment • *Evaluation outputs*: of 59 PSRP reforms and measures, 22 were implemented or substantially completed or completed with delays. Fewer than half of the measures were completed, or completed and sustained program resources, and

Program Loan	Impact Design and evaluated contribution to development goals	Outcomes Design and evaluated changes as a result of reforms	Outputs Reforms put into effect following reform steps, conditions, technical assistance
	public support; GDP remained stagnant during the program; real per capita GDP dropped 6.6% from 1995 to 2001; the fiscal deficit worsened. PSRP reduced the probable severity of the 1996–1998 economic downturn • *Indicators and analysis used*: fiscal position, central government finances, current revenue and expenditure trends, real GDP and per capita GDP growth trends, public service employment, subsidies to SOEs	emphasis on longer-term fiscal stability, with a narrowly focused effort on taxes and achieved only a small reduction on expenditures. Government lacked capacity to implement tax reforms and administration strengthening, or public sector rationalization. Transition support for retraining displaced public servants was not provided. Public payroll increased and SOE subsidies continued to increase • *Indicators and analysis used*: program provided no targets or indicators to monitor the impact of specific policies on the fiscal position, no monitoring was done of social impact of reforms	implementation was rated less efficient. The loan was designed to finance adjustment costs associated with the reform program—$5.5 million to finance public service retrenchments, $4 million to liquidate the high cost of national airline debt, and $2.5 million to establish a financial reserve trust fund. Use of loan funds totaled $8.5 million, with $3.7 million used for the retrenchment fund, $0.5 million for the trust fund and $4.3 million to retire airline debt. Delays in tranche releases were due to difficulties in fulfilling conditions and reforms
Loan: 1589 KAZ: Pension Reform Program (PRP) Loan amount: $100.00 million Date approved: 16 December 1997 Date completed: December 2000 Actual loan amount: $100.00 PE-628: 2003 PPER Rating: S	• *Design impact*: to sustain economic recovery by promoting private savings. Provision of effective long-term social protection to the working population • *Evaluation impact*: the program was driven by the Government as part of its strategy for finance sector development and desire to establish a pension system based on private pension funds and asset management companies • *Indicators and analysis used*: impact indicators were not defined or quantified at appraisal. Targets included enrolling 60% of the formal sector in the pension system and improving the collection rate of pension contributions by 50%. These targets were exceeded. Indicators for legal and institutional development were not specified	• *Design outcome*: a fully-funded, defined-contribution pension system by supporting the transition from the existing pay-as-you-go system to a pension system based on fully-funded, individual contribution accounts • *Evaluation outcome*: the program had a strong positive impact on oversight for strengthening the financial market and the development of the nonbanking finance sector; made a lasting contribution to the establishment of pension institutions and developed their capacity; contributed to the pooling of investment capital. The Government successfully explained and justified the reform to the public • *Indicators and analysis used*: output indicators from the design and monitoring framework were relied upon for the PPER	• *Design outputs*: establish a legal and regulatory framework for a pension system; review investment guidelines on asset management companies; establish a state pension payments center, national pension agency and state accumulation fund; run a public awareness campaign; enhance capacity; ensure financial and social sustainability of the system • *Evaluation outputs*: successful creation of the legal, regulatory, and institutional framework required for the new pension system to operate; public understanding of the reform; adequate capacity of the state pension payments center and the regulatory authorities to administer the new system; settlement of all outstanding pension arrears and continued payment of benefits under the old pay-as-you-go system; progress in promoting the development of capital markets

Program Loan	**Impact** Design and evaluated contribution to development goals	**Outcomes** Design and evaluated changes as a result of reforms	**Outputs** Reforms put into effect following reform steps, conditions, technical assistance
Loan: 1520-FSM(SF): Public Sector Reform Program (PSRP) Loan amount: $17.7 million Date approved: 29 April 1997 Date completed: 31 December 1999 Actual loan amount: $17.7 million PE-629: 2003 PPER Rating: S	• *Design impact*: transformation and development of a more efficient economy as agreed transfers as part of the Compact of Free Association approaches • *Evaluation impact*: public sector reform was a high priority for the Government at the time and was a core part of ADB's strategy. Relevance for the Government of some aspects such as SOE reform faded post-program after renegotiation of the compact for a further 15 years • *Indicators and analysis used*: macroeconomic indicators – GDP growth; public and private share of GDP, tax efforts, current account deficit as percentage of GDP; debt as percentage of GDP; trends in average wages in the private and government sectors	• *Design outcome*: reform and reduce the size of the public sector to adjust to declining external resource transfers; shift balance of economic activity away from the public sector to the private sector • *Evaluation outcome*: policy measures for shifting the balance of economic activity from the public to the private sector were less relevant and effective. Legislators showed a high degree of political will for public sector reforms helped by the retrenchment payments. Some pro-reform legislators later lost office to campaigners against the reform. Performance for staff and wage bill reduction varied among state governments. The national government combined downsizing with restructuring, reducing departmental staff from 11 to 6.22% (against a target of 27%) and cutting 28% in wage bill costs (against a target of 35%). Separation payments, skills training, and outplacement advice were provided but led to migration of younger people and difficulty in absorption of older groups. Consolidated tax revenue was 27% higher on average in the period 1998–2001 than in the previous four years. Non-tax revenues declined. Reforms were sequenced but could have incorporated measures to achieve early political benefits such as improved service quality. Variability in reforms by state. Slow response of the private sector • *Indicators and analysis used*: number and cost of core public service personnel, trends of average wages in private and government sectors, trends in tax and non-tax revenues, public and private share of GDP	• *Design outputs*: reduce size and operating costs of the civil service, increase domestic revenue generation, restructure government operation and public enterprises, mitigate negative social and economic impacts of adjustment in public expenditure, foster development of the private sector. Loan was to finance reform adjustment costs, mainly the separation payments of the early retirement scheme • *Evaluation outputs*: the policy matrix included 55 conditions covering reduction in the number and cost of public service personnel (19), other cost reductions (3), revenue-raising measures (11), restructuring of government departments and public enterprises (8), mitigating the social and economic impacts of the reforms (5), and fostering the private sector (9). There was compliance with most, but varying among states due to political hesitancy, which led to tranche release delays for all states. The use of counterpart funds was highly efficient, with those not required for the early-retirement scheme quarantined for debt repayment

Program Loan	**Impact** Design and evaluated contribution to development goals	**Outcomes** Design and evaluated changes as a result of reforms	**Outputs** Reforms put into effect following reform steps, conditions, technical assistance
Loan: 1409-MON(SF): Agriculture Sector Program (ASP) Loan amount: $33.0 million Date approved: 5 December 1995 Date completed: 31 December 1998 Actual loan amount: $33.0 million PE-606: 2002 PPER Rating: PS	• *Design impact*: support the transition of Mongolian agriculture from a centrally planned system to a market-based economy • *Evaluation impact*: the program's aim was consistent with the Government's development strategy and ADB's strategy. Attribution of indicator change to the ASP was difficult to assess as measures used were not directly related to ASP reforms and would have likely occurred without the program • *Indicators and analysis used*: performance indicators to measure impacts were not explicitly established in the program design, but subsequent indicators used included agriculture sector growth rates, living standards and commodity prices	• *Design outcome*: functioning land markets, market pricing of agricultural inputs and outputs, reduced government role in the sector, sustainable extensive livestock sector, privatization of SOEs, revitalized financial institutions serving the sector, streamline and reorient public sector institutions serving the sector • *Evaluation outcome*: the overall thrust was relevant, but the program design was ambitious, covering 10 key policy objectives. The key objective to promote market transition did not give sufficient attention to facilitating sector recovery, which was the most urgent and critical issue at that time, and gave insufficient attention to issues such as agricultural financing, which restricted the impact of reforms. Wheat production was projected to increase but actually fell, largely because of the elimination of wheat subsidies. Prioritizing reform measures would have resulted in fewer more critical interventions, and supplementary measures were needed to facilitate a supply response. Parallel poverty reduction measures were needed to offset the effects of reduced wheat production	• *Design outputs*: wheat prices liberalized, land market established, SOEs privatized, financial institution lending to the sector enabled • *Evaluation outputs*: high government participation and ownership over design. The revised Land Law was passed, and long-term leases of crop land are transferable and can be used legally as collateral. The ASP was instrumental in withdrawal of the state from agro-processing, production, and marketing. An agricultural extension center was established, but farmers had limited access to services due to staff and funding shortages. Wheat prices were liberalized. Technical assistance resources were used to produce several subsector action plans, many of which were not implemented due to insufficient follow-up and budget. Seventeen of the 31 policy measures in the policy matrix were conditions for loan approval and first tranche release, which reduced the load during program implementation; 21 were met, two were substantially met, seven were partially accomplished; discontinuing directed and subsidized credit to the agriculture sector was largely unaccomplished

Note: The Compact of Free Association with the United States is an agreement, which came into effect in 1986, that provided generous, relatively untied and partly inflation-indexed grant assistance to the country for 15 years, extendable by 2 years to 2003.

CRITICAL SUCCESS FACTORS IDENTIFIED IN RECENT ASIAN DEVELOPMENT BANK PROGRAM LOAN EVALUATIONS

Item	Relevance: Right reform to do?	Effectiveness: Right way to reform?	Efficiency and sustainability: Best use of resources and reform continuity?
1. Impact Contribution of reform outcomes to development goals (relevance only)	*Factors contributing to meeting priority development goals* • Stable domestic economic and socio-political environment • Stable regional and global markets • Analysis plausibly projects likely reform impact *Factors detracting from meeting priority development goals* • Economic shocks, climate, or physical shocks during and after program implementation • Changes in global and regional markets • Changes in government and fundamental policy swings • Civil unrest and conflicts • Insufficient analysis of potential policy reform impact at design stage causes uncertainty		
2. Outcomes Changes in enabling environment, institutions, behaviors as a result of reforms	*Factors contributing to relevant outcomes* • Reform consistent with developing member country (DMC) sector development priorities • Consistency of program with overall and complementary government reform agenda • Sufficient government ownership of reforms • Other stakeholder, public, and affected persons support the reforms • Consistency of sector strategy, other multilateral development bank, and aid agency support *Factors contributing to partly relevant outcomes* • Insufficient consideration of macroeconomic or wider sector policy context • Inappropriate institution assigned to manage reforms • Over-optimistic, ambitious, or unrealistic outcomes set • Inappropriate reform measures for the country or sector context • Insufficient consideration of other economic and governance reform needs • Key stakeholders ignore or oppose purpose of reforms and do not respond to measures • Quick disbursing program loans are regarded as financial bailouts rather than as a catalyst for reform, which perpetuates or aggravates problems	*Factors leading to effective reform outcomes* • Timing consistent with a significant macroeconomic or political event • Macroeconomic and sector environment conducive to reforms • Favorable political economy • Capacity to enact legislation • Stakeholders respond positively to reform measures • Reforms with public expenditure, revenue implications linked to wider fiscal management • Manageable reform scope to reach outcomes • Clear, distinguishable, and monitorable outcome indicators and targets specified in design frameworks • Clear specification of assumptions, risks, and management strategies *Factors limiting effective reform outcomes* • Lack of program links to complementary macro, fiscal, or sector reforms • Excessive reform complexity • Lack of links and continuity to earlier reform programs • Exclusion of key reform steps and inaccurate assumptions • Poor sequencing of sector reforms • Poor consultation with stakeholders	*Factors leading to efficient and sustained change process* • Reforms resulted in expected productivity gains • Stakeholders' response was sustained • Reliable and timely information on effects of reforms to allow reform process corrections • Timely realization of reforms maintains change momentum • Continued monitoring of change process arising from the reform *Factors limiting efficient and sustained change process* • Delays in reform implementation • Irrelevant and ineffective reforms led to public funds wastage

Item	Relevance: Right reform to do?	Effectiveness: Right way to reform?	Efficiency and sustainability: Best use of resources and reform continuity?
		during formulation • Program design and implementation focused on policy conditions rather than outcomes and performance indicators	
3. Outputs Reforms implemented as a result of following reform steps, conditions, advisory, and capacity building technical assistance (TA)	*Factors contributing to relevant outputs* • Processing mission had sufficient knowledge of country and sector • Reconnaissance missions had extensive dialogue with concerned agencies • Sector and policy analysis was sufficient, sound • Processing mission attempted to identify alternative policy solutions • Government understanding of alternative policy solutions • Relevant complementary changes made in policies, institutions • Adequate public awareness and support by key stakeholders for reforms *Factors contributing to partly relevant outputs* • Mission's lack of understanding of relevant and related policy and legal issues • Mission or TA consultants unfamiliar with stakeholders, institutions	*Factors leading to effective outputs* • No changes in Asian Development Bank (ADB) staff during design and implementation • Early drafting of policy matrix and government took significant prior actions • Policy matrix had cohesive, appropriate, and realistic number of actions • Implementing agency has capacity to manage reform measures or can be realistically developed • Selected modality was appropriate • Loan period was extended where justified • ADB responded to contextual change of reforms *Factors limiting effective reforms* • Inadequate identification and selection of reform measures, program design flaws • Unclear actions and performance targets • Tranche releases linked to wrong performance indicators • Frequent changes in ADB staff • Conditions excessive and poorly prioritized • Opaque working of program actions • Prolonged reform process reduces government commitment • Low stakeholder involvement in formulating reform measures	*Factors minimizing cost and time of reforms* • Counterpart funds generated by the loan used for identified reform costs • Sufficient but not excessive loan financing provided to effect reforms • Reliable and timely information on reform processes and progress to make decisions • Related institutions have the capacity to use counterpart funds to implement reforms • Steps needed to fulfill conditions clearly specified *Factors increasing cost and time of reforms* • An excessive number of program conditions beyond executing agency capacity • Loan and counterpart financing amount inadequately linked to measures and scope of reforms • Ineffective use and management of TA resources • Lack of monitoring actual program costs and insufficient attention to funding constraints faced by implementing agencies

Sources: Project performance evaluation reports and Operations Evaluation Department staff.

TOTAL PROGRAM LENDING (NET LOAN AMOUNT) BY SOURCE OF FUNDS, SECTOR, AND APPROVAL PERIOD

	1978–1986		1987–1995		1996–2000		2001–2006		Total	
Sector	No. of Loans	Net Loan Amount ($ mn)	No. of Loans	Net Loan Amount ($ mn)	No. of Loans	Net Loan Amount ($ mn)	No. of Loans	Net Loan Amount ($ mn)	No. of Loans	Net Loan Amount ($ mn)
A. Asian Development Fund										
Agriculture and Natural Resources	11	297.1	17	1,064.5	2	35.7	4	285.1	34	1,682.5
Education					2	25.2	5	112.0	7	137.2
Energy					1	50.4			1	50.4
Finance			3	151.5	9	351.5	13	265.8	25	768.9
Health, Nutrition, and Social Protection	1	11.9			3	18.6	1	9.3	5	39.7
Industry and Trade	2	10.2	6	354.5			6	144.1	14	508.7
Law, Economic Management, and Public Policy					10	283.9	14	522.5	24	806.4
Multisector	1	12.6			2	67.9	7	470.2	10	550.7
Transport and Communications			2	137.3					2	137.3
Water Supply Sanitation and Waste Management							1	5.1	1	5.1
Subtotal (A)	**15**	**331.7**	**28**	**1,707.8**	**29**	**833.2**	**51**	**1,814.2**	**123**	**4,686.9**
B. Ordinary Capital Resources										
Agriculture and Natural Resources	2	189.3	6	384.0	3	280.0	1	232.5	12	1,085.8
Education							1	70.0	1	70.0
Energy			1	125.0	4	983.0	5	880.6	10	1,988.6
Finance			5	1,025.0	6	5,752.3	11	2,720.0	22	9,497.3
Health, Nutrition, and Social Protection					4	745.0	1	200.0	5	945.0
Industry and Trade			2	175.0	2	450.0	1	144.0	5	769.0
Law, Economic Management, and Public Policy					5	755.0	16	3,099.4	21	3,854.4
Multisector					1	200.0	4	705.5	5	905.5
Transport and Communications			1	50.0			2	80.8	3	130.8
Subtotal (B)	**2**	**189.3**	**15**	**1,759.0**	**25**	**9,165.3**	**42**	**8,132.8**	**84**	**19,246.3**
C. Total										
Agriculture and Natural Resources	13	486.4	23	1,448.5	5	315.7	5	517.7	46	2,768.3
Education					2	25.2	6	182.0	8	207.2
Energy			1	125.0	5	1,033.4	5	880.6	11	2,039.0
Finance			8	1,176.5	15	6,103.8	24	2,985.8	47	10,266.2
Health, Nutrition, and Social Protection	1	11.9			7	763.6	2	209.3	10	984.7
Industry and Trade	2	10.2	8	529.5	2	450.0	7	288.1	19	1,277.7
Law, Economic Management, and Public Policy					15	1,038.9	30	3,621.9	45	4,660.8
Multisector	1	12.6			3	267.9	11	1,175.7	15	1,456.2
Transport and Communications			3	187.3			2	80.8	5	268.1
Water Supply Sanitation and Waste Management							1	5.1	1	5.1
Total	**17**	**521.0**	**43**	**3,466.8**	**54**	**9,998.5**	**93**	**9,946.9**	**207**	**23,933.2**

mn = million.
Source: Asian Development Bank Loan Financial Information System.

PROGRAM PERFORMANCE BY SOURCE OF FINANCING AND APPROVAL PERIOD
(Combined PCR and PPAR/PPER Ratings)[a]

Approval Period	ADF No. of Rated Programs[b]	ADF Success Rate (%)	OCR No. of Rated Programs	OCR Success Rate (%)	Total No. of Rated Programs	Total Success Rate (%)
1978–1986	14	42.9	1	100.0	15	46.7
1987–1995	27	18.5	7	57.1	34	26.5
1996–2000	27	70.4	15	66.7	42	69.0
2001–2004	6	66.7	4	75.0	10	70.0
Total	**74**	**45.9**	**27**	**66.7**	**101**	**51.5**

ADF = Asian Development Fund, OCR = ordinary capital resources, PCR = program completion report, PPAR = program performance audit report, PPER = program performance evaluation report.

[a] Using PPAR/PPER ratings when both PCR and PPAR/PPER ratings are available.

[b] Includes blend program loans.

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