

*Technical Note*





# DESIGN AND USE OF POLICY- BASED LOANS AT THE IDB



ove Office of  
Evaluation  
and Oversight

**'15** ANNUAL  
REPORT

This work is distributed under a Creative Commons license <https://creativecommons.org/licenses/by-nc-nd/3.0/us/> (CC BY-NC-ND 3.0 US). You are free to share, copy and redistribute the material in any medium or format, under the following terms:

-  **Attribution** — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.
-  **Non-Commercial** — You may not use the material for commercial purposes.
-  **No Derivatives** — If you remix, transform, or build upon the material, you may not distribute the modified material.
-  **No additional restrictions** — You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits.

The link provided above includes additional terms and conditions of the license.

© Inter-American Development Bank, 2016  
Office of Evaluation and Oversight  
1350 New York Avenue, N.W.  
Washington, D.C. 20577  
[www.iadb.org/evaluation](http://www.iadb.org/evaluation)

RE-485-6

# **‘15 ANNUAL REPORT**

**TECHNICAL  
NOTE:  
DESIGN AND  
USE OF  
POLICY-  
BASED LOANS  
AT THE IDB**

# ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
CAF	Development Bank of Latin America
CDB	Caribbean Development Bank
DDO	Deferred drawdown option
DPL	Development policy loan
FSO	Fund for Special Operations
IAMC	Independent Assessment of Macroeconomic Conditions
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MDB	Multilateral development bank
M&E	Monitoring and evaluation
NLF	New Lending Framework
OC	Ordinary capital
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PCR	Project Completion Report
PMR	Progress Monitoring Report
PSAL	Programmatic structural adjustment loan
PSEM	Public sector governance and economic management
SAL	Structural adjustment loan
SG	Sovereign-guaranteed
SPD	Office of Strategic Planning and Development Effectiveness
TC	Technical cooperation operation
WB	World Bank

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>6</b>
<b>INTRODUCTION .....</b>	<b>14</b>
<b>PBL ORIGINS AND FRAMEWORK OVERVIEW .....</b>	<b>16</b>
Evolution of the policy-based lending framework at other MDBs .....	16
Evolution of the policy-based lending framework at the IDB.....	18
<b>PBL PORTFOLIO OVERVIEW .....</b>	<b>22</b>
IDB PBL portfolio at a glance .....	22
Characterization of PBL use .....	24
Complementarity between PBLs and other instruments.....	28
Comparison of IDB and World Bank PBLs in LAC.....	31
<b>MAIN BENEFITS OF USING PBLs .....</b>	<b>34</b>
PBLs from the borrower’s side .....	34
PBLs from the Bank’s side .....	38
<b>ASSESSMENT OF PBL DESIGN AND IMPLEMENTATION FEATURES .....</b>	<b>41</b>
Methodology .....	41
PBL design features.....	44
PBL implementation features.....	49
PBL monitoring and evaluation .....	52
<b>CONCLUDING REMARKS.....</b>	<b>54</b>
<b>REFERENCES AND BIBLIOGRAPHY .....</b>	<b>58</b>
<b>ELECTRONIC ANNEXES</b>	
<a href="#">ANNEX I. TABLES AND FIGURES</a>	
<a href="#">ANNEX II. METHODOLOGICAL ANNEX</a>	

*This document was prepared by the project team consisting of Agustina Schijman (team leader), Pablo Alonso, José Ignacio Sembler, Ali Khadr, Juan Carlos Di Tata, Kathryn Britton, Maria José Hernández, Maria Paula Mendieta, Victor Beltrán, Jorge Rodríguez, and Ana Ramirez-Goldin, under the general supervision of Cheryl Gray (Director of OVE).*

# EXECUTIVE SUMMARY



In 1989, following the debt crisis in Latin America and the Caribbean (LAC), the Inter-American Development Bank (IDB, or the Bank) introduced policy-based lending. Originally named “sector loans,” policy-based loans (PBLs) were created to help countries advance macroeconomic adjustment programs while supporting structural reforms. In particular, they were to provide balance of payments financing and support sector policy or institutional reform. PBL resources were not subject to earmarking, and the size of loans was not related to the cost of the reforms supported, but rather to country financing requirements and the Bank’s available lending envelope.

This technical note was prepared by IDB’s Office of Evaluation and Oversight (OVE) as an input for OVE’s 2015 Annual Report. The paper takes an integral look at IDB policy-based lending, a key instrument that has featured in individual OVE evaluations, including Country Program Evaluations and comparative project evaluations. Several previous Bank and OVE studies have reviewed this instrument, but no comprehensive analysis on its design and use has been undertaken. By providing such an analysis, this paper sheds light on the instrument’s strengths and weaknesses, and provides an input for the forthcoming broad review of Bank instruments to be conducted by the Office of Strategic Planning and Development Effectiveness (SPD).

Specifically, this technical note investigates how policy-based lending has evolved over time, in both volume and content. It covers the period 1989 through 2014, with an emphasis on the last decade. At a descriptive level, the paper examines the origins of PBLs and the evolution of their framework; the evolution of the portfolio over time; and the complementarity of PBLs and other Bank instruments. At an analytic level, it investigates the main benefits of using PBLs (from the perspective of both borrowing countries and the Bank) and examines PBL design and implementation features. In this last regard, this paper fine-tunes OVE’s approach to PBL analysis. A key aspect of the analysis is capturing the depth of policy conditions—that is, the extent to which conditions (and indicative disbursement triggers) have sufficient substance to prompt

long-lasting policy or institutional changes. Development of such an approach is important given the relative dearth of good practice evaluation methodologies to assess loan conditions—both within the Bank and among multilateral development banks (MDBs).

The paper does not seek to evaluate the achievement of the outcomes to which PBLs contribute, an objective that lies beyond the scope of an annual report exercise. Nevertheless, the paper can be seen as a possible stepping-stone to a more in-depth future evaluation of PBLs' effectiveness.

## ORIGINS AND FRAMEWORK EVOLUTION

Like most MDBs, the IDB was created under the idea that it would mostly finance investment projects. In fact, the 1959 *Agreement Establishing the IDB* states that “loans made or guaranteed by the Bank shall be principally for financing specific expenditures”. Investment operations can incorporate some policy and institutional strengthening components to help overcome constraints that hinder investment effectiveness, but they rarely envisage significant structural changes.

In 1989, following the debt crisis in LAC, the IDB introduced policy-based lending, then called “sector lending”, under the Seventh Replenishment (IDB-7). Adapting the model of structural adjustment lending created by the World Bank in the late 1970s, the Bank established this new instrument for two purposes: to provide borrowing countries with liquidity to help meet their financing needs and to support them in undertaking reforms. The main characteristic of policy-based lending that differentiates it from investment lending is that proceeds are disbursed on the basis of compliance with agreed-upon conditionality (policy and institutional reforms), rather than against specific expenditures.

To ensure that investment projects remained the Bank's core development assistance tool, since 1989 the Bank has established aggregate limits on policy-based lending. Since 2011, the cap has been set at 30% of total Bank lending on a four-year cycle, and approvals have remained below the cap.

As the Bank's borrowing member countries experienced higher growth, strengthened their institutional capacity, and gained better access to capital markets, new PBL modalities were added to the original multi-tranche instrument. Two modalities have added significant flexibility: the programmatic variant of PBLs (PBPs), introduced in 2005 (under which a sequence of loans supports a given reform program), and the deferred drawdown option (DDO) modality, added in 2012 (under which proceeds can be disbursed if and when they are needed). Moreover, the Bank has expanded its own analysis on the adequacy of countries' macroeconomic frameworks and progressively moved to reduce its dependence on IMF views.

The use of policy-based lending for development has been subject to many debates over the years. Some common questions relate to the fungibility of different forms of development finance, the compatibility of financial and policy reform goals in policy-based lending, the extent to which causation (or “additionality”) needs to be evident in donor funding, the role of conditionality, and whether or not the extent of policy-based lending should be linked to the reliability of a country's underlying governance and financial management systems.



While the Bank's evolving PBL framework has clearly accommodated the twofold motivation for policy-based lending (financing and reform), it has provided little clarity on which (if either) of its two broad purposes should dominate. At times, that lack of clarity has translated into weak design features and guidelines. For instance, the Bank's PBL operational guidelines do not provide specific guidance on what qualifies as a policy or institutional reform, and thus as appropriate policy conditionality. Moreover, the definition of the specific lending ceilings for PBLs has lacked analytical and empirical grounding.

## PORTFOLIO TRENDS

Since establishing PBLs in 1989, the Bank has approved about 300 policy-based loans, contained in 230 policy-based *programs* (as a program may be supported by more than one loan). In the instrument's 25 years of existence, policy-based lending has totaled \$45 billion, accounting for one-quarter of the Bank's total sovereign-guaranteed (SG) lending and 28% of SG disbursements. The IDB is the second largest provider of policy-based financing to LAC, after the World Bank.

Reflecting the expansion of overall Bank lending, policy-based lending has increased over time (at constant prices). It has also intensified in times of economic turmoil: for instance, during the Tequila crisis in 1995, PBLs represented around 30% of total Bank lending, up from 10% in 1994; similarly, demand for regular PBLs increased sharply during the 2001 crisis in Argentina and other Southern Cone countries, and during the international financial crisis in 2008-2009. However, OVE found that PBLs have played a modest countercyclical role in practice, though some fast-disbursing investment lending is likely to have supplemented that role during the 2008 financial crisis. Several factors limit PBLs' capacity to provide effective countercyclical support. First, PBLs cannot be approved or disbursed if borrowers do not have a positive macroeconomic assessment. Second, the total amount of policy-based lending is subject to the 30% aggregate cap. Third, the impact of IDB's lending in middle-sized and large countries is necessarily limited by its small size in relation to their economies.

All LAC countries have received at least one PBL, though PBL use has differed greatly across countries in the region. There is no statistically significant relationship between the use of PBLs and either GDP per capita or the level of a country's institutional development (as measured by commonly used indicators). During the last decade, for example, PBLs accounted for the large majority of SG approvals in several countries (including Colombia, Guatemala, Peru, Jamaica, and Suriname) while being practically (or totally) nonexistent in others. In terms of absolute approval amounts, Brazil, Mexico, and Colombia have been the three top PBL recipients over the past decade, accounting for about half of total PBL approvals. Nevertheless, the Bank's policy-based lending has been less concentrated than that of the World Bank. World Bank policy-based lending is more concentrated in large and upper-middle income countries than IDB's, with fewer countries receiving PBLs overall.

In terms of complementarity with other Bank instruments, a great majority of PBL series have been accompanied by parallel technical cooperation operations (TCs), which usually have supported policy dialogue, diagnostic work, and compliance with conditionality. The support provided by TCs is especially relevant for two reasons. First, while resources from a PBL go to the

country's treasury, parallel TCs provide direct support for the line ministries in charge of the reforms. Second, there is a strong positive link between TC support and the likelihood of completing a PBP series. On a smaller scale, investment loans have also accompanied PBP processes.

OVE's analysis suggests that Bank policy-based lending usually accompanies reform processes in areas in which the Bank has accumulated experience and knowledge, continuing a longer-term policy dialogue at the country level. This finding is also compatible with the hypothesis that when countries need quick financial support, the Bank turns to sectors in which it has accumulated know-how so it can respond more expeditiously.

Around 13% of all policy-based operations approved since 1989—roughly a quarter of total policy-based financing—have been cofinanced with other development partners, especially the World Bank. Most of the cofinancing occurred in the early days of PBLs and, although on a smaller scale, it remained important until about 2005. Since then, the Bank has financed almost all PBLs individually. Similarly, PBL approvals were in the past largely dependent on the borrowing country's having an IMF-supported program in place. This tendency has declined over time, both because of the decreasing presence of IMF-supported programs in LAC and IDB's increasing detachment from IMF assessments (accompanied by expanded in-house analysis).

## **BENEFITS OF USING PBLs**

The importance of PBLs in the Bank's overall lending can be traced to both demand- (i.e., borrower) and supply- (i.e., Bank) related factors. From a demand perspective, PBLs provide fast-disbursing budget support and have lower transaction costs than investment projects; they usually bring policy advice and capacity building; and they may help governments create consensus for and legitimize their reform agenda. The analysis found that countries' predominant rationale for using PBLs is budget support in times of financial stress. Specifically, countries resort to PBLs to address actual or anticipated financing requirements, but their use increases the most in times of economic shocks. This is especially true in small economies, which tend to be more vulnerable to external economic shocks and for which IDB financing can be decisive to weather a storm. That said, PBLs' countercyclical role has been rather limited, as noted earlier.

From the Bank's perspective, compared with investment projects, PBLs are faster and cheaper to prepare and to implement, and they generate more income per dollar approved. Additionally, as of December 2014, the credit quality of the PBL portfolio, as reflected by the ratings of borrowing member countries, was better than that of the investment portfolio.

PBL disbursements tend to peak at the end of IDB's and countries' fiscal years. This likely reflects the joint incentives to demand and supply this lending instrument, together with incentives created by IDB's annual country programming process to push through project approvals (often followed by disbursements in the case of PBLs) at year-end.

## DESIGN AND IMPLEMENTATION FEATURES

For the in-depth analysis of design and implementation features, OVE drew a stratified random sample of 40 policy-based programs that encompasses 70 loans in 18 countries. The sample was drawn from the population of policy-based programs approved since 2005, in four thematic areas—public sector governance and economic management, social sectors, financial sector, and energy. The sample amounts to half the programs approved in those areas during that period. OVE then analyzed the sample along three dimensions: policy depth, sequencing, and vertical logic.

### *Design*

The sequencing of conditionality has typically followed the stages of a reform cycle: for both multi-tranche PBLs and PBPs, conditions in the first tranche or loan focus on the earlier stages of a policy reform process (preparation, approval), while a larger proportion of conditions in subsequent tranches or loans focus on implementation. This indicates that on balance the Bank supports a reform process from an early stage and aims at staying through later stages. However, the monitoring and evaluation (M&E) stage is seldom included as conditionality.

OVE also found that 15% of the conditions in the sample had high depth, 54% had medium depth, and the remainder, low depth. Low-depth conditions call for basic one-off measures or simply express intentions, so that they can hardly be considered “essential for the achievement of expected results,” as expected according to Bank guidelines (CS-3633-1). This suggests that there is scope for reducing the use of low-depth measures as policy conditions in Bank PBLs.

This said, OVE also found that the depth of conditions increases as the reform process advances: 43% of conditions in the first loans of PBP series tend to have low depth, while the proportion decreases to 30% and 16% in the second and third loans, respectively.

When analyzing policy and institutional depth, sharp differences arise across countries as well as across programs within countries. In general, though, three findings stand out: (i) how advanced a country is in the pursuit of a reform process at the outset of the program is positively correlated with program depth; (ii) reforms supported in times of crisis are slightly deeper; and (iii) programs in the financial and energy sectors tend to have greater depth than those in the social and public sector management and macroeconomic clusters. However, the fact that PBLs often reward reforms already undertaken complicates the interpretation of these findings.

The analysis found that there is no correlation either between loan size and number of policy conditions or between loan size and depth of the supported reform program.

### *Implementation*

Under the traditional multi-tranche PBL, countries tended to request waivers if they were unable to comply with conditionality. For PBPs countries do not need to resort to waivers, but actual policy conditions frequently diverge from the original indicative triggers.

In addition, many PBP programs are not fully completed (that is, programs are “truncated”). Of the 82 PBP series approved during 2005-2014, 59 reached a mature stage, and of these 44% have been truncated. Since higher-depth conditions tend to be concentrated in the later loans of a series, truncation impairs the whole program’s depth. However, the reasons for PBP truncation are case-specific and not clearly related to program depth. Truncation is usually associated with changes in countries’ financing requirements and/or government priorities. In this regard, OVE’s analysis suggests that there may be room to improve the time alignment between Bank support to a reform program and the country’s political cycle.

OVE also found that in many cases, countries continue with the reform efforts after a PBP has been truncated, albeit often at a slower pace. This may call into question the Bank’s capacity and incentives to realistically assess—with the borrower—the pace of reforms.

### ***Monitoring and Evaluation***

The evaluability performance of PBLs has traditionally been much weaker than that of investment loans, with lower Development Effectiveness Matrix (DEM) scores at entry. Scores are particularly low in the area of monitoring and evaluation, perhaps reflecting methodological challenges in estimating PBL impact. OVE’s review also found that program objectives tend to be poorly linked to meaningful results/outcome indicators, since results matrices focus primarily on activities and outputs.

The monitoring of PBLs has also been traditionally weak. Until recently, for series that were indefinitely postponed or de facto suspended, staff usually did not prepare a Project Completion Report (PCR). Moreover, the fast-disbursing nature of PBLs implies that many loans are never subject to the six-month project monitoring report cycle. The new PCR guidelines approved in August 2014 represent a substantial advancement, since they state that a PCR must be produced even when the series is interrupted or the next operation in the series is postponed indefinitely. Another important change recently introduced to PBLs made the inclusion of economic analysis mandatory.

## **SUMMARY AND CONCLUDING REMARKS**

From a conceptual viewpoint, PBLs have an important role in supporting policy and institutional reforms. PBL resources are fungible—as, ultimately, is much of investment lending. As more LAC countries have gained access to capital markets, IDB has developed more flexible policy-based lending modalities, which have been attractive to borrowers. The use of PBLs has varied greatly across LAC countries, though every country has had at least one PBL since 1990. The share of PBLs in the total SG portfolio shows no significant relationship with countries’ income levels or institutional strength indicators.

Historically, there has been a twofold motivation for Bank policy-based lending: to provide borrowing countries with liquidity to help meet their budget and/or balance of payments financing needs, and to help them advance with policy and institutional reforms. The balance between these objectives varies, and the compatibility of those twin goals cannot be taken for granted.

For example, when a country's financing needs are great, the policy elements may take second place. In this regard, OVE found that there is no correlation either between loan size (in absolute and in per capita terms) and number of policy conditions, or between loan size and the depth of the supported reform program. These findings are consistent with the Bank's policy-based lending guidelines, which clarify that loan volume is not necessarily related to the cost of the policy reforms and institutional changes supported by the PBL, but is determined by the development financing requirements.

The various provisions that make up the PBL framework have evolved through the years but remain somewhat unclear, and that lack of clarity can translate into weak design. For instance, the Bank's operational guidelines for policy-based lending offer little guidance on what qualifies as a policy or institutional reform, and thus on appropriate policy conditionality. Moreover, the rationale for the specific ceilings for policy-based lending (overall and not by country) has lacked analytical and empirical grounding. In addition, it remains unclear whether PBLs are meant to leverage reforms (that is, bring about reforms that would not otherwise take place to the same extent), support reform implementation (for instance, by providing technical know-how), or reward reforms already undertaken. For example, to what extent should PBLs piggyback on measures undertaken before the start of the operation? How old can measures be, yet still qualify as policy conditions in a Bank PBL?

Regarding loan content, Bank guidance prescribes that policy conditions be critical and as few as possible. Yet OVE found that fully one-third of policy conditions are of low depth, involving basic one-off measures or expressions of intent—conditions that can hardly be considered essential for the achievement of expected results, as expected according to Bank guidelines. Furthermore, the average number of conditions in policy-based lending programs has risen over the last decade, though more conditions has not meant greater depth. TCs might be a better instrument to help countries carry out the basic measures needed to set the ground for a reform program, facilitating greater parsimony in the selection of PBL conditionality.

Finally, regarding implementation, of the 82 PBP series approved between 2005 and 2014, 23 are still active, 33 were completed, and 26—about a third—were truncated. Thus the truncation rate to date (the number of truncated series over the sum of completed and truncated series) is 44%. In some countries, truncation has resulted in frequent shifts in the policy focus of the Bank's PBL. Since medium- and high-depth conditions tend to be concentrated in the second and third loans of a series, the truncation of PBP series dilutes the overall depth of PBP programs (though it does not necessarily signal the end of the country's reform process). Significantly, OVE found a positive relationship between TC use in parallel to a PBP series and the likelihood of completion of the series.

# INTRODUCTION

---

The lending framework of the Inter-American Development Bank (IDB, or the Bank) distinguishes three lending categories (AG-1/02): investment loans, contingent credit lines, and policy-based loans (PBLs). Policy-based lending is an instrument that contributes to countries' financing needs by providing fast-disbursing funds conditioned on policy and institutional reforms. The main characteristic of PBLs that differentiates them from investment loans is that proceeds are disbursed on the basis of compliance with agreed-upon conditionality (policy and institutional reforms), rather than in relation to specific expenditures. Since PBLs provide fungible resources that go directly to the government's budget, they are synonymous with "budget support." A main difference between PBLs and contingent credit lines (at least in their most recent form) is that the latter specifically support countries facing exogenous economic shocks and are usually conditional on the protection of identified programs and expenditures.

Introduced in 1989, PBLs have become—in line with trends in other multilateral development banks (MDBs)—a basic component of the IDB's assistance toolkit. Since 1989, the Bank has approved roughly 300 PBLs worth about \$45 billion, which have accounted for some 25% of the Bank's total sovereign-guaranteed (SG) lending and 28% of SG disbursements. Almost all borrowing countries have used PBLs. Reflecting the overall expansion in Bank lending, policy-based lending has increased over time (at constant prices) and intensified in times of economic turmoil.

As policy-based lending has grown in importance, it has also received increasing attention in evaluations by the Office of Evaluation and Oversight (OVE). Several Bank studies assessing PBLs during the 1990s (GN-1752, RE-213, RE-228, and RE-239) agreed on the need for the Bank to strengthen its macroeconomic and sectorial analysis; ensure implementation of agreed-upon reforms; determine the optimal size of loans; and ensure adequate impact analysis. In the last decade, two OVE evaluations have covered PBL use. The first (RE-300) was completed in 2004 and reviewed the full range of Bank instruments. It found that PBLs had been generally successful in accomplishing their country financing objectives, but that their effectiveness in inducing policy change was less clear. Moreover, it found that PBLs led to some crowding out effects with respect to other Bank instruments and recommended the creation of a separate instrument specifically geared to providing countries financing in exceptional circumstances. The second evaluation (RE-342), produced in 2008, reviewed the New Lending Framework for 2005-2008. It concluded that PBLs generally did not comply with Bank guidelines in terms of indicators and their links to objectives, and that the quality and level of detail of the operations' economic analysis were weak. In more recent years, OVE's country program, sector, and thematic evaluations have routinely covered PBLs.

However, there has been no comprehensive analysis of IDB's experience with the instrument. This paper helps to fill that gap by investigating how policy-based lending has evolved over time, both in quantity and content. It answers four sub-questions.

How has the policy-based lending framework changed over time? The paper examines the rationale for, and evolution of, policy-based lending at other MDBs as well as at the IDB, including the introduction of different PBL modalities and the use of caps on the overall level of policy-based lending.

How has the policy-based portfolio evolved over time? The paper describes general trends in PBL lending and characterizes the use of PBLs across countries, regions, and thematic areas at the IDB. It also examines how PBLs complement other Bank instruments, and compares IDB's approach to that of the World Bank in Latin America and the Caribbean (LAC).

What explains the trends in the evolution of the policy-based portfolio? Specifically, the paper studies the incentives for countries to demand PBLs, and the operational and financial implications for the Bank of providing them.

How have the design and implementation of PBLs changed over time? The paper examines the number and content of policy conditions, the completion rate of policy-based programs, and the quality of PBLs' monitoring and evaluation frameworks.

The paper does not seek to evaluate the achievement of the outcomes to which PBLs contribute, an objective that lies beyond the scope of an annual report exercise. However, the paper can be seen as a possible stepping-stone to a more in-depth future evaluation on PBL effectiveness.

The motivation for this paper is several-fold. First, the paper responds to a Board of Directors request for more information regarding the Bank's use of policy-based lending. Second, it provides an input into SPD's upcoming review of Bank instruments. Third, it supplements the IDB-9 evaluation. And finally, the paper advances an approach that OVE has developed to assess PBL design features.

In particular, the paper fine-tunes OVE's approach to PBL analysis to address some of the limitations of the approach used in the past. Since 2014, OVE has been piloting an approach to assess PBL design features that tried to capture the policy and institutional depth reflected in loan conditions. The approach had some limitations, including its static nature and its inability to capture the Bank's adaptability to local contexts. To address these gaps, OVE expanded the approach in this review to include the analysis of both static and dynamic aspects of conditionality, and to assess PBL implementation features. Development of such an approach is important, given the relative dearth of good practice evaluation methodologies to assess PBLs' conditions, both within the Bank and among MDBs.

To answer the evaluation questions, OVE drew on a variety of data sources and applied a combination of methods. Among the key documents analyzed are the Bank's PBL policy and guidelines, the Bank's annual financial statements, loan documents, and minutes of Board meetings. To gain an understanding of the evolution of the PBL portfolio, OVE reviewed the universe of policy-based programs approved since 1989. For the in-depth analysis of design and implementation features, OVE drew a stratified random sample of 40 policy-based programs that covers 18 countries. Finally, OVE drew on Country Program Evaluations and sector and thematic evaluations, as well as interviews with IDB managers, project team leaders, former IDB staff, and country stakeholders, as inputs to the analysis.

# PBL ORIGINS AND FRAMEWORK OVERVIEW

## EVOLUTION OF THE POLICY-BASED LENDING FRAMEWORK AT OTHER MDBs

Until the late 1970s, MDB lending focused exclusively on investment projects. Following the second wave of oil price shocks in the late 1970s, in 1980, the World Bank was the first MDB to create an instrument to provide balance of payments financing in return for policy and institutional reform—the structural adjustment loan (SAL). SALs usually complemented IMF stabilization programs, providing large volumes of finance that were transferred to the country's treasury, and that disbursed quickly in multiple tranches over a period of three to five years. The introduction of the instrument was not devoid of debate (see Box II.1). As the economic situation of developing countries deteriorated during the 1980s, the use of SALs intensified and their scope widened, leading to the creation of new modalities.

The short-term balance of payments approach was later complemented by a programmatic approach focused on supporting longer-term reforms. In the late 1990s, the World Bank introduced programmatic structural adjustment loans (PSALs), which constituted a series of annual loans made over a period of three to five years, each building on the preceding loan to support a common medium-term reform program. This programmatic approach was consolidated in 2004, when adjustment loans were replaced with development policy lending. The focus of development policy loans (DPLs) was less on reducing macroeconomic imbalances and more on supporting longer-term social and sector reforms. In response to the global financial crisis of 2008-2009, the World Bank introduced more flexible DPL modalities, including a deferred drawdown option (DDO) that gives IBRD-eligible countries the choice to defer disbursements.

Other MDBs have also introduced policy-based lending since then (Figure II.1). In the early 1980s, the Asian Development Bank (ADB) and the African Development Bank (AfDB) were the first MDBs to follow the World Bank in introducing policy-based lending. In 1989, the IDB was the first regional MDB to introduce an instrument of this kind in LAC. Six years later, the Development Bank of Latin America (CAF) created its own policy-based instrument, and the Caribbean Development Bank (CDB) launched one in 2006.



## BOX II.1

**MAIN ISSUES RELATED TO THE INTRODUCTION OF POLICY-BASED LOANS**

**How fungible is development money?** The MDBs were created under the premise that they would mostly finance specific expenditures related to investment projects. Policy-based loans, which provide budget support, were originally perceived to be at odds with this premise. However, there are two main reasons why the difference between instruments might be inflated. Let's think of a \$1 billion investment loan that finances roads. Because loan resources free up cash that can be used for other purposes, the loan is unlikely to increase total spending on roads by \$1 billion. In this regard, estimates have suggested that the net effect of a dollar of foreign assistance (including MDB lending) is to increase public investment by only 29 cents—exactly the amount by which any additional dollar of government resources would have raised investment (World Bank, 1998). This means that (i) total investment does not increase by the full amount of the investment loan; and (ii) the expenditure that the Bank thinks it is financing is not really the marginal investment financed by the loan.

**Are the twin goals of PBLs compatible?** The introduction of policy-based lending raised questions on the appropriateness of pursuing two distinct objectives with one instrument. This controversy was well illustrated in the IDB in the mid-1990s, when Management stated that “[t]he balance of payments motivation for policy based lending often creates an environment in which the policy elements of loans become secondary to the primacy of balance of payments concerns” (GN-1955). To reinforce this point, Management quoted a paper by Professor G. Ranis: “One of the inherent difficulties [...] is that it is impossible to achieve two objectives with one instrument. If, in the wake of the Brady Plan, the MDBs are asked to pump out the money on behalf of debt relief we should not expect the obiter dicta concerning policy change to be taken very seriously by either party” (FN-1955, para. 5.11).

**Should PBLs leverage reforms, support reform implementation, or reward past behavior?** As originally conceived, conditionality in PBLs was aimed at incentivizing reforms: conditions were generally measures that the borrowing country needed to undertake for the resources to be disbursed (that is, they rarely included measures that had already been undertaken). In the 1990s, scrutiny over conditionality increased—precisely related to the idea that money can “buy” hard policy reforms, even in the absence of country ownership. In addition to ownership issues, this approach had credibility issues: “If the basic motivation of donors for going into policy conditionality is to disburse big money fast, then the

credibility of an enforcement agency is destroyed” (P. Collier in World Bank, 2005b). The original approach has changed over time, and PBLs (including the IDB's) have increasingly included measures already undertaken by borrowing countries (even before the loans were included in the pipeline). In this regard, it is usually recognized that in programmatic series, first loans tend to reward past achievements, while subsequent operations try to incentivize new actions. Which is the most appropriate approach or the right balance is still an open question. For instance, some believe that piggybacking on past actions is preferable in countries with strong institutional settings, but that MDBs should try to incentivize new reforms when track records are weak and credibility issues arise (World Bank, 2005b).

**How effective is conditionality?** There was (and continues to be) inconclusive empirical evidence on the effect of MDB lending and conditionality on poverty reduction, on the likelihood of bad governments surviving, and even on the likelihood of policy reform. The main lesson learned from that literature was that conditionality can be useful in helping to identify and implement reforms but can only succeed when there is country ownership. In 2005, that lesson underlay the OECD High Level Forum on Aid Effectiveness and the resulting Paris Declaration.

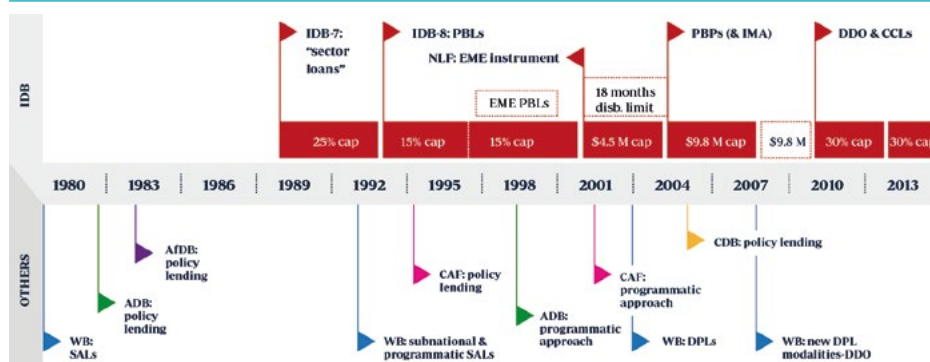
**Should policy-based lending be conditioned on good governance and country systems?** Although tying funding to specific investment expenditures can notionally appear to safeguard the use of funds for development purposes, the fungibility of resources discussed earlier dilutes the substantive validity of this argument. In fact, development partners' efforts to “cocoon” their projects have in many cases neither improved services in the short run nor led to institutional changes in the long run (World Bank, 1998). In particular, the requirements that typically accompany investment loans—including procurement and financial management procedures—tend to give rise to parallel systems that can undermine the functioning of countries' own systems. At the same time, since funds provided as budget support are subject to countries' own public financial management systems, effective use of these resources hinges sensitively on the reliability of such systems, and more generally on the quality of governance and institutions in the country. A subject of repeated debate has therefore been whether PBLs should be confined to borrowing countries with sufficiently good public financial management systems and strong governance institutions—although what precisely constitutes “sufficiently” is recognized to be arbitrary.

## EVOLUTION OF THE POLICY-BASED LENDING FRAMEWORK AT THE IDB

In 1989, under the Seventh Replenishment (IDB-7), the Bank introduced policy-based lending. Until then the Bank had used only specific investment loans, but following the LAC debt crisis, it introduced PBLs, which were based on the model of conditional budget support created by the World Bank almost a decade earlier.<sup>1</sup> Originally named “sector loans,” the Bank’s PBLs were intended to support the twin objectives of promoting sector policy or institutional reform and helping countries meet their financing needs. In particular, they were created to help countries advance macroeconomic adjustment programs while supporting structural reforms. Thus PBL resources were not subject to earmarking, and the size of loans was not related to the cost of the reforms supported, but rather to the country financing requirements and the Bank’s lending envelope. Moreover, PBLs were to be disbursed in several tranches, conditioned on the maintenance of a sustainable macroeconomic policy framework and compliance with a set of agreed-upon conditions defined in a “policy matrix.” PBL processes provided for a country policy memo to ensure that those conditions were being complied with, and relied on IMF-supported programs for macroeconomic assessments.

To ensure that investment projects remained the Bank’s core development assistance tool, the Bank established a cap on policy-based lending. PBL approvals could not exceed 25% of the Bank’s 1990-1993 lending program (that is, of the Bank’s total SG and non-sovereign-guaranteed approvals) (see Box II.2). The ADB and the CDB are the other regional MDBs that have formal aggregate ceilings on PBLs. The World Bank, the AfDB, and the CAF do not—although there is an implicit tradition at the World Bank for policy-based lending not to exceed 25% of total lending (Table II.1). No MDB has country caps.

FIGURE II.1. PBLs timetable by MSBs



Source: OVE

1 If requested by the borrower, “hybrid loans” that combined investment and policy-based lending could also be provided.

In 1994, the Bank concluded that the need for major macroeconomic adjustment had waned, and it introduced changes to tighten PBL use; the Asian crisis, however, challenged them. Under the Eighth Replenishment (IDB-8), the Bank agreed that sector loans had allowed it “to become a more active player in the region [...with] practically all PBL activities [providing] fungible resources for balance of payment support, and for debt reduction agreements” (AB-1704, para 2.1). The IDB-8 also concluded that the need for major macroeconomic adjustment had declined and that PBLs should thus place greater emphasis on social sector policy and efficiency of service delivery (CS-3371). To reflect this, the term “sector loans” was changed to “policy-based loans” and the cap was reduced from 25% to 15% of the lending program. Nonetheless, the closure of capital markets in 1997-1998 challenged the new cap and led to the introduction of a transitory emergency variant of PBLs, subject to a separate limit. The emergency program ended in the early 2000s, but demand for PBLs continued to exceed the 15% limit. This led to three modifications under the New Lending Framework (NLF) in 2002: the 15% ceiling was replaced by an absolute figure of US\$4.5 billion for 2002-2004 (meaning that PBL lending became independent from the level of investment lending);<sup>2</sup> a new emergency lending category, now separate from PBLs, was introduced; and a minimum disbursement period of 18 months on PBLs was established, mostly to avoid crowding out the new emergency instrument. Moreover, the Bank started to include in PBL loan documents a “matrix of results” in addition to the traditional “policy matrix.”

By the mid-2000s, in a context of lower demand for its lending, the Bank introduced new changes to the PBL instrument, including a more flexible programmatic modality. As borrowing countries were experiencing higher growth, increased institutional capacity, and better access to capital markets, the Bank introduced three main changes to PBLs. First, there was a progressive move to expand IDB’s own analysis on the adequacy of countries’ macroeconomic frameworks and reduce its dependence on IMF views. This led to the creation of the Independent Macroeconomic Assessment, which required the regional departments to produce, with the support of the Research Department, a macroeconomic assessment at the time of approval and disbursement of PBLs. In practice, though, IMF views continued to be a key input for Bank’s assessment.<sup>3</sup> Second, the floor on PBLs’ disbursement period was removed to make the instrument more competitive with the World Bank’s PSALs. Finally, the programmatic variant of PBLs (PBPs) was introduced. PBPs consist of a series of single-tranche loans set in a medium-term framework of reforms. The first loan identifies the policy conditions for that operation as well as indicative triggers for the subsequent ones in the series. Since the triggers could be revisited at the time of loan approval, PBPs allowed conditionality to adjust according to changing circumstances. With these changes, the Bank approved guidelines for preparing and implementing PBLs, for the first time consolidating existing policies and practices. This said, the guidelines provide little guidance on what constitutes a policy or institutional reform, and on what is appropriate policy conditionality.

2 Three years later that limit was increased to US\$9.8 billion for 2005-2008, and for the first time a cap was established on disbursements—US\$7.6 billion for the four-year period. A ceiling on the Fund for Special Operations (FSO) lending through PBLs was also established (US\$100 million for the four-year period).

3 An IMF on-track program or Article IV (issued within the last 6 months) were, de facto, requirements to approve and disburse a PBL operation (though not a *formal* requirement according to PBL guidelines CS-3633). If an Article IV was more than 6 months old, or if the country had no IMF program or Article IV in place, a comfort letter from the IMF was usually required.

## BOX II.2

## RATIONALE FOR LIMITS ON IDB POLICY-BASED LENDING

The *Agreement Establishing the IDB* (1959) states that “loans made or guaranteed by the Bank shall be principally for financing specific projects” (Art. III, Section 7). From a legal perspective, this statement has been interpreted as meaning that at least 50% of the Bank’s lending is to be devoted to investment lending. The different caps on PBLs established since 1989 have been based on this statement.

However, to the best of OVE’s knowledge, none of the Bank documents establishing the *specific* ceilings (25%, 30%, etc.) discusses the rationale for them, their financial implications, or the underlying evidence on the development effectiveness of investment projects *vis-à-vis* policy and institutional reforms. Moreover, none of the do-

cuments justifies the lack of caps at the country level. After all, if the idea underlying the Bank’s focus on “financing specific projects” is that this is where its comparative advantage lies, should the portfolio in some countries be heavily skewed toward PBLs? On the other hand, if the Bank’s comparative advantage is not necessarily linked to investment projects, should the Bank have an aggregate cap on PBLs? After all, the definition of a cap on policy-based lending “has never been based on financial sustainability considerations but rather on the Bank’s Constitutive Agreement, which implies that the Bank needs to focus on investment financing.”<sup>3</sup> This said, as is discussed later in this paper, different caps do have financial implications for the Bank.

<sup>3</sup> From minutes of the Board of Executive Directors’ deliberations over New Operational Framework (GN-2494).

**TABLE II.1. MDBs’ limits on PBL use, as of 2015**

	<b>IDB</b>	<b>WB</b>	<b>AfDB</b>	<b>ADB</b>	<b>CDB</b>	<b>CAF</b>
Ordinary capital	30% of total lending for four-year cycles	None (but an implicit tradition is 25% of total lending)	-----	20% of annual SG lending (3-year m.a.)	30% of loans and guarantees	-----
Special funds	30% of the biennial FSO allocation	30% of the IDA allocation	25% ceiling for AfDF countries	22.5% of total ADF allocation (3-year m.a.). <sup>a</sup>	-----	NA

Source: OVE, based on MDBs’ lending frameworks.

<sup>a</sup> The moving average is computed with the current year regarded as the middle year, and is based on the policy-based lending pipeline for the future year.

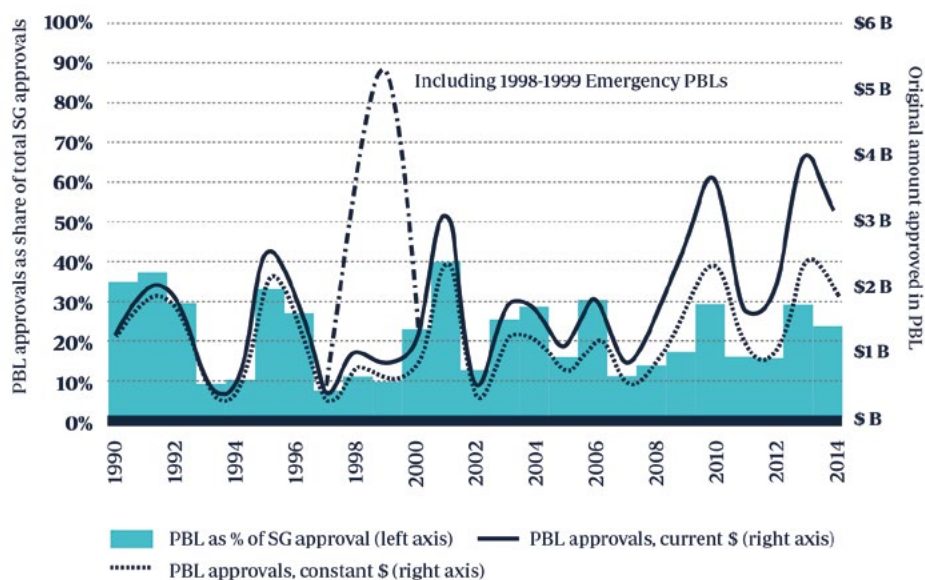
In the last four years, PBL approval limits have expanded, and new modalities enable PBLs to play a larger role as contingent financing. The dollar-denominated cap established for 2005-2008 was initially maintained through 2009-2012, but in 2011 the ceiling on ordinary capital (OC) PBL approvals was changed to 30% of total Bank approvals in four-year cycles (Table II.1). PBLs financed with Fund for Special Operations (FSO) resources were not to exceed 30% of the biennial FSO allocation. In 2012, the IDB also introduced a deferred-draw option equivalent to the World Bank's, to better synchronize proceeds with countries' financing needs. Finally, further actions were taken to increase in-house macroeconomic analysis and lessen the dependence on the IMF. Under the Independent Assessment of Macroeconomic Conditions (IAMC), introduced in 2014 to replace previous assessment tools and produced jointly by the Research Department and the Vice-Presidency for Countries, an IMF on-track program, Article IV, or comfort letter is not required for PBL approval and disbursement.

# PBL PORTFOLIO OVERVIEW

## IDB PBL PORTFOLIO AT A GLANCE

Since 1989, policy-based lending has averaged 25% of total SG lending and 28% of SG disbursements (Figure III.1). Since the establishment of PBLs, the Bank has approved about 300 PBLs, worth roughly \$45 billion. When those individual loans are bundled in programs (that is, considering all the loans that make up a programmatic policy-based program, and the entire set of tranches that make up a multi-tranche PBL), it turns out that the Bank has approved 230 policy-based *programs*. During the instrument's first decade, PBL approvals exceeded the established ceilings; in contrast, during 2011-2014 they remained below the 30% cap (Table III.1).

**FIGURE III.1. PBL total approved amount, 1990-2014**



Source: OVE based on IDB data warehouse. Unless otherwise indicated, excludes emergency lending  
 Note: Constant values are based on GDP Implicit Price Deflator in the United States, 1900-100

Since PBLs' inception, the number approved each year has almost tripled, while their average size has declined (at constant 1990 prices). Since 1989, the average size of PBLs has been close to \$160 million, more than twice that of investment loans. The Bank has approved an average of 11 PBLs per year in comparison to 63 investment loans per year. These figures have changed over time, mostly because of the introduction of the PBP modality in 2005: PBPs tend to be smaller than multi-tranche PBLs, but more individual loans are approved per year. On balance, overall PBL lending has gone up.

**TABLE III.1. PBL approvals by lending periods, 1990-2014**

	1990-1993	1994-2001	1998-1999 EME PBLs	2002-2004	2005-2008	2009-2012	2011-2014
Approval ceilings	25% total lending	15% total lending	\$8.8 b	\$4.5 b	\$9.8 b	\$9.8 b	30% total lending
PBL amounts approved	\$5.7 b	\$11.4 b	\$7.4 b	\$3.6 b	\$5.2 b	\$9.7 b	\$10.6 b
PBL as % of total lending	26.1%	19.8%	-----	22.9%	16.4%	19.2%	23.0%
PBL as % of SG approvals	26.5%	24.1%	-----	32.4%	20.2%	23.1%	27.4%

*Note:* Until 2005, there was no separate limit for FSO countries. The table thus shows approval figures and ceilings for all types of Bank capital until 2004, and focuses on OC resources thereafter.

*Source:* OVE, based on IDB datawarehouse. Figures exclude EME loans unless indicated.

PBL use has varied from year to year, intensifying when the region faced macroeconomic crises. The sharp changes in annual approvals are attributable mostly to the lending caps (in the 1990s, approvals tended to be front-loaded within cap periods, forcing adjustments at the end of each period; see Figure 1, Annex I) and the lack of an emergency instrument until 2002. In fact, over the years, the Bank responded to crises by using PBLs. For instance, during the Tequila crisis (1995-1996), PBLs represented around 30% of total Bank lending, up from 10% in 1994. Similarly, demand for regular PBLs increased sharply during the 2001 crisis in Argentina and other Southern Cone countries, and during the international financial crisis in 2008-2009. The Bank approved 62 PBLs worth about \$8 billion dollars between 2008 and 2010, compared to 31 loans and \$3.8 billion between 2005 and 2007.

Since the introduction of PBPs, they have become the preferred PBL modality. Since 2005, PBPs have represented more than 80% of the number, and almost 75% of the value, of PBLs approved (Figure 2, Annex I).<sup>4</sup> OVE reviewed all 144 PBP loans approved since then and grouped them in 82 PBP programs.<sup>5</sup> The number of proposed loans per program has usually been between two and three (with a maximum of four), with an expected interval of one to two years between them.

Cofinancing of, and partnership in, PBLs with other international financial institutions was common in the earlier years, but has decreased over time. Around 13% of all policy-based operations approved since 1990—roughly a quarter of total policy-based financing—have been cofinanced with other development partners, especially the World Bank. Most of the cofinancing occurred in the early days of PBLs, especially in the first two years of the instrument's existence when partnership with the World Bank was mandatory (Figure 3, Annex I).<sup>6</sup> Although on a smaller scale, cofinancing remained important until the mid-2000s but since then, the Bank has financed almost all PBLs individually. Similarly, PBLs used to be approved when the borrowing country had an IMF-supported program in place: for instance, roughly 90% of the PBL lending volume approved between 1995 and 2003 was granted to countries with an IMF program (RE-300). This proportion has decreased since then, both because of the decreasing presence of IMF-supported programs in LAC, and because of IDB's progressive move to expand its own assessment of the adequacy of countries' macroeconomic frameworks and reduce its dependence on IMF's views.

## CHARACTERIZATION OF PBL USE

### *Use of PBLs by countries and country groups*

Although all borrowing countries have used PBLs, their relative importance in countries' SG portfolios has been varied. Every LAC country has had at least one PBL since 1990, and in each period three countries have accounted for about half the amounts approved: Peru, Mexico, and Argentina in the 1990s; Peru, Colombia, and Argentina in the early 2000s; Peru, Colombia, and Mexico in 2005-2009; and Colombia, Mexico, and Brazil in the last five years. (To some extent this dominance reflects their financing envelopes.) However, the use of PBLs relative to overall SG lending and to population looks quite different. PBLs have accounted for more than half of SG approvals in Colombia, Guatemala, Peru, Jamaica, and Suriname during the last decade but have been practically (or totally) nonexistent in Argentina, Chile, Costa Rica, and Venezuela (Figure III.2 and Table III.2). Ecuador is noteworthy: while the country did not use PBLs between 2007 and 2014, 90% of its envelope took the form of a PBL in 2015. On a per capita basis, small countries such as Uruguay, Panama, Suriname, and Jamaica have been the largest recipients of PBLs. Indeed, the per capita approved amount has been larger in CCB than in any other region during the last decade.

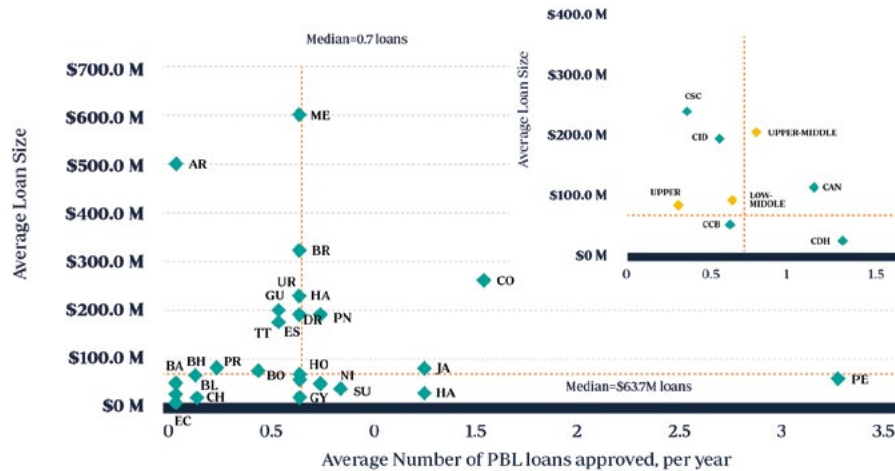
4 Some countries that require Congressional approval of, or authorization for, MDB loans (such as El Salvador, Honduras and Guatemala) seem to prefer multi-tranche PBLs to PBPs.

5 IDB systems do not identify operations as pertaining to the same program, so the grouping of PBP loans in series was done "by hand," according to the operations' names and objectives.

6 On the premise that the IDB needed to develop expertise in policy-based lending, it was required to provide sector loans in partnership with the World Bank for the first two years after introducing the instrument.



**FIGURE III.2. Average number and size of PBLs by country, 2005-2014**



**TABLE III.2. PBL approvals by country, 1990-2014**

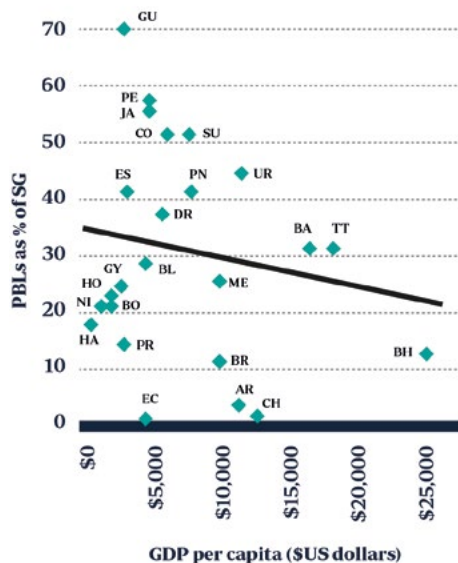
	NUMBER OF PBLs APPROVED			TOTAL PBL AMOUNT* - PER CAPITA			PBL AS A SHARE OF TOTAL SG LOANS		
	1990-1999	2000-2004	2005-2014	1990-1999	2000-2004	2005-2014	1990-1999	2000-2004	2005-2014
AR	7	4	1	86.9	50.5	12.4	26%	38%	4%
BA	1		2	133.2		410.9	16%		32%
BH			1			140.2			13%
BL			2			131.3			29%
BO	3	3	7	23.8	21.5	41.4	14%	40%	21%
BR		1	7	0.0	2.8	11.5		9%	12%
CH	1		1	10.5		0.6	15%		1%
CO	2	4	16	14.1	43.4	87.3	12%	48%	52%
CR	2			72.5			21%		
DR	1	2	7	12.9	33.6	128.8	14%	39%	37%
EC	4	2	1	32.6	26.9	37.0	24%	62%	1%
ES	2	1	6	28.2	16.6	161.0	10%	22%	42%
GU	3	2	7	28.1	25.5	108.4	23%	56%	71%
GY	5	1	7	278.5	37.3	143.9	47%	12%	24%
HA	2	1	13	15.3	2.8	28.1	24%	12%	18%
HO	6	3	7	79.7	13.1	46.8	40%	13%	23%
JA	2	2	13	50.5	72.7	366.7	23%	49%	57%
ME	7	2	7	31.8	5.2	35.9	37%	13%	26%
NI	6	3	8	71.2	16.2	54.0	35%	14%	21%
PE	4	5	33	44.2	50.8	73.2	28%	70%	58%
PN	4		8	147.6		398.0	33%		42%
PR	1		3	17.2		35.9	8%		14%
SU	1		9	69.3		497.8	96%		52%
TT	2		5	116.1		256.8	17%		32%
UR	4	3	6	151.2	127.8	468.0	30%	30%	45%
VE	4			64.1			41%		

Note: PBL figures exclude emergency operations.  
\*Based on original amounts approved.

As a share of total SG lending, policy-based lending is not significantly correlated with income. OVE grouped IDB borrowing countries into four income categories following the World Bank’s classification: low-, lower-middle-, upper-middle-, and high-income countries. Upper-middle-income countries have accounted for almost \$8 out of every \$10 approved in the form of policy-based lending, and more than half the number of loans approved since 1990 (Figure 4, Annex I). However, considering the share of PBLs in the total SG portfolio, there is not a significant correspondence between PBL lending and income level (Figure III.3), nor between PBL lending and institutional strength indicators (Figure III.4).<sup>7</sup>

Lower-middle-income countries and FSO countries show an increasing use of PBLs (Figure 5, Annex I). Policy-based lending accounted for 22% of total SG lending in lower-middle-income countries in the 1990s, 24% in 2000-2004, and 34% in the last decade (Table 1, Annex I). Similarly, in FSO countries (Bolivia, Guyana, Haiti, Honduras, and Nicaragua), PBLs have accounted for about 23% of their total SG lending since the 1990s (slightly below the rest of the Bank’s average); even though the share has tended to increase since 2009, it has remained below the 30% biannual cap at both the aggregate and country levels. If Paraguay and Guatemala (which have received a smaller share of FSO financing) are included, PBL lending has increased substantially in the last years—mostly driven by Guatemala’s growing reliance on PBLs.

**FIGURE III.3. GDP per capita and PBLs, 2005-2014**



**FIGURE III.4. Global Competitiveness Index’s Institutions Pillar and PBLs, 2005-2014**



<sup>7</sup> OVE analyzed the relationship between policy-based lending (as a share of total SG lending) and proxies for the institutional environment—the Global Competitiveness Index from the World Economic Forum and its institutional environment pillar (which captures the quality of both public and private institutions)—calculating the average value for the whole index and the institutional pillar for 2005-2014 for IDB borrowing countries. OVE also validated these results using the World Bank’s Governance Indicators; as with the Global Competitiveness Index’s Institutions Pillar, the relationship between governance indicators and PBLs is not statistically significant.

### *Use of PBLs by thematic cluster*

Using the objectives and subsector codes of all PBL programs approved between 1990 and mid-2015, OVE devised five thematic clusters and classified each program in one of them. The clusters are public sector governance and economic management (PSEM); social; financial sector and competitiveness; infrastructure and public utilities; and environmental sustainability, natural resources, and agriculture (Box 1, Annex I). While some operations covered more than one cluster, the overwhelming majority focused on only one.

Since 1990, policy-based lending has focused on PSEM; over time, the emphasis has shifted from adjustment policies to institutional strengthening of the public sector. Almost 40% of lending amounts approved since 1990 has been in the PSEM cluster (Figure 6, Annex I). Under IDB-7, in the context of the “Washington consensus,” PBLs mostly supported macroeconomic reforms, including debt restructuring and privatization of public enterprises. By the mid-1990s, PBLs had begun putting greater emphasis on public sector reforms (such as tax, budget and expenditure policies, human capital resource management, and modernization of subnational governments), an emphasis that was reinforced under the NLF in 2002. Programs aimed at improving public financial management have continued to be the core of the Bank’s PBL work over the last decade, and their relative importance peaked around the time of the 2008-2009 financial crises (Box III.1).

In line with the focus on first-generation reforms, financial sector PBLs had a predominant role in the early 1990s, but their importance has decreased over time. During the 1990s, the finance and competitiveness cluster absorbed 42% of lending amounts, with most of the loans supporting changes in financial sector regulatory frameworks, banking supervision, and mechanisms for dealing with insolvency. Since 2005, the cluster’s relative importance has fallen by half, and the reforms supported have shifted to competitiveness and investment climate initiatives, with the goal of enabling private sector investment (Figure 6, Annex I).

Social sector reforms were mostly neglected in the 1990s but gained prominence in the late 1990s and early 2000s. The social sector cluster’s increased prominence during 2000-2004 (when it absorbed 35% of PBL resources, up from 9% in the 1990s) can be traced to the IDB-8 agreement, under which the Bank explicitly called for greater support of policy areas that had been neglected in the adjustment process. By the end of the 1990s, the cluster’s relevance was reinforced, and the Bank increasingly approved PBLs supporting poverty reduction strategies and, more recently, the institutional settings for conditional cash transfer programs. Like the finance and competitiveness cluster, the social cluster’s relative importance has fallen by roughly half since 2005 (Figure 6, Annex I).

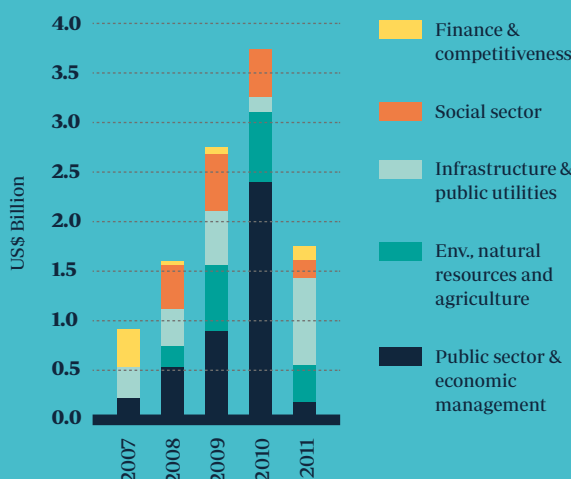
The infrastructure and public utilities and the environment, natural resources, and agriculture clusters have traditionally accounted for a smaller portion of policy-based lending. PBLs in the infrastructure and public utilities cluster have absorbed nearly \$1 out of every \$10 approved in policy-based lending since 1990. Most PBLs in this cluster have supported energy reforms—which lately have focused on measures aimed at reducing electricity losses and fostering sustainable energy policies. Water and sanitation reforms have also become increasingly important since the late 2000s, and their focus has been on lowering service delivery costs, increasing service quality and coverage, and enhancing service

## BOX III.1

## PUBLIC SECTOR GOVERNANCE AND ECONOMIC MANAGEMENT CLUSTER AND THE 2008-2009 CRISIS

During the 2008-2009 crises, the relative importance of the PSEM cluster increased substantially (in terms of both amounts approved and number of countries benefited). However, the content of conditions did not change much: programs initiated in both pre-crisis (2005-2007) and crisis years (2008-2010) included similar conditions, usually oriented toward such areas as establishing fiscal rules, increasing government revenues or improving spending, and developing frameworks and systematic macroeconomic forecasting for budgeting. This finding is consistent with OVE's findings on the "depth" of policy conditions presented later in the paper: the small number of observations notwithstanding, OVE found no major differences between the substance of PSEM programs supported by the Bank in the pre-crisis period compared and that of those approved during the crisis.

Amounts approved around the time of the financial crisis



provider governance and transparency. Finally, support for reforms in the area of environment, natural resources and agriculture has been relatively small, and since 2008 has shifted from the agriculture sector to supporting climate change mitigation strategies. In fact, PBLs in the environment sector experienced a large increase during the 2008-2009 financial crises (which coincided with a UN Climate Change Conference that called for actions to mitigate greenhouse gas emissions).

## COMPLEMENTARITY BETWEEN PBLs AND OTHER INSTRUMENTS

The great majority of the PBP series have been accompanied by parallel TCs, suggesting that countries value analytic work to feed into their decision-making processes. To identify operations that are part of a package, OVE reviewed loan documents for all 82 PBP series approved between 2005 and 2014 and, when available, their Development Effectiveness Matrices and Project Completion Reports (PCRs).<sup>8</sup> The results show that an overwhelming majority of the series was accompanied by parallel TCs (Figure III.5), which

<sup>8</sup> Since the 2005 NLF, the Bank has been trying to adopt a programmatic approach under which operations that help countries achieve common objectives were to be considered part of a package. However, the fact that the Bank's systems are still organized in terms of individual operations hinders the identification of TCs, investment loans, and PBLs that actually support a given program.

have supported policy dialogue, diagnostics work, and compliance with disbursement conditions. The average number of accompanying TCs has been 2.3 per series (Table 6, Annex I), which represents around \$1.3 million of additional financial assistance.<sup>9</sup> The support provided by TCs is especially relevant for two reasons. First, while resources from a PBL go to the country's treasury, parallel TCs provide direct support for the line ministries in charge of the reforms. Second, there is a significant positive relationship between TC support and the likelihood of completing a PBP series (para. 5.23).

**FIGURE III.5.** Number of parallel TCs in PBP series



Source: OVE based on 82 PBP series

Income per capita and institutional capacity are not correlated with the volume of technical support received for PBPs (Table 7, Annex I).<sup>10</sup> However, there are sharp differences in countries' use of supporting TCs. Peru and Colombia stand out as the top parallel-TC users among Bank borrowers: all PBP series approved in Peru and Colombia (11 and 10 series, respectively) have been accompanied by at least one TC each. It is also worth noting that all 26 PBP series approved in CAN between 2005 and 2014 have been accompanied by supporting TCs, and most of them by at least two TCs (Tables 8 and 9, Annex I). Most countries in CID and CCB have also relied heavily on parallel TCs. For instance, all five PBP series approved in Dominican Republic and Trinidad and Tobago have received support from TCs. Conversely, only one of the six PBP series in CSC (a public management program in Paraguay) has been accompanied by TCs. At the sector level, the use of complementary TCs has been particularly high in energy PBP series (Table 10, Annex I).

On a smaller scale, investment loans have also accompanied PBP processes; country authorities and IDB specialists value the complementarity between lending instruments. Of the 82 PBP series, 15 were directly supported by investment loans. Uruguay's Program for Strategic International Positioning DDO PBP and three investment loans (UR-L1030, UR-L1037, and UR-L1060) is noteworthy. In other cases, PBLs either continued a line of work initiated by previously approved investment loans, or prepared the ground for subsequent investment operations (Box III.2).

<sup>9</sup> TCs that performed as inputs for more than one loan of a series were counted only once.

<sup>10</sup> The proxy used for institutional capacity was the World Economic Forum Institutional Pillar. Volume of technical support was measured as total TC amount approved, and number of TCs approved, by PBP series.

## BOX III.2

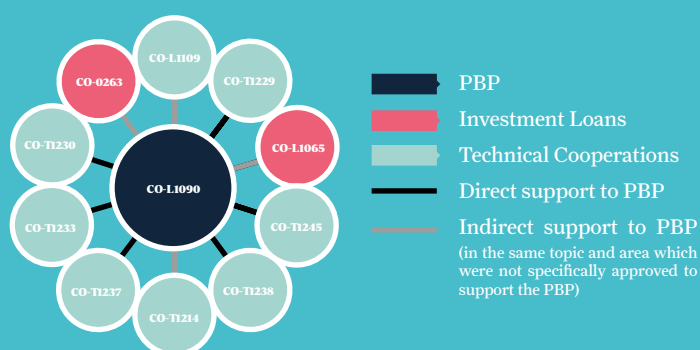
## COLOMBIA'S TRANSPORT REFORM PROGRAM AND NICARAGUA'S ENERGY REFORM PROGRAM

The Bank provided long-term support to Colombia for the process of institutionalizing the National Logistics Policy, especially through a set of investment loans (CO-L1065 and CO-L1109) approved in 2004 and 2008 to support private participation and concessions in infrastructure. CO-T1214, approved in 2010, also fostered dialogue in the area, supporting trade negotiations and the implementation of trade agreements. In 2011, this work was complemented with the approval of the first loan of the PBP series to support the National Logistics Policy (CO-L1090), which aimed at assisting Colombia in implementing the policy. Several TCs provided parallel support (RE-477): one reimbursable cooperation (CO-L1109), and six non-reimbursable TCs. To a large extent, however, many of the conditions included in the PBP loan piggybacked on previously met measures (and the second loan in the series was never pursued).

Likewise, Bank support for the Program to Strengthen the Electricity Sector in Nicaragua, initiated in 2013, was preceded by a series of investment loans—the Electricity Sector Support Program (NI-L1021, NI-L1022, and NI-L1036) and

the National Sustainable Electrification and Renewable Energy Program (NI-L1040, NI-L1050, and NI-L1063) in 2010. The PBP series aims to consolidate the progress achieved through those investment loans, promoting further reforms in the areas of financial sustainability, transparency, and development of sustainable energy and regional integration.

### Investment Loans and Technical Cooperations related to PBP CO-L1090



OVE's analysis suggests that the Bank usually supports reform processes in areas in which it has accumulated experience and knowledge. To assess the extent to which the Bank supports reform in countries and areas in which it has expertise—a prerequisite for providing good policy advice and sustaining long-term policy dialogue in a specific sector—OVE mapped the interaction between PBLs and a set of broader related operations in each country, using Social Network Analysis. Figures 10-13 in the Annex I depict the networks for Jamaica, Colombia, Panama, and Brazil, which suggest that the Bank tends to support policy reforms in sectors in which it had previously worked (usually through TCs and investment loans), continuing a longer-term policy dialogue at the country level. This finding is also compatible with the hypothesis that when countries need quick financial support, the Bank turns to sectors where it has know-how so it can respond more expeditiously.

## COMPARISON OF IDB AND WORLD BANK PBLs IN LAC

The World Bank is the largest provider of policy-based financing to LAC,<sup>11</sup> followed by the IDB—this contrasts with the pattern of investment loans (Table III.3). Since the approval of the first adjustment loan in 1980, World Bank PBL approvals have totaled \$235 billion, equivalent to about 25% of its total SG lending<sup>12</sup> (PBLs have also accounted for about 25% of total IDB SG lending). LAC has been the largest recipient region: development policy lending has accounted for about 45% of total SG approvals to the region since the 1990s. The World Bank is the largest provider of policy-based lending to LAC; PBL financing to the region from other MDBs, such as CAF, has been substantially smaller.<sup>13</sup>

Two factors may explain at least in part the differences between IDB and World Bank lending. First, the World Bank does not have an explicit cap for policy-based lending, and second, the World Bank does not have a separate category for emergency loans. When World Bank DPLs are compared to the sum of both IDB PBLs and emergency loans, the World Bank remains the larger lender of fast-disbursing funds, but the difference shrinks (Figure 7, Annex I). This said, it should also be taken into account that World Bank lending to LAC has been decreased for the last five years, to the extent that World Bank and IDB's current figures on policy-based lending to the region are pretty similar.

**TABLE III.3. IDB and World Bank policy-based lending**

(IDB member countries—values in billion)

		1990-1999	2000-2004	2005-2014
Policy-based loans	IDB*	\$12.8	\$8.2	\$22.6
	WB	\$17.8	\$13.7	\$36.3
Investment loans	IDB	\$43.9	\$16.2	\$70.4
	WB	\$36.9	\$10.2	\$39.4

Note: \* Excludes EME loans. Values reflect original amounts approved.

The World Bank's approach to policy-based lending differs from the IDB's in country coverage: World Bank lending has been more concentrated in large and upper-middle-income countries. In terms of amounts approved, LAC's three top DPL and PBL recipients during the last decade have been Brazil, Mexico, and Colombia. However, while these countries have accounted for three-fourths of WB DPL lending during the period, they represented about half of IDB's. This finding could be related to the fact that WB "heavily weights governance and fiduciary risks in the decision to extend a DPL" (World Bank, 2013).

11 Excluding LAC countries that are not IDB borrowers.

12 It refers to SALs, sector adjustment loans, PSALs, and DPLs, including IBRD and IDA funding. OVE excluded from the analysis World Bank categories that are comparable to IDB's emergency category (special structural adjustment loans, emergency DPLs, and catastrophe DDOs).

13 CAF's policy-based lending has been a relatively small part of its total portfolio: it tends to approve one or two PBLs per year, each of about \$60 million. Overall, CAF's policy-based lending accounted for 8% of total SG lending in 2001-2014.

As a result, the World Bank has provided DPLs to fewer LAC countries than the IDB. In fact, most countries, notably those in CCB and CID, have predominantly relied on the IDB for policy-based funding. Belize and Suriname, for example, have received PBLs only from the IDB in the last decade (Table 2, Annex I).<sup>14</sup> The same holds for Barbados, Trinidad and Tobago, and The Bahamas, all graduates from the World Bank during the period due to their levels of per capita income, and for Nicaragua, Guyana, and Bolivia during the last five years. The opposite is rarely observed: countries that use World Bank DPLs tend to resort to IDB PBLs as well. In this regard, OVE also calculated the share of policy-based lending relative to overall SG lending, by country and MDB, since 1990 (Table 3, Annex I).<sup>15</sup> Over time, some countries have borrowed approximately the same proportion of PBLs from the World Bank and the IDB. For example, during the last five years, PBLs have represented more than 40% of total SG lending from both institutions to Colombia, DR, Guatemala, Jamaica, and Panama. In contrast, large borrowers such as Brazil and Mexico, as well as Uruguay, have borrowed PBLs predominantly from the World Bank (Table III.4, and Box 3, Annex I).

**TABLE III.4. Relative Usage of PBLs (IDB) and DPLs (World Bank), 2010-2014**

		IDB		
		Above-median PBL user (as % of SG lending)	Below-median PBL user (as % of SG lending)	Non-user
WB	Above-median DPL user (as % of SG lending)	Colombia Dominican Republic Guatemala Jamaica Panama	Brazil Mexico Uruguay	
	Below-median DPL user (as % of SG lending)	Peru	El Salvador Haiti Honduras Paraguay	
	Non-user	Barbados Suriname	Bolivia Chile (cancelled) Guyana Nicaragua The Bahamas Trinidad and Tobago	Argentina Belize Costa Rica Ecuador Venezuela

*Note:* Barbados, Trinidad and Tobago, and The Bahamas were not eligible for WB loans during the period due to per capita income limitations. IDB does not have similar “graduation” rules for borrowers.

14 OVE calculated the proportion of countries’ policy-based borrowing from the IDB and the World Bank for every year since 1990—that is, the amount of PBL lending approved by the IDB for country X, over the sum of DPL and PBL lending amounts approved by both the World Bank and the IDB for the same country.

15 To compare countries’ use of policy-based lending relative to SG lending across institutions, OVE estimated the median of PBL/SG lending for different periods (1990-1999, 2000-2004, 2005-2014, and—to analyze more recent patterns—2010-2014), both for the World Bank and the IDB. The average of the median shares for both institutions was 42% for the 2010-2014 period (the median value for PBLs as a share of SG approvals was 48% for the World Bank and 36% for the IDB).



The World Bank's approach also differs from that of the IDB in scope: World Bank DPLs tend to be larger and more multi-sectoral, and there are rarely several DPLs active simultaneously in a country. The average size of IDB PBL loans during 1990-2014 was close to \$160 million, while the average size of World Bank DPLs was roughly \$240 million. The difference in loan volumes may be explained by the fact that DPLs are mainly granted to large and upper-middle-income countries (which have large lending envelopes), and by the fact that they tend to be multi-sectoral. IDB PBLs usually focus on one thematic cluster, whereas DPLs span an average of 2.2 sectors or thematic clusters (Box 2, Annex I). Like PBLs, most DPLs (75%) have focused on the PSEM cluster; however, in contrast to IDB operations, those DPLs have simultaneously addressed other clusters (typically financial sector, competitiveness, and social areas). Finally, while it has become increasingly common at the IDB to approve several PBL loans that pertain to different programs in the same country in a given year, this practice is less common at the World Bank in LAC (except in Brazil and Peru).

# MAIN BENEFITS OF USING PBLs

////////////////////////////////////

This chapter sheds light on the reasons for the trends described in the previous chapters. It does so from the demand (i.e., borrower) and supply (i.e., Bank) sides of the equation, examining, among other things, PBLs' financing role for borrowing countries; their use as a means to provide policy advice and capacity building; their disbursement patterns and transaction costs; and their generation of income for the Bank.

## PBLs FROM THE BORROWER'S SIDE

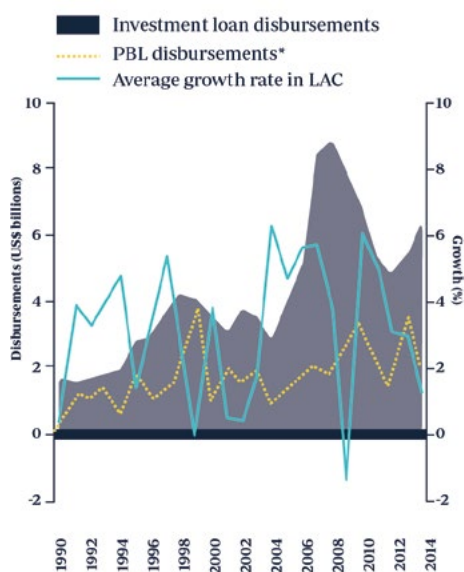
From a financing perspective, PBLs provide fast-disbursing budget support; they help finance ongoing deficits and play a countercyclical role in times of crisis. PBLs help countries address actual or anticipated financing requirements, which is partly reflected by the fact that disbursements peak at the end of a fiscal year (see para. 4.9). Moreover, in times of economic turmoil, the Bank has responded to demands for increased liquidity by providing PBLs (Figures IV.1 and IV.2). The instrument's countercyclical role was particularly relevant during the 1990s and again toward the end of the 2000s in response to the impact, in some countries of the region, of the 2008-2009 global economic crisis. Stakeholders interviewed by OVE very much appreciated the instruments' financing role in times of crisis, and pointed out that the approval of PBLs also provides positive signals to the markets, increasing confidence in the country's economic recovery.

In fact, OVE found that policy-based lending is negatively correlated with a country's growth rate, and positively correlated with the size of fiscal deficits and gross financing needs. To further explore PBLs' financing role, OVE conducted a series of econometric analyses for all borrowing countries between 1990 and 2014.<sup>16</sup> Drawing on the literature on early warning signals for economic and financial crises, OVE estimated three fixed-effects panel regression models using PBL disbursements as percentage of GDP as the dependent variable. The first model includes as explanatory variables the annual growth rates in the previous year, the second includes the general government deficit (also in the previous year), and the third includes a proxy for countries' gross financing needs, which

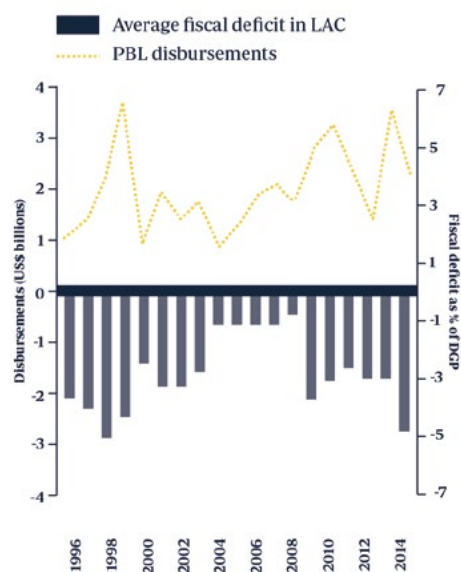
<sup>16</sup> Country-year observations with no PBL disbursements were excluded. Given the scope of the analysis, a simple model was used to test whether the request for PBLs was associated with worsening macroeconomic conditions. Since only PBLs that were actually approved are observable, the model does not consider cases in which the borrowing country may have sought PBL funding but the Bank did not approve it (for instance, because of macroeconomic sustainability assessment considerations).

aims to capture solvency and liquidity difficulties with a one-year lag.<sup>17</sup> Overall, the results confirm that countries' financing objectives are a key motivation for the use of this type of lending instrument, both to handle short-term financing needs and to face contingent shocks. However, the instrument's capacity to react to changes in macroeconomic conditions looks small (Figure 8 and Table 4, Annex I).

**FIGURE IV.1. Countercyclical role of PBL lending**



**FIGURE IV.2. LAC's fiscal balance and PBL disbursements**



Note: \*EME disbursements included for 1998-99 only.

Source: OVE, based on IMF and IDB data warehouse information.

Several factors limit PBLs' capacity to provide effective countercyclical support. First, the fact that PBLs cannot be approved or disbursed if borrowers do not have a positive macroeconomic assessment poses an inherent limitation to the instrument's capacity to assist countries when they are in the greatest need of liquidity. Second, resources available for policy-based lending are subject to the 30% aggregate cap, which limits the extent to which the Bank can provide quick disbursements within a four-year period. Lastly, the impact of IDB's lending in middle-sized and large countries is necessarily limited by its small size in relation to their economies.

17 The gross financing needs for each borrowing country were calculated as the sum of the general government deficit and an estimate for maturing debt (gross public debt as percentage of GDP based on data from the IMF WEO divided by the average maturity for external debt, based on data from the World Bank). For those countries without available data for average maturity, the denominator used was the average maturity for LAC.

From a policy reform perspective, PBLs usually provide policy advice and capacity building, and the IDB “seal of approval” they convey may help governments increase the credibility of their reform agenda. Country authorities very much appreciate the policy dialogue involved in the design of a PBL and the capacity building that complements its implementation. In fact, as is shown later in this paper, PBLs are generally accompanied by substantive analytic work. Some recipient governments also find that having the IDB supporting a reform program helps them negotiate with key stakeholders (including Congress) and helps legitimize the reform itself, reducing potential domestic controversy surrounding the reform.

Finally, from an administrative perspective, PBL transaction costs are smaller. According to Management, “borrowers have revealed a preference for PBL because disbursements are not tied to specific expenditures, do not require counterpart funding, and involve lower preparation and processing costs” (CS-3371, para 4.57). Moreover, because PBLs are exempt from the environmental and social safeguard and procurement procedures that apply to investment loans, they are also easier to execute.

Most countries use PBLs mainly as budget support in times of financial stress. Consistent with the dual purpose of PBLs—to contribute to countries’ financing needs and to support policy and institutional reforms—their use has varied substantially across countries. To identify patterns of PBL use, OVE looked at four dimensions analyzed throughout this document: (i) frequency and intensity of PBL use; (ii) correlation between PBL borrowing and growth rates, fiscal deficits, and gross financing requirements; (iii) countries’ reliance on parallel TCs; and (iv) countries’ tendency to fully complete or interrupt (“truncate”) PBL series.<sup>18</sup> OVE identified four main categories of PBL use:

**Mostly as budget (including countercyclical) support.** This category includes countries that resort to PBLs mainly in a countercyclical fashion (for example, to deal with a crisis that suddenly halts capital inflows) or as an expeditious source of liquidity to handle short-term needs, such as debt service. In general, these countries exhibit a negative correlation between policy-based lending and growth rate, and a positive correlation between policy-based borrowing and fiscal deficits / gross financing requirements; have relatively high truncation rates for PBL series; and do not rely much on parallel TCs to accompany the reform programs. Since their demand for PBLs depends on economic needs, these countries are not among the most regular users of PBLs. In the last decade, examples in this category include Dominican Republic, Honduras, and Jamaica.

**Mostly as seal of approval / technical advisory.** This group comprises countries that tend to resort regularly to PBLs, and do so mostly to legitimize policy reform processes (getting IDB’s “seal of approval”) and to benefit from technical discussions between country officials and IDB specialists. In fact, their PBLs tend to be relatively small, and the demand for PBLs tends not to be correlated with growth / fiscal deficits / gross financing requirements. Moreover, these countries have low truncation rates (implement reform programs for a longer period of time), and rely strongly on TCs to accompany those programs. Peru is the most salient case, although in the last five years Bolivia also fits in this category.

<sup>18</sup> Chapter V analyzes the truncation rate by country (i.e., the number of truncated series over the sum of completed and truncated series).

## BOX IV.1 RATIONALE FOR PBL USAGE – SELECTED CASES

### **Jamaica and the need for budget support.**

Most of IDB's support to Jamaica in the last decade has been in the form of PBLs (57% of total SG approvals; Table 4, Annex I), which helped the country advance public financial management and social reforms in the context of two IMF adjustment programs. In fact, disbursements to Jamaica in 2010 in support of the first of those IMF programs (around US\$600 million) are among the largest the Bank has ever provided to a borrowing country in a single year, both in per capita terms and as a share of GDP (RE-468).

### **Peru's regular use of PBLs and IDB's "seal of approval."**

Peru stands out as the most regular user of PBLs: it had 43 PBL loans between 1990 and 2014, and 32 of them were approved in the last 10 years. In fact, uniquely among IDB borrowers, Peru has had at least one PBL approved every year since 2000. The 32 PBL operations approved since 2005 correspond to 11 series. Most of them were long series (3 or 4 loans each) supported by several TCs, and all of them were completed—another feature that distinguishes Peru from other IDB borrowers (see para. 5.19).<sup>3</sup> However, each loan has been relatively small. This suggests that Peru uses PBLs to legitimize institutional reforms and obtain technical expertise through strong parallel TCs, in a context of favorable fiscal results (RE-403-2).

### **Colombia's flexible use of programmatic series.**

Colombia stands out for its heavy use of PBLs—of 22 PBLs approved since 1990, 16 were approved between 2005 and 2014, accounting for more than half of the SG lending approved for the country over the period. The intensive use of PBLs is the result of the country's demand for funds to meet its annual fiscal and debt commitments, and to stimulate the economy in the low part of the cycle (RE-425-Lending Instruments). This might help explain why Colombian PBL series were usually interrupted (para. 5.19 and RE-477). That said, the country has also resorted to PBLs in appreciation of Bank technical support. In fact, Colombia stands out for its use of parallel TCs, which have usually provided strategic inputs for the reform processes.

### **Panama's recurrent shift in program focus.**

As in Peru and Colombia, IDB's engagement with Panama pivots around budget support lending: in the last decade about 42% of all SG lending has been policy-based, and in the last five years over 70% has been policy-based. This budget support was instrumental in providing policy advice to support Panama in building a strong macroeconomic policy framework, but it also became a regular (and reliable) source of government funding. As in the Colombia case, this might help explain why PBL series in Panama were usually interrupted: as OVE's recent Country Program Evaluation (RE-475) pointed out, successive changes in focus in the Bank's programmatic lending prompted the truncation of most of Panama's series since 2010. As a consequence, 5 of 11 planned PBLs did not materialize, thus diminishing the relevance of the proposed lending series.

### **Brazil and support for subnational fiscal consolidation.**

Until the early 2000s, Brazil had hardly used PBLs. Six of Brazil's total of 8 PBLs have been approved in the last three years, and all of them have supported reforms at the subnational level as part of the PROCONFIS program. Brazil's use of PBLs at the subnational level is unique among IDB borrowers and is in line with PBL guidelines (CS-3633-1), which state that "for PBLs to a subnational entity, the state or region must have an appropriate expenditure program, as well as appropriate fiscal arrangements with the central government providing the guarantee for the loan."

### **Uruguay and the preventive use of PBLs.**

Uruguay has relatively few large operations, which have been generally disbursed only in cases of liquidity shortage. For example, despite early compliance with the disbursement conditions of two PBLs, the Government opted not to draw on the proceeds until December 2008 and January 2009, after the collapse of Lehman Brothers, when the external cost of financing in the market had substantially increased (for details, see RE-389 and RE-447). In 2012, this practice of deferred disbursement was institutionalized with IDB's introduction of the PBL DDO modality; as of mid-2015, Uruguay has been the only country to use it.

<sup>3</sup> The only active series is the Results Management Program for Social Inclusion, for which the first of two proposed operations was approved in mid-2013 (PE-L1129).

**Mixed.** These countries sometimes rely on PBLs to cover financing needs and sometimes use them to benefit from the Bank's validation and technical inputs. Examples in the last decade include Brazil, Colombia, Mexico, El Salvador, Nicaragua, and Panama.

**Preventive.** Uruguay uses policy-based lending as part of the government's precautionary borrowing strategy with MDBs. Since 2008, the country has postponed disbursements of approved PBLs/PBPs, and has used the proceeds only when facing large financing needs. This practice was institutionalized with the implementation of the DDO modality in 2012.

The analysis indicates that the predominant role of PBLs appears to be to provide budget support in time of need. This is especially the case in small economies, which tend to be more vulnerable to external economic shocks and for which IDB financing can be decisive to weather a storm. Many other countries use PBLs both for liquidity purposes and to benefit from Bank's technical inputs and legitimization. Only a couple of countries predominantly use PBLs to legitimize policy reform processes and to benefit from high-level technical discussions. Box IV.1 discusses these rationales for PBL use.

## PBLs FROM THE BANK'S SIDE

### *Preparation and execution times and costs*

PBLs are designed and disbursed much faster than investment loans. Since 1997 the elapsed time between the start date in the pipeline and approval date has averaged about 12 months for PBLs compared to 18 months for investment loans; and an average PBL (considering both the multi-tranche and programmatic modalities) has disbursed half of its proceeds within two months after approval, compared to less than 2% for investment loans (Figure IV.3). Since the introduction of the PBP modality, the disbursement pace has increased further: proceeds are usually disbursed in one shot, resembling the behavior of emergency operations (Box 4, Annex I). According to OVE's sample analysis and interviews, this reflects the fact that for most PBLs, borrowers tend to comply with conditions before Board approval. The quick-disbursing nature of PBLs explains why undisbursed balances as a share of approvals are substantially smaller for PBLs than for investment loans (Figure 9, Annex I). OVE also found that there has been an increasing tendency to disburse PBLs at the end of IDB's fiscal year: 54% of total PBL disbursements since 2005 have occurred in December.

Consistent with the shorter length of their project cycle, PBLs are significantly cheaper to prepare and implement, than investment loans (Table 5, Annex I).<sup>19</sup> The average preparation cost per million dollars approved is roughly \$1,400 for PBLs, compared to about \$2,600 for investment loans. In the execution stage, those figures are roughly \$500 for PBLs and \$3,300 for investment loans.<sup>20</sup> The differences are statistically significant. The analysis also reveals that execution costs tend to be larger than preparation costs for investment loans, while the opposite holds for PBLs: the dialogue process and analytical work make preparation by far the most intensive stage of the PBL project cycle.

<sup>19</sup> This includes all loans approved since 2005 for which both preparation and execution cost data are available. Loans approved before 2005 are excluded from the exercise because of low data reliability.

<sup>20</sup> When parallel TCs that were used as operational inputs are added to PBL preparation costs, the unit cost difference between instruments diminishes but still persists (the average preparation cost of those TCs is \$13,600).

**FIGURE IV.3.** Disbursements by instrument, 1997-2014

Source: OVE basen FIN Data

The cost of designing a PBP series is front-loaded, suggesting—from the Bank’s perspective—efficiency gains in continuing the series. Preparing the first loan of a series is more expensive than preparing subsequent operations: most of the diagnostics work is done before the start of the series, and second and third loans do not require compliance with some of the project cycle milestones (identification missions, Project Profile preparation, etc.). Preparation costs are not directly correlated with PBL size, which indicates that transaction costs per dollar approved are larger for smaller loans.

### *Income generation*

A consequence of PBLs’ faster disbursement rate is that they generate more income per dollar approved than investment loans. The Bank’s lending rates, credit commission, and supervision and inspection fees are similar for both investment loans and PBLs. For 2014 and 2015, for instance, the Board of Directors approved a lending spread of 85 bps (which is added to the Bank’s cost of funds to determine the lending rate) and a credit commission of 25 bps (which applies to undisbursed balances of both types of loans). The Board also decided not to charge supervision and inspection fees. The rate of return on *undisbursed balances* of PBLs and investment loans can be estimated as the sum of the average return on the Bank’s liquid investments plus the credit commission of 25 bps, while *outstanding balances* for both types of loans receive a higher return equivalent to the Bank’s lending rate (which includes the lending spread of 85 bps). Based on these considerations, and given that PBLs disburse faster than investment loans, calculations done by OVE suggest that in 2014 the average rate of return on PBLs was about 2.2%, compared with 1.75% for investment loans.<sup>21</sup>

<sup>21</sup> These estimates were obtained by calculating, for both types of loans, weighted averages of the average lending rate of 2.33% included in the Bank’s 2014 Information Statement and of an average rate of return on undisbursed balances of 0.72% (equivalent to the sum of the return on liquid investments of 0.47% included in the Information Statement plus the 0.25% credit fee). The weights used reflect the shares corresponding to average outstanding balances and undisbursed balances in 2014.

PBLs represent the Bank's second-highest income-generating asset after SG investment loans. In 2014, the Bank's total loan income—loan interest and loan charges—accounted for 94% of its total gross core operating income. Loan interest income represents the largest proportion (89%) of the Bank's gross core operating income. The share of PBLs in total loan income, and in particular in total interest income, has been slightly larger than their share in the Bank's total OC outstanding loan portfolio: PBLs accounted for about 26.5% of total loan income in 2014, and for 28% of total interest income, compared with a PBL participation of 26% in the Bank's total OC outstanding loan balances in that year.

### *Capital adequacy and its implications for PBLs*

The distribution of Bank lending between PBLs and investment loans affects the Bank's capital adequacy ratio. Some important factors affecting the Bank's capitalization ratio are the credit ratings of borrowing member countries and the concentration of the IDB's lending portfolio. As of December 2014, the credit quality of the PBL portfolio, as reflected by the ratings of borrowing member countries, was better than that of the investment loan portfolio. The relative exposure to borrowers at investment grade and at the BB+ to BB- and B+ to B- categories was higher for PBLs, while the exposure to sovereign borrowers rated CCC+ to CCC- was significantly lower (7% for PBLs against 20.3% for investment loans). Thus, based on quality, the PBL portfolio requires relatively less backing capital than the investment portfolio. Given that the two portfolios differ in terms of country composition, any future change in the credit ratings of specific borrowing members would affect the additional/lower capital required to back up each portfolio in different proportions. At the same time, regarding the concentration of outstanding loan balances, the largest five countries accounted for 60% of the total PBL exposure as of end-2014. Even though this level of concentration looks high, it was significantly lower than that of investment loans, for which the largest five borrowers account for 76% of the exposure. This is relevant given that the new S&P's methodology for capital adequacy places more emphasis on portfolio concentration.<sup>22</sup>

IDB's Long-Term Financial Projections of the Ordinary Capital for 2016 provides additional information on the relationship between SG lending capacity and PBL amounts. The exercise performed by FIN analyzes the effect of increasing the level of PBLs by a fixed amount on SG total lending capacity (loan approvals). The results show that, notwithstanding that PBLs are disbursed faster than investment loans, increasing the level of PBLs by a fixed amount results in a higher Bank's total lending envelope over the long-run. This is mainly the case because a positive IAMC is required to be eligible for PBLs. Specifically, since countries without a positive IAMC tend to have lower than average credit ratings, increasing the level of PBLs by a fixed amount means less lending to borrowers that would require more capital but are not eligible for PBLs, which allows for an expansion in the aggregate SG approval amount.

<sup>22</sup> Standard & Poor's (S&P) has developed a methodology that calculates specific capitalization ratios (the so-called Risk Adjusted Capital Ratios) to determine the credit rating of an institution, giving greater emphasis to portfolio concentration. Against this backdrop, in late October 2014 the Bank's Board of Governors adopted a new Capital Adequacy Policy that reconfirmed the need to preserve the Bank's triple-A rating and to build up a capital buffer for the Bank to be able to assume the financial risks present in its operations while preserving its countercyclical lending capacity



# ASSESSMENT OF PBL DESIGN AND IMPLEMENTATION FEATURES

## METHODOLOGY

This section examines the main design and implementation characteristics of the instrument, and considers how they have evolved over time. The Methodological Annex (Annex II) shows the specific questions that guided the analysis and provides further information on the methodology used. OVE's methodology mostly relies on three approaches.

**OVE drew a stratified random sample of 40 programs.** The sample, drawn from the population of policy-based programs approved between 2005 and mid-2015 in four thematic areas (PSEM, social sectors, financial sector, and energy), encompasses 70 multi-tranche and programmatic loans in 18 countries (Table 11, Annex I). This sample amounts to 49% of the programs approved in those four areas, and 34% of programs approved in all areas, during that period.<sup>23</sup> Drawing on the sample and a PBL Assessment Template developed for this evaluation, OVE established a PBL database that formed the basis for the design and implementation data analysis.

**To gain an understanding of the implementation of programmatic series** (such as completion rates), OVE focused on the universe of 82 PBP programs approved between 2005 and 2014 (equivalent to 144 programmatic PBLs).

**Finally, recent OVE Country Program Evaluations and sector and thematic evaluations**, as well as interviews with IDB managers, project team leaders, former IDB staff, and country stakeholders, served as inputs to the analysis.

The IDB operational guidelines provide little guidance on what qualifies as a policy or institutional reform, and thus as appropriate policy conditionality. IDB guidelines (CS-

<sup>23</sup> Six PBP series included in the sample were truncated, and six are still too young for their ultimate status to be determined (i.e., the last disbursement of the most recent loan in a series occurred less than 36 months ago). Taking all approved and proposed loans, the sample encompasses 1285 disbursement conditions.

3633-1) state that disbursement conditions (and indicative triggers for programmatic series) should be critical (reflect a set of measures that are essential for the achievement of expected results), parsimonious (the minimum required for success), and realistic (the undertakings are within the borrower's ability to carry out, given constraints). They also note that conditions and triggers should reflect output indicators (processes completed, actions taken, institutions modified, policies adopted) or, in some instances, immediate outcomes. However, the guidelines do not discuss good practices or provide examples to guide the design of policy matrices. By contrast, the World Bank's Good Practice Note for Development Policy Lending (2011) presents a more detailed discussion of good practices for the design of policy matrices, including several lists of do's and don'ts and quite a few examples (and explanations) of good and bad policy conditions.

Overall, the Bank's definition of policy conditions entails two corollaries: conditions depend on the country context and the sector characteristics, and they need to be critical to achieving the expected results.<sup>24</sup> Since 2014, OVE has been piloting an approach, similar to that of other international financial institutions' independent evaluation offices, that tries to capture precisely the depth of policy conditions—that is, the extent to which conditions have sufficient depth to trigger long-lasting policy or institutional changes. The analysis classified conditions in three categories:

**Low:** Conditions that would not, by themselves, bring about any meaningful changes. Low-depth conditions are usually process-oriented and often involve the preparation of action plans or strategies and the announcement of intentions.

**Medium:** Conditions that can have immediate (but not lasting) impact are usually considered to be of medium depth. This category includes conditions calling for one-off measures that can be expected to have an immediate and possibly significant effect, but that would need to be followed by other measures for this effect to be lasting. Submission of draft legislation to Congress, reaching a target (benchmarks), and organizational changes are usually considered to be of medium depth.

**High:** Conditions that could, by themselves, trigger long-lasting changes in the institutional or policy environment are considered to be of high depth. Some of the conditions in this category entail legislative changes; but in some cases, government decrees or lower-level actions that complete a reform process can be critical for a program. High-depth conditions also include measures that require that certain fiduciary measures be taken on regularly or permanently, even when legislation is not needed.

One goal of this evaluation exercise has been to fine-tune OVE's approach to PBL analysis and evaluation to address some of the limitations of the approach as used in the past. One limitation has been the static nature of the analysis, which may miss issues of sequencing and progression in a PBL-supported reform program. A second has been the difficulty of capturing the nuances of local context—including how far a country has come and how difficult reforms may be in practice—and the Bank's adaptability to those contexts. Final-

<sup>24</sup> In this regard, according to a recent World Bank policy research working paper, having weaker disbursement conditions in PBLs hampers the performance of the loans in achieving the intended outcomes (2015, WPS7181).

ly, given the focus on design, the approach has not generally considered the link between content and program completion. To address these gaps, OVE expanded the approach in this review to include the analysis of both static and dynamic aspects of conditionality, and to assess PBL implementation features. For this technical note, OVE developed an approach that builds on three evaluative dimensions summarized in Table V.1 (see Annex II for further details). OVE also took into account the nature of the conditions (that is, whether policy conditions are mostly related to a policy/regulatory reform, or to an organizational change) and the party or entity responsible for compliance with the condition, according to the loan's means of verification.

**TABLE V.1. OVE's approach to PBL design features**

Dimensions	Description
Depth	<p>The extent to which policy conditions are sufficiently critical to trigger, by themselves, an institutional or policy change. Policy conditions that are too process-oriented or easily reversible, or that only indicate intentions, have low depth; conditions that can have immediate (but not lasting) impact are usually considered of medium depth; and conditions that could, by themselves, trigger long-lasting changes in the institutional or policy environment are considered of high depth. The depth dimension includes a progression analysis, which assesses the extent to which policy conditions increase in depth as the reform program advances.</p> <p><b>OVE based most of the depth analysis on two indicators:</b></p> <ul style="list-style-type: none"> <li>(i) <b>Share of conditions in each depth category:</b> This indicator calculates the proportion of high-, medium-, and low-depth conditions per loan and per program.</li> <li>(ii) <b>Depth index:</b> This indicator assigns a different numeric value to each depth category. Low-depth conditions are assigned a value of 0.25, medium-depth conditions a value of 1; and high-depth conditions a value of 2. Based on these values, OVE then calculated a depth index per loan (that is, the total sum of values at the loan level) and a depth index per program (that is, the total sum of values of all the loans that made up a program).</li> </ul>
Sequencing	<p>The extent to which the policy conditions included in each tranche of a multi-tranche PBL, or in each loan of a PBP series, follow a logical sequence over time by supporting different stages of the reform process cycle: formulation or design, adoption or approval, implementation, monitoring and evaluation.</p>
Vertical logic	<p>The coherence between conditions and the reform program's objective and results indicators.</p>

Source: OVE. For further details, please see Annex II-Methodological Annex.

OVE's approach focuses on the strength of the substantive content of the reform program, not on IDB's additionality. It is important to note that this methodology does not attempt to measure the Bank's technical additionality in the reform program or the extent to which the impetus for reforms can be traced to Bank action. In fact, since in many cases the Bank rewards measures already undertaken by borrowing countries (as OVE has repeatedly found in its CPEs), the approach cannot capture what would have happened without Bank support. As Box II.1 noted, there are valid differences of views in the development community on whether MDB lending should seek to be a direct catalyst for reform or can be justified as a recognition and reward for reforms already undertaken.

In addition, OVE's approach does not seek to measure the outcomes of PBLs. This aspect is covered by other evaluation activities and methodologies (and in any case is beyond the scope of this technical note).

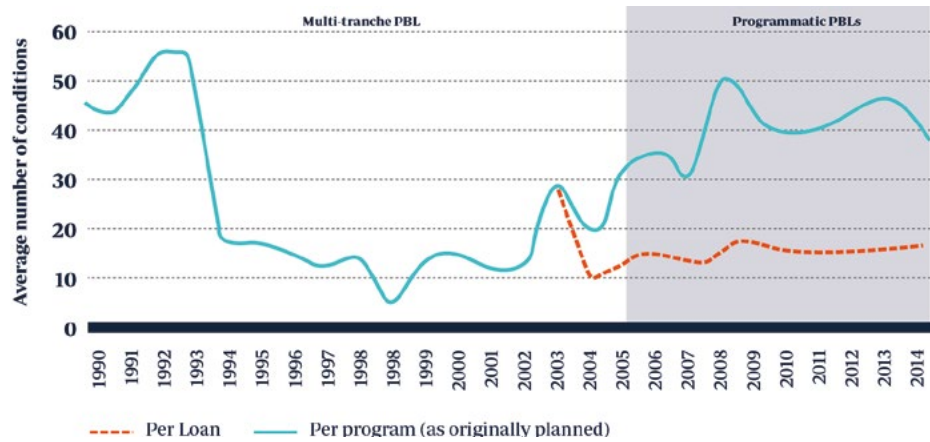
One aspect of PBL implementation is whether a programmatic series is fully completed or truncated. When a programmatic series is initiated, there is an expectation that the Bank will accompany a given reform program for the medium term. Thus loans generally mention the time that is expected to elapse between operations in a series, providing an estimate for the timespan of Bank support to the reform program. However, because PBPs are composed of several independently approved loans, there is room to adapt to evolving country circumstances. A corollary of this is that Bank guidelines do not envisage a closing date for PBP series, nor do they provide instructions on how to determine when a series has been interrupted. The new PCR guidelines of late 2014 partly fill this gap (see para. 5.28). Building on the definition set out by the Office of Strategic Planning and Development Effectiveness (SPD), OVE considers that a PBP series has been interrupted, or "truncated" if one of the following situations occurs: (a) the government formally requests the discontinuation of at least one operation of the series; (b) there is no loan in the pipeline 24 months after the last disbursement date of the most recent operation; or (c) a pending loan in the series has remained in the pipeline for more than 36 months after the last disbursement date of the most recent operation.

## **PBL DESIGN FEATURES**

### *Evolution of policy conditionality at the IDB*

Over time, the number of conditions at the program level has increased. In the early 1990s, the average number of conditions per loan was roughly 50, and that figure fell by half between the mid-1990s and 2004. Concomitantly with the OECD Paris Declaration in 2005, the introduction of the programmatic modality further streamlined conditionality at the loan level (Figure V.1).<sup>25</sup> However, at the program level, the average number of conditions has increased since 2005, offsetting the streamlining gained at the loan level. There are no significant differences in the number of conditions across thematic areas or regions.

25 For multi-tranche PBLs, the average number of conditions per loan has increased from 23 to 32.

**FIGURE V.1. Average number of conditions**

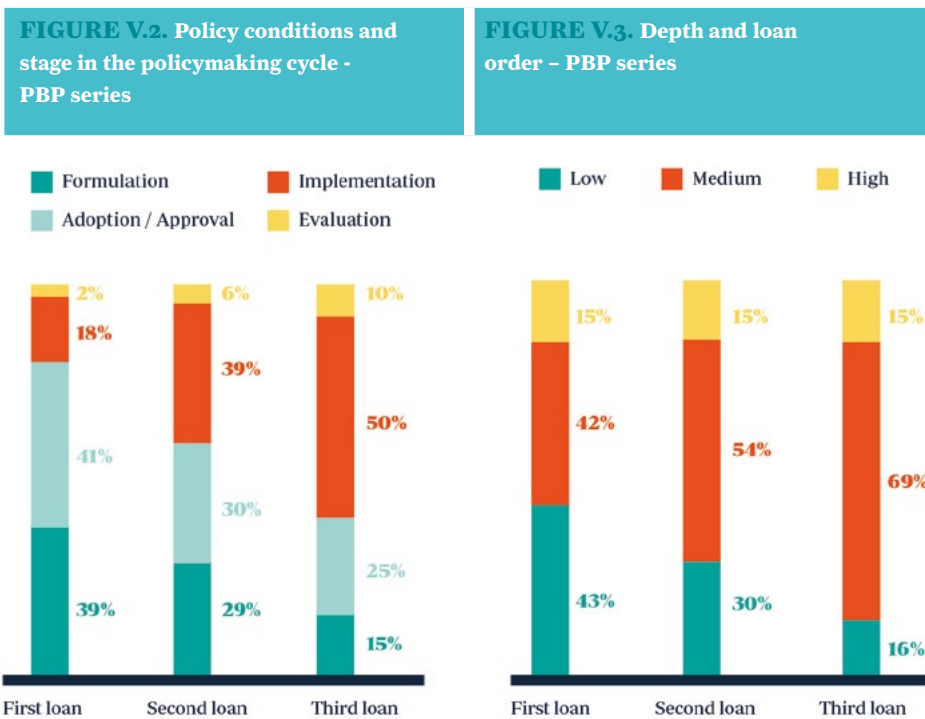
Source: OVE. The graph shows the average number of conditions per multi-tranche PBL for 1990–2004, and per PBP from 2005 onwards, both at the loan and the program levels (as originally expected). Figures at the program level are based on the PBP program's initial year.

### Characteristics of policy conditions

The large majority of conditions involve policy or regulatory measures, while a small proportion refer to organizational changes involving public agencies. OVE found that almost 8 in 10 conditions in the sample support policy reform conditions, ranging from design of a new payment scheme for a social program to the approval of fiscal responsibility legislation. The rest promote changes in the structure, responsibility chain, and/or institutional capacity of public agencies, such as the creation of a public health unit in the Ministry of Health and the formulation of a new Functions and Organizational Rules Code that defines the structure and processes of a public agency.

Sequencing of PBL conditions has followed the stages of reform cycles, though the monitoring and evaluation (M&E) stage is seldom included. OVE classified the conditions in each of the 70 loans in the sample according to the milestones in a policy reform cycle (formulation, adoption, implementation, M&E) that they supported. For both PBLs and PBPs, conditions in the first tranche or loan tend to focus on earlier stages of a policy reform process, while a larger proportion of conditions in subsequent tranches or loans tend to focus on implementation (Figure V.2). This indicates that on balance the Bank supports a reform process from an early stage, staying through later stages. For instance, the first operation in Bolivia's Fiscal Policy and Decentralization Support Program (BO-L1061) supported the formulation and approval of the decentralization legislation, and the following loan (BO-L1062) followed up on its implementation. Despite this sequencing, only 5.6% of the conditionality reviewed included provisions linked to the last stage of a reform process—M&E. Programs in the social sector are more prone to include M&E conditions (9.23% of the conditions), especially when compared to those in the financial sector (0.8% of conditions). Programs initiated after 2010 appear to have increased their attention to M&E, although the trend is still unclear.

Most conditions have low and medium depth; they help set stepping-stones for policy reform but are not, by themselves, expected to secure lasting changes. Almost a third of conditions in both multi-tranche PBLs and PBPs in the sample have low depth, calling for basic one-off measures or simply expressing intentions. Examples of low-depth conditions taken from the sample include the following: “Ministry of Education commits to perform an independent operational audit of the feeding subsidy”; “[Preparation of the] terms of reference for the design of a methodology for analyzing outcomes for the National Investment Plan”; and “Actions scheduled to work toward integrating [one public agency] and [another public agency].” Considering Bank guidelines, it is questionable whether this group of conditions should actually constitute policy conditions; after all, they are not “essential for the achievement of expected results” (CS-3633-1). Only 15% of the conditions in the sample have high depth—for example: “Dispositions that mandate fiscal responsibility and the operation of a Central Treasury Management System incorporated into the FAA Act”; “Elimination of government budget support for at least one state-controlled enterprise”; “the School Feeding Program uses [the CCT program] registration as the targeting mechanism to allocate individual feeding subsidies to schools”; and “A Consolidated Cash Transfer Program has been designed and approved by the Ministry of Social Development.” It is notable that there are no major differences in the depth level of conditions in multi-tranche PBLs and PBPs.



Conditions become more critical as the reform process advances. In the PBP series, it is clear that as the program advances, depth increases: 43% of conditions in the first loans tend to be of low depth, while the proportion decreases to 30% and 16% in the second and third loans, respectively (Figure V.3). According to OVE’s analysis, the reviewed condition-

ality was generally relevant to the programs' objective, although it was probably insufficient to attain the expected outcomes.

The complementarity of IDB programs with other MDBs' work and with other IDB instruments is not correlated with programs' depth. OVE's analysis took into account whether other financial institutions were supporting the same reform program or reform area concomitantly with IDB's support. In particular, using the loan documents, we tried to capture whether the World Bank or another MDB had an active investment loan or PBL at the same time as IDB's PBL. We found that the average depth of IDB PBLs was the same regardless of their complementarity with other institutions' portfolios. Similarly, we also found that the presence of parallel TCs and investment loans is not correlated with programs' depth.

More conditions do not necessarily mean greater program depth; this suggests that the Bank could be more parsimonious in the selection of policy conditions. The sample results indicate that programs with larger numbers of conditions tend to have a greater share of conditions of low depth. Even though in some cases those conditions set the stepping-stones of a policy reform, in other cases there could be efficiency gains by concentrating efforts in fewer, more focused conditions and streamlining those that are the most necessary measures to achieve expected results.

Countries that are advanced in the pursuit of a reform process at the outset of the program tend to have more critical PBLs (Table 12, Annex I). Cases in point are Suriname's and Nicaragua's energy PBPs. Suriname was only modestly advanced in the reform area in 2012 when the Bank approved a series to help the country develop a framework for the energy sector (SU-L1022, SU-L1035). Most of the conditions consisted of one-off measures to help set building blocks, such as the preparation of diagnostic assessments and draft guidelines for future legal frameworks. In contrast, Nicaragua's PBP (NI-L1074 and NI-L1089) came to support a reform process that was already advanced and in which the country had experience. With almost the same number of conditions as Suriname's, Nicaragua's PBP presented a higher depth level, with conditions that included devising and implementing a new energy tariff structure. Exceptions to this finding, though, are the series approved in CSC countries: even though all the reform programs were approved in areas in which the countries were already advanced and had experience, the average depth was the lowest among the regions.

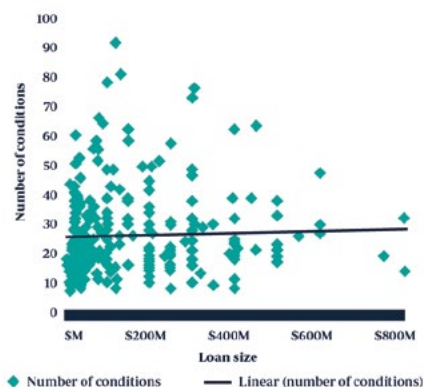
The depth level of reform programs varies across and within countries; in general, programs in the financial sector and energy tend to have higher depth. When analyzing differences in depth level, sharp differences across countries within regions stand out. For example, about 22% of the conditions in Peru have high depth, compared to 9% in Colombia programs and less than 5% in Bolivia programs. Moreover, there are substantial differences across programs within countries. Taking Peru as case in point, fewer than 8% of the conditions in the Social Sector Reform Program had high depth, compared to almost 30% in the energy program. The most consistent differences appear to be at the thematic level: almost a quarter of the conditions in PBLs and PBPs in the financial and energy sectors included in the sample are of high depth, compared to slightly above a tenth in the social and PSEM clusters.<sup>26</sup>

<sup>26</sup> Moreover, 60% and 28% of the conditions in the programs in the social cluster are of medium and low depth, respectively, compared to 53% (medium depth) and 36% (low depth) in the PSEM cluster. For further details, please see Table 11 in Annex I.

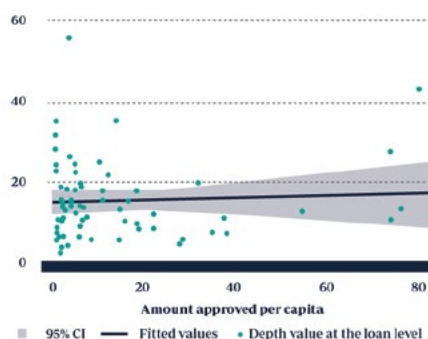
Reforms supported at times of crisis were slightly deeper than those supported outside crisis periods. OVE examined whether PBL programs initiated in times of crisis (which tend to provide countercyclical funding) support more ambitious reforms than programs started in less adverse economic times. Comparing the depth of the reform programs that were initiated during the international financial crisis (that is, programs for which the first loan was approved during 2008, 2009, or 2010) with those initiated either before or after, OVE found that on average, programs initiated in times of crisis have slightly higher depth (Table 13, Annex I). This finding could suggest that moments of distress provide a window of opportunity for policy change; however, the fact that Bank policy-based lending often rewards reforms already undertaken, as discussed below, complicates the interpretation of that finding.

There is no correlation between loan size and number of policy conditions or between loan size and depth of the supported reform program. OVE reviewed the policy matrices of the entire population of PBLs approved since 1990 and found that loan size (in absolute and in per capita terms) and number of policy conditions are not related (Figure V.4). A corollary of this is that the “price” per condition is case-specific and does not correlate with predominant type of PBL use (i.e., mostly as budget support, mostly as seal of approval, etc.), thematic area, region, or even country. Loans to Mexico and Peru provide a good illustration. The first loan of the Program to Strengthen the Public Finance in Mexico (ME-L1144) was approved in 2014 for \$800 million and had 15 policy conditions, while the second loan of the Water Resources Reform Program in Peru (PE-L1040) approved in 2009, had roughly the same number of policy conditions but was worth \$10 million. In general, these differences do not appear to be driven by the depth of the conditions: based on the sample analysis, OVE found no correlation between loan size and how ambitious the reform program was (Figure V.5). Overall, these findings are consistent with Bank’s policy-based guidelines that clarify that “the size of the loan is not necessarily related to the cost of the policy reforms/institutional changes supported by the PBL, but rather development financing requirements” (CS-3633-1, para. 2.2).

**FIGURE V.4. Number of conditions and size**



**FIGURE V.5. Depth and approval amount**



Source: OVE based on sample analysis



## PBL IMPLEMENTATION FEATURES

### Completion of PBP series

About a third of the PBP series approved since 2005 have been truncated; truncation dilutes the overall depth of the policy reform as supported by the Bank. Of the 82 series approved between 2005 and 2014, 33 were completed, 26 were truncated, and 23 are still active (i.e., it is too early to determine their status) (Figure V.6 and Table V.2). Based on these numbers, the PBP truncation rate (the number of truncated series over the sum of completed and truncated series) is 44%, and it tends to be higher in series with three planned operations than in series with two planned operations (47% vs. 40%, respectively). Colombia and Panama provide examples. In Colombia, the Bank approved six PBP series between 2009 and 2013, but four of them were interrupted. For instance, the labor markets series initiated in 2012 had originally been designed as a three-loan program, but before the approval of the second loan, a decision was made not to continue with the third operation and to increase the approval amount of the second loan from \$100 to \$400 million (RE-477). In Panama, the Bank approved four PBP series between 2009 and 2013, but three of them were interrupted midway through and new PBP series supporting different reform areas were initiated, resulting in shifts in the policy focus of the Bank's PBL support every 12-18 months (RE-475). Since medium- and high-depth conditions tend to be concentrated in the second and third loans of a series, the truncation of PBP series impairs the programs' depth.

FIGURE V.6. PBP series status, 2005-2014



Source: OVE based on 82 PBP series

**TABLE V.2. PBP series status, by series size, 2005-2014**

N° of operations planned	N° of series			
	Completed	Interrupted	Too Soon to Tell*	Total
2	15	10	9	34
3	17	15	14	46
4	1	1	0	2
Total	33	26	23	82

Source: OVE

Note: \*Last distribution date of most recent loan occurred less than 36 months ago.

However, the depth of policy conditions does not seem to be the driving reason for truncation. The evidence from OVE's sample analysis indicates that there are no significant differences in the depth levels between planned loans (and programs) that were ultimately truncated, and fully executed loans (programs). Instead, the reasons for PBP interruption are generally associated with changes in countries' financing requirements or government priorities. In this regard, considering the Executive Branch's term length in each of the IDB borrowing countries and changes in political parties following elections, OVE found that 42% of all PBP series approved since 2005 started when less than 24 months remained before the next elections (and almost 20% within 12 months before the next election). As expected, truncation was higher when there was a change in government following the elections.<sup>27</sup> This finding suggests that there might be room to improve the time alignment between the Bank's support to a reform program and the country's political cycle.

The truncation of a PBP series does not necessarily mean that the country's reform efforts are being truncated; however, the pace of the reform seems to slow. Evidence from recent Country Program Evaluations indicates that the truncation of a PBP series may not imply a truncation of the reform process. The PBP on Sustainable Energy for Trinidad and Tobago is illustrative: of the three proposed operations, only one was approved, but several of the indicative commitments in the truncated operations were still implemented down the road. The fact that countries may continue with reform processes without the Bank program may call into question the Bank's capacity and incentives to realistically assess—with borrowing countries—the likely pace of reform processes.

As a reflection of the different uses of the instrument, the truncation rate has varied substantially by cohort, division, and country; still, as a general trend, the richer the country, the greater the likelihood of series truncation. Considering the year in which the first loan of the PBP series was approved, the truncation rate has been volatile over time (Table 14, Annex I). The truncation rate was lowest for the 2008 cohort, and it increased thereafter,

27 Roughly six of every 10 truncated series occurred when there was a change in government.

peaking for the 2011 cohort.<sup>28</sup> These differences might reflect the countercyclical use of PBLs discussed in Chapter IV: from the country's perspective, shutting down the option of quick access to liquid resources is riskier in times of crisis (2008 cohort) than in times of economic expansion (2011 cohort). The truncation rate varies substantially by beneficiary country (Table 15, Annex I), with Peru and Colombia representing opposite approaches. Even though both countries relied heavily on PBPs in the last decade, none of the 11 series approved for Peru has been truncated, compared to 6 of the 10 series in Colombia. Although the small number of observations hinders the robustness of the statistical analysis, OVE found that there is a positive and strong link between GDP per capita and truncation rates (Table 16, Annex I). In fact, one of every two series in high- and upper-middle-income countries tends to be interrupted, compared to fewer than 3 out of 10 series in low- and lower-middle-income countries. Among those divisions that have approved at least 9 PBP series since 2005, Fiscal and Municipal Management Division and Social Protection and Health have the lowest truncation rates (Table 17, Annex I).

Technical assistance accompanying the reform process is linked to a reduced likelihood of truncating PBP series (but, as mentioned earlier, appears unrelated to programs' depth). OVE studied the correlation between parallel TCs and completion of PBP series for the 82 PBP series approved since 2005. The evidence suggests that there is a significant and positive relationship between series completion and both total amount approved in technical assistance and number of TCs supporting a series (Table 18, Annex I). This might be due to the fact that TCs set up "easy" compliance with conditions. As mentioned earlier, having parallel TCs does not affect programs' depth.

Multi-tranche PBLs were rarely truncated, but the use of waivers was a common practice. Under the traditional multi-tranche PBL, countries tended to request waivers if they were unable to comply with the disbursement triggers. A previous OVE evaluation (RE-300) found that the number of waivers rose steadily from 1992 to 2000, peaking at times of crisis. For example, whereas the number of waivers as a share of total conditions was around 8% between 1993 and 1995, it peaked at roughly 52% around the Asian crisis in the late 1990s. Waivers tend to occur in the second tranche; a low waiver rate for the first tranche reflected the fact that for most PBLs the tranche release and the Board approval dates were the same.

PBPs rarely resort to waivers; instead, actual policy conditions frequently diverge from the original indicative triggers, and as the PBP program advances, more adjustments are introduced to policy matrices. As was mentioned earlier, as the Bank's counterparts became more sophisticated and gained better access to capital markets, the country ownership of conditionality grew and PBLs became more flexible. As a result, countries rarely request waivers and disbursement triggers are adjusted as the reform program advances. OVE compared the actual policy conditions in second and third loans in the 28 PBP series in the sample to the (most up-to-date) indicative triggers and found that about half the triggers changed during implementation, reflecting the flexibility of the PBP instrument (Table V.3).<sup>29</sup> In terms of policy and institutional depth, for about 14% of the triggers in the second loans, and 19% in the third loan, the depth is reduced when the loan is approved.

<sup>28</sup> Since many of the series initiated in the last three years are still active, it is not possible to analyze more recent trends.

<sup>29</sup> Second loan conditions were compared to the disbursement triggers defined under the first loan of the series, while third loan conditions were compared to the disbursement triggers defined under the second loan.

Conversely, the depth of disbursement triggers is seldom increased. The exercise also shows that a large share of conditions is added.

**TABLE V.3. Changes between disbursement triggers and policy conditions**

	Loan 2	Loan 3
Condition unchanged	54.5%	33.6%
Condition changed but same depth	13.2%	21.2%
Condition added	12.9%	21.2%
Depth decreased	14.1%	18.6%
Depth increased	5.7%	5.3%
Number of policy conditions	335	120

Source: OVE, based on a sample of 28 PBP series.

Line ministries and the finance ministry are the most frequently responsible for compliance with conditionality; only a few conditions require Congressional approval. OVE found that around 30% of the conditions in the sample are the responsibility of one or more line ministries, and a further 30% are usually the responsibility of the Ministry of Finance. Public enterprises, independent agencies, and the President's or Prime Minister's cabinet are also frequently responsible for condition compliance. The National Congress is responsible for a small share of conditions (5%); of those conditions, most of the required legislation was passed before the loan had entered the pipeline (and sometimes between pipeline and loan approval). This confirms that, as has been mentioned, conditionality sometimes rewards past achievements rather than helping to trigger future actions.

## PBL MONITORING AND EVALUATION

The evaluability performance of PBLs has traditionally been much weaker than that of investment loans. PBLs' Development Effectiveness Matrix evaluability scores are typically lower than those of investment loans. Scores are particularly low in monitoring and evaluation, perhaps reflecting methodological challenges in estimating PBL impact (Table 19, Annex I). OVE's in-depth review of 70 PBLs found that program objectives tend to be poorly linked to meaningful results / outcome indicators, since the results matrices focus primarily on activities and outputs. This is consistent with the findings of a previous OVE evaluation (RE-379).

The monitoring of PBLs has also been traditionally weak; however, since 2013 the Bank has worked to enhance it. Until recently, the 2006 Project Completion Report (PCR) guidelines established that a PCR was to be delivered for PBPs once the whole program was fully disbursed. However, a PCR was usually not prepared for series that were indefinitely postponed or *de facto* suspended. Moreover, the rapid-disbursing nature of PBLs means that many loans are never subject to the six-month project monitoring report (PMR) cycle.

A corollary of this is that several PBPs had neither PMRs nor PCRs. The PCR guidelines approved in August 2014 represent a substantial advancement, since they state that PCR preparation “must be ensured even when the series is interrupted or the next operation in the series is indefinitely postponed. If a multiphase operation is stopped (...) preparation of the PCR for all the operations of the series must start no later than twelve (12) months after the last disbursement date of the most recent operation (whether completed or not), unless a subsequent phase is under active preparation” (para. 6.14, OP-1242-3). The guidelines do not clarify what happens if a loan proposal remains in the pipeline for more than 12 months after the last disbursement of the previous operation.<sup>30</sup> Another important change that SPD has recently introduced to PBLs is making mandatory the inclusion of an economic analysis (such as a cost-benefit analysis).

<sup>30</sup> For example, JA-L1033 (the expected third loan of a PBP series) has been in the pipeline for about five years.

# CONCLUDING REMARKS

---

From a conceptual viewpoint, PBLs have an important role in supporting policy and institutional reforms. PBL resources are fungible—as, ultimately, is much of investment lending. As more LAC countries have gained access to capital markets, IDB has developed more flexible policy-based lending modalities, which have been attractive to borrowers. The use of PBLs has varied greatly across LAC countries, though every country has had at least one PBL since 1990. The share of PBLs in the total SG portfolio shows no significant relationship with countries' income levels or institutional strength indicators.

Historically, there has been a twofold motivation for Bank policy-based lending: to provide borrowing countries with liquidity to help meet their budget and/or balance of payments financing needs, and to help them advance with policy and institutional reforms. The balance between these goals varies, and their compatibility cannot be taken for granted. For example, when a country's financing needs are great, the policy elements can take second place. In this regard, OVE found that there is no correlation either between loan size (in absolute and in per capita terms) and number of policy conditions, or between loan size and the depth of the reforms that the loan supports. These findings are consistent with the Bank's policy-based lending guidelines, which clarify that loan volume is not necessarily related to the cost of the policy reforms and institutional changes supported by the PBL, but is determined by the country's financing requirements.

OVE's review suggests that despite the heterogeneity in PBL use across countries, the predominant motivation for using PBLs is that they provide budget support to meet financing requirements. This is not to suggest that countries do not value the policy dialogue and technical expertise that come with Bank PBLs; however, the policy elements of PBLs are usually secondary to the primacy of budget support. While PBLs have played a major financing role, their countercyclical role overall has been limited in most countries. Several factors limit PBLs' capacity to provide substantial countercyclical support. First, PBLs cannot be approved or disbursed if borrowers do not have a positive macroeconomic assessment. Second, the total amount of policy-based lending is subject to the 30% aggregate cap. Third, the impact of IDB's lending in middle-sized and large countries is necessarily limited by its small size in relation to their economies.

The various provisions that make up the PBL framework have evolved through the years but remain somewhat unclear, and that lack of clarity can translate into weak design. For instance, the Bank's operational guidelines for policy-based lending offer little guidance on what qualifies as a policy or institutional reform, and thus on appropriate policy condition-

ality. Moreover, the rationale for the specific ceilings for policy-based lending (overall and not by country) has lacked analytical and empirical grounding. In addition, it remains unclear whether PBLs are meant to leverage reforms (that is, bring about reforms that would not otherwise take place to the same extent), support reform implementation (for instance, by providing technical know-how), or reward reforms already undertaken. For example, to what extent should PBLs piggyback on measures undertaken before the start of the operation? How old can measures be, yet still qualify as policy conditions in a Bank PBL?

PBP policy matrices contain many low-depth conditions, particularly in the early loans in a series. Regarding loan content, Bank guidance prescribes that policy conditions be critical and as few as possible. Yet OVE found that fully one-third of policy conditions are of low depth, involving basic one-off measures and/or expressions of intent—conditions that can hardly be considered essential for the achievement of expected results, as expected according to Bank guidelines. Furthermore, the average number of conditions in policy-based lending programs has risen over the last decade, though more conditions has not meant greater depth. TCs might be a better instrument to help countries carry out the basic measures needed to prepare the ground for a reform program, thereby facilitating greater parsimony in the selection of PBL conditionality.

Program truncation occurs frequently and dilutes the overall depth of PBP programs (though it does not necessarily truncate the country's reform process). Of the 82 series approved between 2005 and 2014, 33 were completed, 26 were truncated, and 23 are still active (i.e., it is too early to determine their status). Based on these numbers, about a third of the PBP series approved since 2005 have been truncated, and the truncation rate (the number of truncated series over the sum of completed and truncated series) is 44%. In some countries, truncation has been associated with frequent shifts in the policy focus of Bank PBLs. Since medium- and high-depth conditions tend to be concentrated in the second and third loans of a series, the truncation of PBP series impairs program depth. Significantly, OVE found a positive relationship between TC use in parallel to a PBP series and the likelihood of completion of the series.

# REFERENCES AND BIBLIOGRAPHY

- African Development Bank. 2003. *Bank Group Financial Sector Policy*. Tunis: AfDB.
- \_\_\_\_\_. 2010. *Evaluation of Policy Based Operations in the African Development Bank, 1999-2009 Institutional and Policy Review*. Tunis: AfDB.
- \_\_\_\_\_. 2011. *Evaluation of Policy Based Operations in the African Development Bank, 1999-2009 Country Case Study: Rwanda*. Tunis: AfDB.
- \_\_\_\_\_. 2012. *Bank Group Policy on Program-Based Operations*. Tunis: AfDB.
- Asian Development Bank. 1999. *Review of ADB's Program Lending Policies*. Manila: ADB.
- \_\_\_\_\_. 2003. *Operations Manual Bank Policies*. Manila: ADB.
- \_\_\_\_\_. 2005. *Good Practices for the Evaluation of Policy-Based Lending by Multilateral Development Banks*. Manila: ADB.
- \_\_\_\_\_. 2007. *Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries*. Manila: ADB.
- \_\_\_\_\_. 2009. *Enhancing ADB's Response to the Global Economic Crisis - Establishing the Countercyclical Support Facility*. Manila: ADB.
- \_\_\_\_\_. 2011. *Review of ADB's Program Lending Policies*. Manila: ADB.
- Buch, Benjamin P., Mark T. Buntaine, and Bradley C. Parks. 2015. "Aiming at the Wrong Targets: The Difficulty of Improving Domestic Institutions with International Aid" *Aid Data Working Paper 4*.
- Caputo, Enzo, Antoine de Kemp, and Andrew Lawson. 2011. "Assessing the impacts of budget support." *Evaluation Insights OECD*, no. 2. Paris: OECD.
- Caribbean Development Bank. 2010. *Strategic Plan 2010-2014*. Saint Michael: CDB.
- \_\_\_\_\_. 2015. *Approach paper: Evaluation of Policy-Based Operations (2006-2014)*. Saint Michael: CDB.



- Demirguc-Kunt, Asli, and Enrica Detragiache. 1998. "The Determinants of Banking Crises in Developing and Developed Countries." *IMF Staff Papers* 45 (1), pp. 81-108.
- Easterly, William. 2002. "What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans." *Center for Global Development Working Paper 11*.
- Easterly, William. 2003. "IMF and World Bank Structural Adjustment Programs and Poverty." *Managing Currency Crises in Emerging Market*, University of Chicago Press: pp. 361-392.
- Goldstein, Morris. 2000. "IMF Structural Conditionality: How Much is Too Much?" *Institute for International Economics Working Paper No. 01-04*.
- Inter-American Development Bank. 1989a. *Proposal for the Seventh General Increase in the Resources of the Inter-American Development Bank* (AB-1378). Washington, DC: IADB.
- \_\_\_\_\_. 1989b. *Summary of the Fifty-fourth Meeting of the Committee of the Board of Governors* (CA-320-2). Washington, DC: IADB.
- \_\_\_\_\_. 1994. *Report on the Eighth General Increase in the Resources of the Inter-American Development Bank* (AB-1704). Washington, DC: IADB.
- \_\_\_\_\_. 1996a. *Agreement Establishing the Inter-American Development Bank* (reprint). Washington, DC: IADB.
- \_\_\_\_\_. 1996b. *Los procesos de ajuste y los préstamos del BID en apoyo de reformas políticas* (GN-1955). Washington, DC: IADB.
- \_\_\_\_\_. 1999. *Summary report: Evaluation of the policy-based loan portfolio – Phase III. Final Version* (RE-239-3). Washington, DC: IADB.
- \_\_\_\_\_. 2001. *Inputs for the deliberations of the Committee of the Board of Governors* (CS-3371). Washington, DC: IADB.
- \_\_\_\_\_. 2002. *Management Proposal - Lending Framework* (CS-3399). Washington, DC: IADB.
- \_\_\_\_\_. 2003. *Board approvals procedures for loans* (CC-5877). Washington, DC: IADB.
- \_\_\_\_\_. 2004a. *Review of the quality-at-entry of Policy-Based Loans approved in 2003* (GN-2282-1). Washington, DC: IADB.
- \_\_\_\_\_. 2004b. *Instruments and development: An evaluation of IDB lending modalities* (RE-300). Washington, DC: IADB.

- \_\_\_\_\_. 2005a. *Policy-Based Loans: Guidelines for Preparation and Implementation* (CS-3633). Washington, DC: IADB.
- \_\_\_\_\_. 2005b. *New Lending Framework (NLF). Assessment report and recommendations. Final version* (GN-2200-13). Washington, DC: IADB.
- \_\_\_\_\_. 2005c. *New Lending Framework (NLF). Assessment report and recommendations. Revised version* (GN-2200-13). Washington, DC: IADB.
- \_\_\_\_\_. 2005d. *New Lending Framework (NLF). Assessment report and recommendations. New revised version* (GN-2200-12). Washington, DC: IADB.
- \_\_\_\_\_. 2005e. *Management's response to questions raised by the Chair of Belgium, Germany, Italy, Israel, The Netherlands and Switzerland on the categorization of lending instruments: PBL versus investment loans* (GN-2200-14). Washington, DC: IADB.
- \_\_\_\_\_. 2008. *The evaluation of the New Lending Framework: 2005-2008* (RE-342-1). Washington, DC: IADB.
- \_\_\_\_\_. 2010. *Evaluability review of Bank projects 2009* (RE-379). Washington, DC: IADB.
- \_\_\_\_\_. 2011a. *Review of the New Lending Framework* (AB-2791). Washington, DC: IADB.
- \_\_\_\_\_. 2011b. *Review of the New Lending Framework. New revised version* (GN-2494-6). Washington, DC: IADB.
- \_\_\_\_\_. 2011c. *Proposal to Reform the Bank's Sovereign Guaranteed Lending Instruments. Final version* (GN-2564-3). Washington, DC: IADB.
- \_\_\_\_\_. 2012a. *Proposal to Establish a Set of Contingent Lending Instruments of the IDB. Revised version* (GN-2667-2). Washington, DC: IADB.
- \_\_\_\_\_. 2012b. *Mid-term Evaluation of IDB-9 Commitments. Operational Instruments Background Paper*. Washington, DC: IADB.
- \_\_\_\_\_. 2013a. *Background Paper: Macroeconomic Sustainability* (RE-435-3). Washington, DC: IADB.
- \_\_\_\_\_. 2013b. *Ordinary Capital. 2014 Long-Term Financial Projections Preview Document* (FN-683).
- \_\_\_\_\_. 2013c. *Mid-term Evaluation of IDB-9 Commitments. Financial and Risk Management Background Paper*. Washington, DC: IADB.
- \_\_\_\_\_. 2013d. *Ordinary Capital. 2014 Final Long-Term Financial Projections* (FN-683-1). Washington, DC: IADB.
- \_\_\_\_\_. 2013e. *Ordinary Capital. 2014 Final Long-Term Financial Projections (audiovisual presentation)* (PP-519). Washington, DC: IADB.

- \_\_\_\_\_. 2014a. *Aprendiendo de la experiencia operativa del BID: Préstamos en Función de Resultados (PDL)*. Washington, DC: IADB.
- \_\_\_\_\_. 2014b. Policy-based Loans (audiovisual presentation) (PP-554). Washington, DC: IADB.
- \_\_\_\_\_. 2014c. Policy-based Loans (audiovisual presentation). Response to Questions Raised by Executive Directors (GN-2763). Washington, DC: IADB.
- \_\_\_\_\_. 2014d. *Policy-based Loans: Guidelines for Preparation and Implementation. New version* (CS-3633-1). Washington, DC: IADB.
- \_\_\_\_\_. 2014e. *Operational Guidelines for the Implementation of the Macroeconomic Safeguards in the Inter-American Development Bank* (GN-2753-7). Washington, DC: IADB.
- \_\_\_\_\_. 2014f. *Transition Long-term Financial Projections of the Ordinary Capital. 2015 Preview Document* (FN-692).
- \_\_\_\_\_. 2014g. *Documento Final de Proyecciones Financieras Transicionales a Largo Plazo del Capital Ordinario para 2015. Versión revisada* (FN-692-2 Washington, DC: IADB.
- \_\_\_\_\_. 2014h. Transitional Long-term Financial Projections of the Ordinary Capital 2015 Final Document – Additional information (audiovisual presentation) (PP-623). Washington, DC: IADB.
- \_\_\_\_\_. 2014i. *Climate Change and IDB: Building Resilience and Reducing Emissions. Sector Study: Energy*. Washington, DC: IADB.
- \_\_\_\_\_. 2015a. *Project Completion Report. Principles and Guidelines. Update* (OP-1242-3). Washington, DC: IADB.
- \_\_\_\_\_. 2015b. *Estudio sobre la Evolución de la Actividad y los Cambios en las Funciones de Producción del Banco luego del Noveno Aumento de Capital. Informe final* (GA-258-14). Washington, DC: IADB.
- \_\_\_\_\_. 2015c. *Country Program Evaluation: Panama 2010-2014. Comments from Management* (RE-472-2). Washington, DC: IADB.
- \_\_\_\_\_. 2015d. *Current and historic loan charges for ordinary capital loans. Finance, 2015 1st and 2nd Quarters*. Washington, DC: IADB.
- International Development Association. 2006. *Development Policy Operations. A Framework to Assess Country Readyness for Making Productive Use of Development Policy Operations*. Washington, DC: IDA.
- International Monetary Fund. 2012. 2011. *Review of Conditionality. Background Paper 1: Content and Application of Conditionality*. Washington, DC: IMF.
- \_\_\_\_\_. 2014. *Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines*. Washington, DC: IMF.

- International Monetary Fund Independent Evaluation Office. 2007. *Structural Conditionality in IMF-Supported Programs*. Washington, DC: IMF.
- Koerberle, Stefan G. 2003. "Should Policy-Based Lending Still Involve Conditionality?" *The World Bank Research Observer*. 18 (2): 249-273.
- Laeven, Luc, and Fabian Valencia. 2013. "Systemic Banking Crises Database." *IMF Economic Review* 61 (2): 225-270.
- Lora, Eduardo. 2012. "Las reformas estructurales en America Latina: Que se ha reformado y como medirlo" Documento de trabajo IDB-WP-346. Washington, DC: IADB.
- Mendoza, E. and Marcelo Oviedo. 2004. "Public Debt, Fiscal Solvency and Macroeconomic Uncertainty in Latin America: The Cases of Brazil, Colombia, Costa Rica and Mexico." NBER Working Paper No. 10637.
- Moll, Peter, Patricia Geli, and Pablo Saavedra. 2015. "Correlates of Success in World Bank Development Policy Lending" Policy Research Working Paper 7181. Washington, DC: WB.
- Organisation for Economic Co-operation and Development. 2005. *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*. Paris: OECD.
- \_\_\_\_\_. 2012. *Evaluating Budget Support. Methodological Approach*. Paris: OECD.
- \_\_\_\_\_. 2015. "Evaluating the impact of budget support." *Evaluation Insights OECD*, no. 10. Paris: OECD.
- Oxford Policy Management, et al. 2011. *Evaluation of Policy Based operations in the African Development Bank, 1999-2009 Evaluation Report*. Tunis: AfDB.
- Smets, Lodewijk, and Stephen Knack. 2014. "World Bank Lending and the Quality of Economic Policy." Development Research Group. Washington, DC: World Bank.
- United Nations Development Programme. 2004. *Official Development Assistance as Direct Budget Support*. New York: UNDP.
- Vreeland, James R. 2007. "The Politics of IMF Conditional Lending." *World Economics* 8 (3): 185-193.
- World Bank. 1980. *Structural Adjustment Lending*. Washington, DC: World Bank.
- \_\_\_\_\_. 1998. *Assessing Aid: What Works, What Doesn't, and Why*. Cambridge: Oxford University Press.
- \_\_\_\_\_. 2001. *Adjustment Lending Retrospective*. Washington, DC: World Bank.
- \_\_\_\_\_. 2002. *From Adjustment Lending to Development Policy Support Lending: Key Issues in the Update of World Bank Policy*. Washington, DC: World Bank.

- \_\_\_\_\_. 2004a. *Development Policy Lending*. Washington, DC: World Bank.
- \_\_\_\_\_. 2004b. *From Adjustment Lending to Development Policy Lending: Update of World Bank Policy*. Washington, DC: World Bank.
- \_\_\_\_\_. 2004c. *Good Practice Notes for Development Policy Lending*. Washington, DC: World Bank.
- \_\_\_\_\_. 2005a. "Review of World Bank Conditionality Issues Note. Draft." Washington, DC: World Bank.
- \_\_\_\_\_. 2005b. *Conditionality Revisited. Concepts, Experiences, and Lessons*. Washington, DC: World Bank.
- \_\_\_\_\_. 2005c. *Review of World Bank Conditionality: The Theory and Practice of Conditionality: A Literature Review*. Washington, DC: World Bank.
- \_\_\_\_\_. 2006. *Development Policy Lending Retrospective*. Washington, DC: World Bank.
- \_\_\_\_\_. 2007. *Conditionality in Development Policy Lending*. Washington, DC: World Bank.
- \_\_\_\_\_. 2009a. *World Bank Response to Financial Crises: The Special Development Policy Lending Option*. Washington, DC: World Bank.
- \_\_\_\_\_. 2009b. *Country Policy and Institutional Assessments. 2009 Assessment Questionnaire*. Washington, DC: World Bank.
- \_\_\_\_\_. 2011. *Good Practice Note for Development Policy Lending*. Washington, DC: World Bank.
- \_\_\_\_\_. 2013. *2012 Development Policy Lending Retrospective. Results, Risks, and Reforms*. Washington, DC: World Bank.
- World Bank Independent Evaluation Group. 2015. *The Quality of Results Frameworks in Development Policy Operations*, Washington, DC: World Bank.





*Technical Note*

**DESIGN AND  
USE OF POLICY-  
BASED LOANS  
AT THE IDB**



**ove** Office of  
Evaluation  
and Oversight

**'15 ANNUAL  
REPORT**