

Approach Paper

# Policy-based Lending at the IDB

**Copyright © 2023 Inter-American Development Bank. This work is licensed under a Creative Commons IGO 3.0 Attribution - NonCommercial - NoDerivatives (CC-IGO BY-NC-ND 3.0 IGO) license**

(<http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode>) and may be reproduced with attribution to the IDB and for any non-commercial purpose. No derivative work is allowed.

Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.

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

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.



**Inter-American Development Bank, 2023**

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-582**  
**September 2023**

## CONTENTS

### ACRONYMS AND ABBREVIATIONS

I.	INTRODUCTION .....	4
II.	BACKGROUND ON POLICY-BASED LENDING IN THE IDB .....	5
III.	EVOLUTION OF POLICY-BASED LENDING IN THE IDB .....	7
IV.	EVALUATION FRAMEWORK, TOC, QUESTIONS, METHODS, AND SCOPE .....	9
	A. Evaluation framework and TOC .....	9
	B. Evaluation questions .....	11
	C. Methods and scope .....	13
V.	EVALUATION TEAM AND TIMELINE .....	14

### REFERENCES

Annex I	<a href="#">Policy-based lending approvals by country, 2005–2022</a>
Annex II	<a href="#">Evaluation design matrix</a>
Annex III	<a href="#">Case study selection</a>
Annex IV	<a href="#">Assessment methodology for depth of policy conditions and stage of reform</a>
Annex V	<a href="#">Evaluation portfolio</a>

This document was prepared by Cesar P. Bouillon (team leader), Pablo Fleiss, Jorge Gallego, Roxana Pedraglio, Gunnar Gotz, Luis Fernando Corrales, Andreia Barcellos, and Melisa Wong under the direction of Ivory Yong Protzel, OVE Director.

## ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
CAN	Country Department Andean Group
CAR	Capital Adequacy Ratio
CCB	Country Department Caribbean
CID	Country Department Central America
CPE	Country Program Evaluation
CSC	Country Department Southern Cone
DDO	Deferred Draw-down Option
ICPR	Independent Country Program Review
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
INV	Investment loan
LAC	Latin American and the Caribbean
LBR	Loan based on results
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
NSG	Non-Sovereign Guaranteed
OECD-DAC	OECD Development Assistance Committee
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loans
PCR	Project Completion Report
SDL	Special Development Loan
SG	Sovereign Guarantee
TC	Technical Cooperation
TOC	Theory of change
WB	World Bank
XCPE	Extended Country Program Evaluation

## I. INTRODUCTION

- 1.1 **This document defines the approach the Office of Evaluation and Oversight (OVE) will adopt to evaluate policy-based lending in the Inter-American Development Bank (IDB).** It includes the framework, objectives, scope, questions, and methodology that OVE will use for the evaluation. This corporate evaluation was included in OVE's 2022–2023 work program (document [RE-563](#)), as approved by the IDB and IDB Invest Boards.
- 1.2 **Since its launch in 1989, policy-based lending has steadily gained importance at the IDB as an instrument for financing needs and country-led policy reforms.** These reforms can range from improving public health, stabilizing macroeconomic conditions, and managing fiscal and debt issues to encouraging renewable energy generation, among others. Policy-based lending gives incentives for member countries to achieve reform objectives while providing funding that is not tied to specific activities.
- 1.3 **This is the first independent evaluation of IDB's policy-based lending in the IDB.** OVE has looked at policy-based lending in several contexts, but a comprehensive evaluation of IDB's policy-based lending has not been undertaken to date. The findings from OVE's previous work on the instrument have been presented in the recent 2023 note [RE-582](#) and stem from six sources: (i) OVE's 2015 review of the design and use of policy-based lending (document [RE-485-6](#)); (ii) OVE's 2020 Lending instruments study (document [RE-549](#)); (iii) OVE's review of the demand and performance of policy-based lending in its country products;<sup>1</sup> (iv) OVE's validations of IDB's self-evaluations of completed operations (project completion report or PCR); (v) the proceedings of a 2020 conference describing the experience with policy-based lending at other multilateral development banks (MDBs);<sup>2</sup> and (vi) a portfolio analysis of policy-based lending operations approved up to December 2022. These previous findings have identified relevant issues regarding policy-based lending use at the IDB (i.e., trends, patterns, evolution, contribution, performance, and challenges) and have been considered in the design of this evaluation.
- 1.4 **An assessment of policy-based lending is timely, given the importance and increased need to foster and improve development effectiveness.** Policy-based lending is one of the key elements in the menu of financial instruments that MDBs have. In the right context, it can improve development effectiveness by realizing the Paris Declaration Principles for Aid Effectiveness of ownership, predictability, reliance on country systems, focus on results, and harmonization (Fardoust et al., 2023). Policy-based lending is central to the IDB's toolkit to support client countries. In the last Annual Meeting in Panama in March 2023, the IDB Governors resolved to mandate the Board of Executive Directors to direct Management to prepare a proposal for a new institutional strategy and a series of operational reforms (document [AG-6/23](#)). These reforms comprise a review of IDB's current lending instruments, including ways for strengthening policy-based lending (document [AG-7/22](#), the Washington Resolution). OVE's Policy-Based

---

<sup>1</sup> Country Program Evaluations or CPEs, Extended Country Program Evaluations or XCPE, and Independent Country Program Reviews or ICPR.

<sup>2</sup> Asian Development Bank, ADB; African Development Bank, AfDB; and the World Bank, WB.

Lending Evaluation can provide important inputs to the Board and Management in the discussions to implement the operational reforms mandated by the Governors.

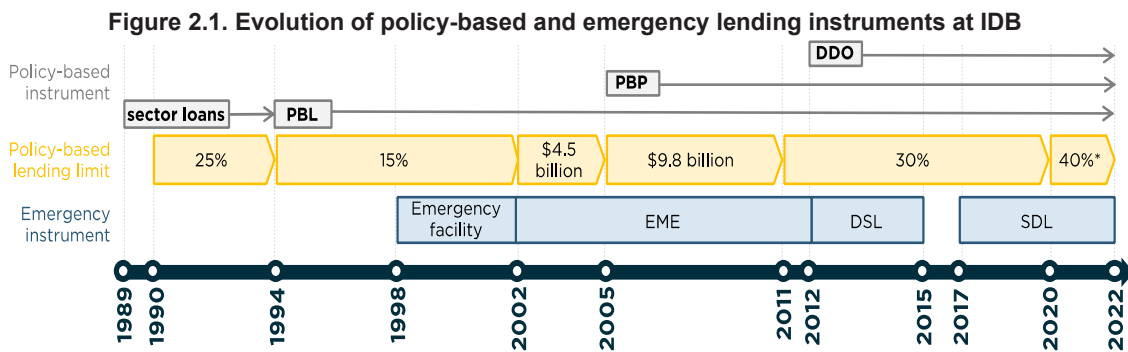
- 1.5 **The main question that guides this evaluation is to what extent policy-based lending in the IDB has contributed to its dual objectives** of (i) improving debt and liquidity management by providing beneficiary countries with flexible, liquid, and timely funding to meet their financing needs; and, (ii) strengthening fiscal management, economic and sector frameworks, and the provision of public services by supporting policy and institutional reform in client countries (see Proposal for the Seventh General Increase in the Resources of the IDB, document [AB-1378](#)). To answer this question, OVE will look at the use of policy-based lending as an instrument, including its programming processes, the drivers for its demand, and its use in other MDBs; as well as the relevance, implementation, effectiveness, and sustainability of policy-based operations.
- 1.6 **The remainder of this Approach Paper is organized as follows.** The following section presents policy-based lending in the IDB. Section III describes the evolution of the IDB's policy-based lending portfolio from 2005 (year of inception of Programmatic Policy-Based Loans, PBP) to 2022. Section IV presents the evaluation framework, including a theory of change, the evaluation questions, and the methods and scope. Section V introduces the evaluation team and timeline. Annex I lists the policy-based lending approval by country for the period 2005-2022. Annex II contains the evaluation matrix, and Annex III covers the criteria for the selection of case studies. Annex IV presents the methodology for assessing depth of policy conditions and stage of reform.

## II. BACKGROUND ON POLICY-BASED LENDING IN THE IDB

- 2.1 **The IDB sovereign-guaranteed (SG) lending categories include investment lending, policy-based lending, and lending for financial emergencies during a macroeconomic crisis, called special development lending.** IDB also guarantees loans made by private financiers for public sector projects. Policy-based lending provides fast-disbursing financial assistance or country budget support that is conditional on the borrowing country fulfilling a set of agreed-upon policy and institutional conditions, while investment loans (INVs) disburse against specific predefined project expenditures or meeting agreed-on development results (the latter, in the case of loans based on results or LBRs, a special instrument within the investment category). Special development loans (SDLs) provide fast-disbursing support conditional on a country having been struck by a macroeconomic crisis, being supported by an active International Monetary Fund (IMF) program, and the SDL being part of an international support package.
- 2.2 **Policy-based lending was introduced at the IDB in 1989 in response to the 1980's debt crisis in Latin America and the Caribbean (LAC)** (see document [AB-1378](#)). Policy-based operations were based on the model of conditional budget support created by the World Bank (WB) almost a decade earlier. Originally called sector loans, IDB's policy-based operations had the dual objectives of promoting policy or institutional reform and helping countries meet their financing needs, while simultaneously supporting macroeconomic adjustment programs and structural reforms. Multi-tranche Policy-based loans (PBLs) were to be disbursed in several tranches with disbursements conditioned on the maintenance of a sustainable macroeconomic policy framework and compliance with a set of agreed-upon

conditions defined in a policy matrix (see Box 2.1, for a list of complete IDB Lending Instruments see <https://publications.iadb.org/publications/english/viewer/Public-Sector-Financing-Lending-instruments-Summary.pdf>). PBL processes required a country policy memo to ensure that the conditions were being complied with and relied on IMF-supported programs for macroeconomic assessments. By the time of its Eighth Capital Replenishment in 1994, Governors foresaw that, in the future, policy lending would have a greater focus on reforms of the overall functioning of the public sector, including social sector policy reform and the efficiency of service delivery (document [AB-1704](#)).<sup>3</sup>

2.3 **In the mid-2000s, internal processes around policy-based lending were changed, and new modalities were added.** As borrowing countries began experiencing higher growth, increased institutional capacity, and better access to capital markets, the IDB introduced more changes to policy-based lending. First, a new modality, called programmatic policy-based loan (PBP), was introduced in 2005 (document [AG-5/05](#), see Figure 2.1). PBPs consist of a series of single-tranche operations set in a medium-term framework of reforms. The first operation of a PBP series identifies the policy conditions for that operation as well as indicative triggers for the subsequent loans in the series. Since the triggers can be revisited at the time of loan approval, PBPs allow for conditions to be adjusted as country circumstances change. With these changes, in 2005, IDB approved guidelines for the preparation and implementation of policy-based operations (document [CC-3633](#)), thus, consolidating existing policies and practices for the first time. These guidelines were later updated in 2018 (document [CS-3633-2](#)). Second, the initial 25% cap on policy-based lending of IDB’s 1990–1993 overall lending program established to avoid crowding out investment lending, was repeatedly changed until it reached 30% of non-emergency lending (measured in a four-year period) from 2011 onwards. More recently, with the COVID-19 crisis, the limit was temporarily increased to 40% for the 2018-2022 period, though it returned to 30% for the four-year period starting in 2023.



Source: OVE, 2023 (document [RE-582](#))

Notes: DDO = Deferred Draw-down Option, DSL = Development Sustainability credit Line, EME= Emergency Loan, PBL = Policy-Based Loan, PBP = Programmatic Policy-Based Loan, SDL = Special Development Loan, \*temporary response to COVID-19 pandemic.

<sup>3</sup> “Policy lending during the Eighth Replenishment will continue to support economic adjustment programs for those countries still in need of such financing, but greater emphasis will be on reforms in the public sector (i.e., in tax, budget and expenditure policies, institutional strengthening and support for sub-national governments), and promoting reforms in sectors neglected in the general adjustment process, in particular the rehabilitation and modernization of social sector infrastructure and delivery systems.” (Document [AB-1704](#), paragraph 2.52).

- 2.4 **More recently, a deferred draw-down option (DDO) has been added.** In 2012, IDB introduced a DDO to synchronize proceeds with countries' financing needs (document [AB-2890](#)). The DDO allows countries, on payment of an up-front premium, to draw on the resources of a policy-based operation when they require these funds. The borrower must maintain policy conditions and sustainable macroeconomic policies during the drawdown period.

#### Box 2.1. IDB policy-based products

**Multi-tranche Policy-Based Loan (PBL):** PBLs consist of two or more tranches within a single operation, in which the disbursement conditions for each tranche are specified at the beginning of the operation (document [PR-301](#)).

**Programmatic Policy-Based Loan (PBP):** PBPs are a series of technically related but financially and contractually independent operations. The independent single-tranche operations are approved on a phased basis (and have their own loan contract) to support the borrower in achieving the country's reform program, with specified triggers for moving from one operation to the next (document [PR-301](#)).

**Hybrid Loans:** Hybrid loans provide financial support for sector or subsector policy changes and funds for capital investment. They contain a policy reform (fast disbursement) component to finance a variety of expenditures linked to policy changes and institutional reform and an investment component targeted to specific investments in the sector, which helps consolidate these new sector policies (document [PR-301](#)).

**Deferred Drawdown Option (DDO):** DDOs can be requested for all policy-based modalities (multi-tranche, programmatic, and hybrid - in this case, to the policy component). The purpose of the DDO is to allow the loan resources to be drawn down over a period so long as the conditions that led to approval remain in place. This option allows countries to approve their allocation of policy-based lending in a given year but have access to the financial resources at a time that meets their needs more effectively. (document [GN-2677-2](#)).

**Policy-Based Guarantees:** A policy-based guarantee is a policy-based instrument that combines features of the policy-based operation with a guarantee. Once the government complies with the policy reforms, the Bank issues a guarantee to support the Guaranteed Instrument (document [GN-2729-2](#)).

### III. EVOLUTION OF POLICY-BASED LENDING IN THE IDB

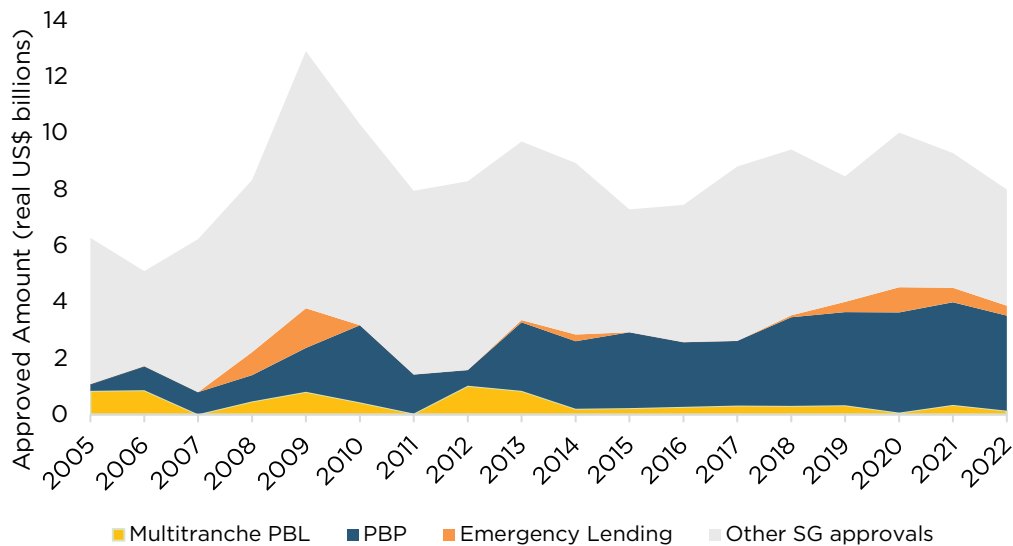
- 3.1 **Between 2005, the year PBPs were created, and 2022, policy-based lending accounted for 31.1% of SG approvals,<sup>4</sup> with the share increasing over time.** In this period, IDB approved 332 policy-based operations<sup>5</sup> totaling almost US\$59.7 billion. About 83% of these resources were approved as PBPs (including 6.5% for PBPs with DDO) supporting 159 programs, 15.1% being approved as PBLs and 1.9% as policy-based guarantees. Policy-based lending's share of total SG approvals (including emergency lending) increased from 19% in 2005–2009 to 27% in 2010–2014, 37% in 2015–2019, and 42% in 2020–2022 (see Annex I and Figure 3.1). The 2007–2009 global financial crisis led to a significant increase in the number and amounts of policy-based operations. IDB approved 61 policy-based operations for US\$7.8 billion in 2008–2010, compared with 31 of such operations for US\$3.8 billion during the previous three years. After decreasing in 2011–2012, policy-based lending rose again in 2013 and since then IDB has averaged around 20 policy-based operations totaling US\$4.4 billion per year (see Figure 3.1).

<sup>4</sup> Sovereign guaranteed approvals in this context includes all SG loan and guarantee operations regardless of funding source.

<sup>5</sup> Policy-based operations include PBL, PBP, PBL with DDO, PBP with DDO, policy-based guarantees and policy-based grants.



**Figure 3.1. Evolution of policy-based lending, 2005–2022**



Source: OVE, based on data from IDB databases.

Note: Amounts are in real US\$ using 2005 as base year.

### 3.2 Policy-based lending was a central element of the IDB’s COVID-19 response.

To accelerate the approval of operations during the COVID-19 pandemic, the IDB developed an expedited approval process that included templates for draft project proposals (prototypes). The policy-based prototypes included a menu of policy measures geared towards the timely availability of resources to respond to the public health crisis, temporary expansion of social protection programs, provision of essential services, efficient public expenditure management, and formulation of a program for economic recovery. These prototypes were in place until the first semester of 2021. During that period, eight policy-based prototypes were approved for US\$1.4 billion: all of them in C&D countries. Four of these operations have had a second phase of the programmatic subsequently approved during 2021–2022, totaling \$625 billion. In addition, in 2021, Management decided that all policy-based lending can be counted as an operational response to COVID-19. Accordingly, US\$5.6 billion corresponding to 18 policy-based lending operations approved that year were included in the IDB Group dashboard that monitored the projects dealing with the pandemic.

### 3.3 All borrowing member countries, except for Venezuela, made use of policy-based lending between 2005–2022, but its relative importance in country portfolios varied.

The share of policy-based lending in overall SG approvals increased for all IDB country income groups during the period. In terms of overall importance, a few countries have dominated in the number and dollar amounts of policy-based operations received. Historically, a greater number of policy-based operations have been approved for C&D countries<sup>6</sup> (see IDB, 2022). Nonetheless, A&B countries<sup>7</sup> had a higher share of policy-based lending amounts (see [Annex I](#)).

<sup>6</sup> Bahamas, Barbados, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad & Tobago, and Uruguay.

<sup>7</sup> Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Venezuela is the only country that did not use policy-based lending between 2005–2022.

## IV. EVALUATION FRAMEWORK, TOC, QUESTIONS, METHODS, AND SCOPE

### A. Evaluation framework and TOC

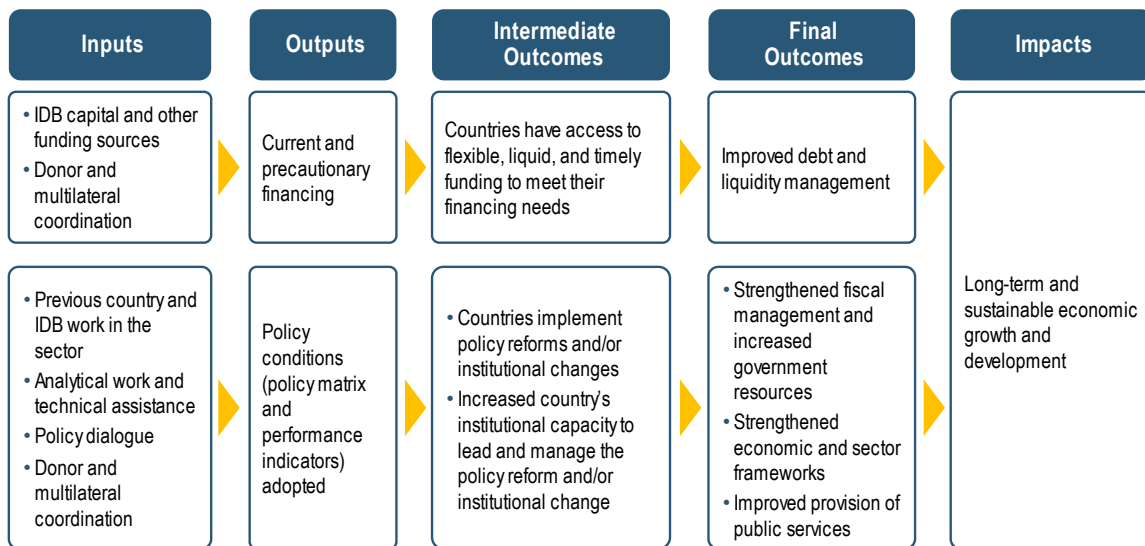
- 4.1 **IDB's policy-based lending was established by the Bank Board of Governors with the dual objectives of (i) improving debt and liquidity management by providing beneficiary countries with flexible, liquid, and timely funding to meet their financing needs; and, (ii) strengthening fiscal management, economic and sector frameworks, and the provision of public services by supporting policy and institutional reform in client countries.**<sup>8</sup> Since its inception, policy-based lending was envisioned to be accompanied by technical assistance to support reform processes and institutional change. According to the more recent policy-based lending guidelines (see document [CS-3633-2](#)), the objective of the instrument is “to support the process of good policymaking; while providing an incentive structure for reform/institutional change agendas to be implemented in a timely fashion. (Policy-based lending) should seek to help build a country’s capacity to lead and manage the policy reform and/or institutional change process while reducing the transaction costs of external assistance and providing timely disbursement of resources to the national budget”. The guidelines also indicate that the expected outcomes of a policy-based operation should be closely **aligned** with, and should aim to contribute to, the main goals of the IDB Group’s Country Strategy; the government should have **ownership** of the reform process, i.e., be able to build and maintain an adequate coalition of support for the program; a policy-based operation should be based on a **sound macroeconomic framework**; and when several development partners are involved in supporting a reform program, all partners should share a clear understanding about the modalities of their **cooperation**.
- 4.2 **Other MDB evaluation offices have found that evaluating policy-based operations is far more challenging than evaluating conventional INVs, which benefit from clearer measurement metrics and greater data availability (ADB, 2022).** As summarized in OVE’s 2023 technical note, metrics for policy-based operation outputs and outcomes are not well established and more difficult to standardize across sectors and countries. A common criticism of policy-based lending evaluations concerns the difficulty of attributing outcomes to operations, including the policy actions they support and the fast-disbursing financial support they provide. Most MDB’s evaluations of policy-based lending follow an objectives-based methodology that evaluates a program's performance against its set objectives, usually defined at entry in its results matrix.
- 4.3 **OVE has built a theory of change (TOC) based on the dual objectives described above.** OVE’s TOC leans on the methodological approach suggested by the OECD (2012) while also adapting its scope and language to the IDB context (see Figure 4.1).

---

<sup>8</sup> See page 10 of document [AB-1378](#): “The objectives of sector loans (the original name for policy-based loans) are to improve economic efficiency in the sector and to provide resource transfers to help make such improvements possible. Sector loans could deal with every aspect of sectoral performance and efficiency - policy environment, prioritization of investments, institutional strengthening, administration and maintenance, new operational approaches, and technological development, and limited and temporary budget support to key institutions. Technical Cooperation is expected to be an important component of sector loans.”

4.4 **OVE’s TOC posits that IDB policy-based operations should include various inputs that are more than just a transfer of funds.** These elements include analytical work, technical assistance, capacity building, policy dialogue, and donor and multilateral coordination. Analytical work involves assessments and diagnostics of a specific country’s context, such as ownership, adequacy of incentive and accountability structures, and political feasibility. Technical assistance may also be provided to support the borrower’s policy formulation and implementation of reforms (sometimes in coordination with other financiers/development partners). Policy dialogue can be an important tool to carve out, align and harmonize approaches between development partners and recipients, and internal stakeholders. Donor and multilateral coordination can help minimize transaction costs and avoid inconsistencies and/or undue overlap in instruments employed and conditions associated with the support from various development partners.

**Figure 4.1. Policy-Based Lending TOC**



**Assumptions:** Appropriate and sound macroeconomic policy framework is maintained; adaptability to external (macroeconomic) shocks, natural disasters, or social turmoil; and continuous country ownership and government commitment.

Source: OVE

4.5 **These inputs are expected to lead to a series of outputs, intermediate and final outcomes, and impacts.** At the output level, policy-based operations are expected to increase current and precautionary budget resources and foster the adoption of policy conditions. Outputs are expected to lead to the intermediate outcomes of providing borrowing countries with flexible, liquid, and timely funding to meet their financing needs, supporting governments to carry out policy reforms or institutional changes, and fostering governments' institutional capacity to lead and manage those reforms or institutional changes. These in turn will lead to a series of final outcomes, such as improved debt and liquidity management, better fiscal management, increased government resources, strengthened economic and sector frameworks, and improved provision of public services. These outcomes in turn are expected to lead to impacts such as long-term and sustainable economic growth and development.

- 4.6 **Several external and internal factors can influence the achievements of the final outcomes of a policy-based intervention.** A key assumption for the TOC is that an appropriate and sound macroeconomic policy framework is maintained. This could be affected for example by external (macroeconomic) shocks such as the one recently caused by the COVID-19 pandemic but also by other external shocks such as natural disasters or social turmoils. Furthermore, continuous country ownership, commitment, and ability to sustain policy reforms are crucial for the long-term continuation of reforms. Changes in government or government priorities could affect reform progress.

## **B. Evaluation questions**

- 4.7 **The main question that guides this evaluation is to what extent policy-based lending in the IDB has contributed to its dual objectives of (i) improving debt and liquidity management by providing beneficiary countries with flexible, liquid, and timely funding to meet their financing needs; and, (ii) strengthening fiscal management, economic and sector frameworks, and the provision of public services by supporting policy and institutional reform in client countries, as described in the TOC presented above.** The rest of this section presents the specific evaluation questions grouped according to four areas: relevance, implementation, effectiveness, and sustainability. Annex II includes the evaluation matrix that details the methodology and sources to respond to each evaluation question.

- I. *Relevance:* To what extent is policy-based lending relevant to country's needs and its development objectives?
  - I.1 To what extent is the instrument (policy-based lending) and its modalities pertinent to address and achieve its dual objectives?
    - I.1.a To what extent are the current IDB lending policies, regulations, and guidelines conducive to designing policy-based operations aligned with country's needs and the policy objectives they want to achieve?
  - I.2 To what extent are policy-based operations aligned with the objectives of the instrument? To what extent do proposed reforms have sufficient depth (see Annex IV) to bring desired changes? To what extent do reforms have adequate ownership to be sustained over time?
    - I.2.a To what extent do policy-based operations have a strong vertical logic and are aligned with country needs and realities, government policies/systems, CS, and IDB's institutional priorities?
    - I.2.b To what extent do policy measures have sufficient depth/criticality to trigger policy/institutional change (see Annex IV)?
    - I.2.c To what extent have the reforms supported by policy-based operations been based on sound analytical work, policy dialogue, and capacity building with the government and other relevant stakeholders?

- I.2.d To what extent have policy-based operations been designed to be complemented by TC and INV?
- II. *Implementation*: How have policy-based operations been implemented? Have they been complemented with other interventions and coordinated with other MDBs?
  - II.1 What are the key drivers for policy-based lending usage?
    - II.1.a What are the characteristics and factors of borrowing countries that drive the use of policy-based operations?
    - II.1.b How are policy-based loans programmed? How is the allocation of policy-based lending by country decided? What factors influence this allocation? How are the reform areas (sectors) decided?
    - II.1.c What characteristics of the different policy-based operation modalities (PBL, PBP, hybrid, DDO) drive their use?
    - II.1.d How has COVID-19 affected the use of policy-based lending?
  - II.2 To what extent have policy-based operations been carried out as planned?
    - II.2.a To what extent have policy conditions changed during the implementation of PBP series and multi-tranche PBLs? Can the drivers of these changes be identified?
    - II.2.b What have been the drivers of the truncation of PBP series and what are the characteristics of these series?
  - II.3. To what extent has the implementation of policy-based operations been complemented by other Bank activities/instruments?
    - II.3.a To what extent have policy-based operations been congruent and have been complemented with other IDBG interventions in the country or sector, i.e., do policy-based operations fit well in the mix of instruments?
  - II.4 To what extent has IDB coordinated activities with other development partners when using policy-based lending?
    - II.4.a Is there coordination with other multilaterals when programming, approving, and implementing policy-based operations?
- III. *Effectiveness*: To what extent have policy-based operations achieved their objectives?
  - III.1 To what extent did policy-based lending contribute to IDB borrowing member countries' predictable access to external financing?
    - III.1.a To what extent have policy-based operations responded to country's current and precautionary financing needs?
    - III.1.b To what extent does policy-based lending allow access to flexible, liquid, and timely funding for borrowing countries, when compared to other instruments?

- III.2. To what extent have policy-based operations achieved their objectives in supporting reforms?
  - III.2.a To what extent have borrowing countries implemented the policy reforms and/or institutional changes supported by policy-based operations?
  - III.2.b Have the reform outcomes of policy-based operations been achieved? Did the operations contribute to this achievement?
  - III.2.c How do policy-based operations' PCR's effectiveness ratings compare with those of investment loans?
  - III.2.d What are the factors/conditions that have enabled or hindered the Bank and borrowing countries in achieving the operations' expected reform results?
  - III.2.e Do complementary INV and TC operations contribute to the reform results of policy-based operations?
- IV. *Sustainability*: To what extent are the results achieved through policy-based operations sustainable?
  - IV.1 Are policy-based operations' results likely to continue over time?
  - IV.2 What are the factors that contribute to or decrease the likelihood of the continuation of results?

## C. Methods and scope

- 4.8 **OVE will employ mixed methods to answer the evaluation questions.** These methods will include (i) a corporate-level document review; (ii) a project-level review; (iv) semi-structured interviews with country counterparts, current and former IDB Executive Directors, Bank staff, and staff from other MDBs (virtual and in person), (v) analysis of IDB portfolio databases; and (vi) country case studies with missions. For more detail on the sources of information and methods, please refer to the evaluation matrix in Annex II.
- 4.9 **The evaluation will cover all policy-based operations approved between 2005-2022.** 2005 has been chosen as starting point because PBPs were introduced that year. The evaluation will take advantage of prior OVE work on the subject (see OVE 2023 technical note). The evaluation will conduct (i) a portfolio analysis of all policy-based operations approved between 2005-2022 to gain an understanding of the evolution, focus, use, and effectiveness of the portfolio; (ii) a detailed analysis of loans with an OVE-validated and comparable PCR completed between 2017 and 2022 to analyze relevance, effectiveness, and sustainability of operations; and (iii) a detailed review of 2015-2022 policy-based operations in five countries to gain a perspective on the drivers of the use and effectiveness of the instrument at the country level (see para. 4.15 and Annex III for details on the selection of country case studies).<sup>9</sup>
- 4.10 **The five country case studies have been selected according to the following criteria:** First, countries from each of the four IDB regions. Second, countries with

---

<sup>9</sup> While OVE also plans to assess drivers that limit or prevent the use of policy-based operations, OVE doesn't plan to undertake country case studies in countries that have not used the instrument. The rationale is that only very few interviews are likely needed to assess why countries have not used policy-based lending. The evaluation will also take advantage of the review of policy-based lending included in CPEs, ICPRs, and XCPEs.

a high preponderance of policy-based operations approved between 2015 and 2022. Third, countries that will provide some insights into different types of instrument use.<sup>10</sup> And fourth, countries with a high truncation rate. (See Table III.1 in Annex III). Following these criteria OVE selected Barbados, Honduras, Mexico, Paraguay, and Peru for country case studies. These countries represent each of the five IDB country grouping (one A country, one B country, one C country, one D1, and one D2 country). For all of them, policy-based lending represented at least 32% of their approval volume in the period and over 50% in two cases. All countries had at least 5 policy-based operations approved (frequent users) during the period. The sample also covers unique uses of the different modalities of the instrument, such as the DDO in the case of Peru, multi-tranche PBLs in the case of Paraguay, and policy-based guarantees in the case of Barbados. Barbados, and Paraguay represent countries where the disbursed amounts could cover 4% or more of government expenditure; hence PBLs could make a noticeable difference in these countries' budgets. Three of the selected countries (Barbados, Paraguay, and Peru) used policy-based lending heavily during the 2020-22 COVID-19 pandemic period. Truncation has been found in three (Peru, Mexico, Honduras) of the case study countries.

- 4.11 **The evaluation portfolio includes the 158 PBP series (281 operations) and 50 multi-tranche PBLs approved between 2005 and 2022 (see Annex V).** The detailed review of the policy-based operations (operations approved between 2015 and 2022 in country case studies) includes 27 PBP series (28% of the 2015-2022 IDB total),<sup>11</sup> 5 Multi-tranche PBLs, 31% of the 2015-2022 IDB total). The in-depth review of loans in the country case studies will be complemented with information from validated PCRs from the 2017-2023 cycles, which include 43 PBP series (5 with DDO) and 8 multi-tranche PBLs<sup>12</sup> (see Annex III for details).

## V. EVALUATION TEAM AND TIMELINE

- 5.1 Evaluation team: The evaluation team includes Cesar P. Bouillon (team leader), Pablo Fleiss, Jorge Gallego, Roxana Pedraglio, Gunnar Gotz, Luis Fernando Corrales, Catalina Mican, Andreia Barcellos, and Melisa Wong under the supervision of the OVE Director, Ivory Yong-Prötzel.
- 5.2 **Timeline:** OVE will conduct its evaluation activities during 2023 and will deliver its final report to the Board of Directors during the first trimester of 2024.

**Table 5.1. Indicative timeline of activities**

Activity	Date
Approach paper to Board of Executive Directors	September 2023
Draft for Management review	Last trimester 2023
Submission to SEC for delivery to the Board of Executive Directors	First trimester 2024

<sup>10</sup> These include 1) unique instrument users (those that have made use of the DDO); 2) budget support users (countries for which policy-based disbursements reached in one year at least 4% of total government expenditure); and 3) anti-cyclical users (users in times of crisis).

<sup>11</sup> Between 2015 and 2022, IDB approved 95 PBP series (136 operations) and 16 multi-tranche PBLs.

<sup>12</sup> 11 PCRs cover operations that are also part of the country case sample, i.e., at least one of the loans in the series has been approved after 2014, and they are included in one of the five selected country loan portfolios.

## REFERENCES

- Asian Development Bank (ADB) 2022. *Policy-Based Lending in Support of Reforms and Structural Transformation in Developing Countries*. Asian Development Bank, Independent Evaluation Department
- Fardoust, Shahrokh, Stefan G. Koeberle, Moritz Piatti-Fünfkirchen, Lodewijk Smets, and Mark Sundberg. 2023. *Retooling Development Aid in the 21st Century: The Importance of Budget Support*. Oxford. Oxford University Press.
- Inter-American Development Bank (IDB). 1989. *Seventh General Increase in The Resources of the Bank*. Document [AB-1378](#). Washington, DC: IDB.
- \_\_\_\_\_. 1994. *Report on Eighth General Increase in the Resources of the Inter-American Development Bank*. Document [AB-1704](#). Washington, DC: IDB.
- \_\_\_\_\_. 1998. *Action By The Inter-American Development Bank To Mitigate The Impact Of The Global Financial Crisis On Latin America And The Caribbean. Guidelines For Emergency Lending*. Document [GN-2031-5](#). Washington, D.C.: IDB.
- \_\_\_\_\_. 2003. *Report on the 2002 and 2003 lending programs*. Document [GN-2233-2](#). Washington, D.C.: IDB.
- \_\_\_\_\_. 2005. *Policy-Based Loans: Guidelines for preparation and implementation*. Document [CC-6005](#). Washington, DC: IDB
- \_\_\_\_\_. 2012. *Proposal to Establish a Set of Contingent Lending Instruments of the IDB. Revised version*. Document [GN-2667-2](#). Washington, DC: IDB.
- \_\_\_\_\_. 2014. *Enhancing Macroeconomic Safeguards at the Inter-American Development Bank*. Document [AB-2990](#). Washington, DC: IDB
- \_\_\_\_\_. 2017. *Proposal to Create a Special Development Lending Category*. Document [AB-3134](#). Washington, D.C.: IDB.
- \_\_\_\_\_. 2018. *Policy-based Loans: Guidelines for Preparation and Implementation. Update*. Document [CS-3633-2](#). Washington, DC: IDB.
- \_\_\_\_\_. 2021. *Review on the Use of Policy-Based Loans as Part of the Response to the COVID Pandemic*. Document [GN-3079](#). Washington, DC: IDB.
- \_\_\_\_\_. 2021b. *Operational Guidelines for the Implementation of the Macroeconomic Safeguards in the Inter-American Development Bank. Final version*. Document [GN-2753-11](#). Washington, D.C.:IDB
- Organisation for Economic Co-operation and Development (OECD). 2012. *Evaluation Budget Support. Methodological Approach*. Paris, France. Retrieved from <https://www.oecd.org/dac/evaluation/evaluatingbudgetsupport.htm>
- Office of Evaluation and Oversight (OVE). 1998. *Summary of The Evaluations Of Production-Oriented Projects That Benefit Low- Income Groups*. Document [RE-231](#). Washington, D.C.: IDB.
- \_\_\_\_\_. 2016. *OVE Annual Report 2015. Summary of Activities and Analysis of Policy-Based Lending*. Document [RE-485-5](#). Washington, D.C.: IDB.
- \_\_\_\_\_. 2020. *Lending Instruments Report*. Document [RE-549](#). Washington, D.C.: IDB.
- \_\_\_\_\_. 2021. *Proposed Work Program and Budget of the Office of Evaluation and Oversight, 2022-2023*. Document [RE-563](#). Washington, D.C.: IDB.



**ANNEX I - POLICY-BASED LENDING BY COUNTRY, 2005–2022**

Country	Number of Approvals				Total Amount (US\$ million)				Lending as a % of SG Approvals			
	2005-2009	2010-2014	2015-2019	2020-2022	2005-2009	2010-2014	2015-2019	2020-2022	2005-2009	2010-2014	2015-2019	2020-2022
Argentina	1		5	1	500		1,200	500	6%		15%	10%
Bahamas		1		3		48		540		19%		79%
Barbados		2		5		115		500		51%		91%
Belize	2				40				52%			
Bolivia	1	6	8		15	402	844		3%	27%	35%	
Brazil	1	6		1	409	1,834		208	6%	16%		4%
Chile		1	8	6		10	705	1,300		5%	65%	61%
Colombia	7	9	9	6	1,750	2,270	3,900	2,468	43%	61%	76%	77%
Costa Rica			1	3			350	780			34%	50%
Dominican Republic	2	5	4	3	210	1,060	1,250	700	17%	49%	59%	40%
Ecuador	1		3	6	50		900	1,615	4%		26%	48%
El Salvador	3	3	2	1	500	500	550	250	45%	37%	65%	18%
Guatemala	4	3	1	1	800	734	250	300	60%	89%	35%	45%
Guyana	5	2	2	2	55	22	29	164	25%	11%	30%	39%
Haiti	5	8	1		100	176	27		18%	15%	3%	
Honduras	2	5	8	3	58	296	459	425	13%	27%	38%	51%
Jamaica	3	10	6	3	120	850	465	275	22%	72%	60%	100%
Mexico	3	4	7	4	1,200	3,000	4,250	2,700	18%	31%	51%	70%
Nicaragua	3	5	3		91	223	195		17%	25%	23%	
Panama	2	6	9	4	200	1,250	1,750	650	15%	76%	54%	37%
Paraguay	2	1	4	5	130	100	790	1,000	20%	10%	37%	58%
Peru	11	21	4	4	1,155	670	750	1,800	60%	47%	38%	69%
Suriname		9	1	1		255	70	150		62%	23%	43%
Trinidad and Tobago		5		1		335		100		35%		39%
Uruguay	4	2	4	3	660	670	997	650	52%	39%	54%	51%
<b>Total</b>	<b>62</b>	<b>114</b>	<b>90</b>	<b>66</b>	<b>8,042</b>	<b>14,819</b>	<b>19,731</b>	<b>17,075</b>	<b>19%</b>	<b>27%</b>	<b>37%</b>	<b>42%</b>

Source: OVE, based on data from IDB databases.

Note: Includes PBL funding from all sources, not just IDB Ordinary Capital and Fund for Special Operations.

## ANNEX II – EVALUATION DESIGN MATRIX

**Overarching question:** To what extent policy-based lending in the IDB has contributed to its twin objectives of (i) improving debt and liquidity management and macroeconomic stability; and (ii) strengthening macroeconomic and fiscal management, government resources, economic and sector frameworks, and the provision of public services?

Criteria, evaluation questions, and sub-questions	How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations	
<b>I. Relevance: To what extent is policy-based lending relevant to country needs and its development objectives?</b>					
<b>I.1 To what extent is the instrument (policy-based lending) and its modalities pertinent to address and achieve its dual objectives?</b>					
<b>I.1.a.</b>	To what extent are the current IDB lending policies, regulations, and guidelines conducive to designing policy-based operations aligned with country's needs and the policy objectives they want to achieve?	<ul style="list-style-type: none"> <li>Assessment of policy-based guidelines vis-à-vis the stated objectives of the instrument.</li> <li>Analysis of perceptions of IDB staff.</li> <li>Comparison with other MDB's guidelines.</li> <li>Expert opinion.</li> </ul>	<ul style="list-style-type: none"> <li>IDB Documents.</li> <li>MDBs' guidelines.</li> <li>Semi-structured interviews with IDB Staff and staff from other MDBs.</li> <li>Expert's note.</li> </ul>	<ul style="list-style-type: none"> <li>Document review.</li> <li>Qualitative analysis of input from interviews.</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties in getting information from interviewees.</li> <li>Limited availability of policy-based operations' stakeholders.</li> </ul>
<b>I.2 To what extent are policy-based operations aligned with the objectives of the instrument? To what extent do proposed reforms have sufficient depth (see Annex IV) to bring desired changes? To what extent do reforms have adequate ownership to be sustained over time?</b>					
<b>I.2.a</b>	To what extent do policy-based operations have a strong vertical logic and are aligned with country needs and realities, government policies/systems, CS, and IDB's institutional priorities?	<ul style="list-style-type: none"> <li>Assessment of policy-based operations' alignment with country needs, realities, government policies/priorities, CS, and IDB's institutional priorities.</li> <li>Assessment of the strength of vertical logic of policy-based operations.</li> </ul>	<ul style="list-style-type: none"> <li>Operational documents (e.g. DEM, LP, PCRs)</li> <li>Country document (e.g. CS, CDCs, and OVE country products (CPE/ICPR/XCPE).</li> </ul>	<ul style="list-style-type: none"> <li>Document review supported by AI and computational methods.</li> </ul>	<ul style="list-style-type: none"> <li>Potential inconsistencies in PCR ratings for the period due to changes in the approach.</li> <li>Validations only cover operations with a PCR and exclude recent operations.</li> <li>DEM ratings are not verified by OVE.</li> </ul>
<b>I.2.b</b>	To what extent do policy measures have sufficient depth/criticality to trigger policy/institutional change (see Annex IV)?	<ul style="list-style-type: none"> <li>Analysis of the depth of policy conditions and of the stage of reform supported by policy conditions.</li> <li>Findings from CPE, ICPR, and XCPE.</li> </ul>	<ul style="list-style-type: none"> <li>OVE country products (CPE/ICPR/XCPE)</li> <li>Operational documents (DEM, LP)</li> </ul>	<ul style="list-style-type: none"> <li>Document review supported by AI and computational methods.</li> <li>OVE's assessment methodology for depth of policy</li> </ul>	<ul style="list-style-type: none"> <li>CPE/ICPR/XCPE are not always available in recent years.</li> <li>Older OVE country products contained limited discussion of depth.</li> </ul>

Criteria, evaluation questions, and sub-questions		How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations
		<ul style="list-style-type: none"> <li>Analysis of number of policy conditions by country, sector, time trend, or by stages.</li> <li>Analysis of perceptions of IDB staff</li> </ul>	<ul style="list-style-type: none"> <li>Semi-structured interviews with IDB staff</li> </ul>	<ul style="list-style-type: none"> <li>conditions and stage of reform (see Annex III).</li> </ul>	
<b>I.2.c</b>	To what extent have the reforms supported by policy-based operations been based on sound analytical work, policy dialogue, and capacity building with the government and other relevant stakeholders?	<ul style="list-style-type: none"> <li>Analysis of perceptions of IDB staff and country counterparts in country cases.</li> <li>Assessment on whether first loan in a PBP series (or tranche PBLs) conditions were fulfilled prior to loan preparation for policy-based portfolio in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>OVE country products (CPE/ICPR/XCPE). Operational documents (e.g. LP).</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative analysis of input from interviews in country cases.</li> <li>In-depth portfolio review and context analysis for PBL portfolio in country case studies.</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties in getting information from interviewees.</li> <li>Limited availability of policy-based operations' stakeholders.</li> <li>Documents might not provide information on policy dialogue.</li> </ul>
<b>I.2.d</b>	To what extent have policy-based operations been designed to be complemented by TC and INV?	<ul style="list-style-type: none"> <li>Assessment of portfolio of policy-based operations, TCs and INVs.</li> <li>Analysis of perceptions of IDB staff and country counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>OVE country products (CPE/ICPR/XCPE).</li> <li>Operational documents (e.g. LP).</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative analysis of input from interviews in country cases.</li> <li>In-depth portfolio review.</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties in getting information from interviewees.</li> <li>Limited availability of policy-based operations' stakeholders.</li> </ul>
<b>II. Implementation: How have policy-based operations been implemented? Have they been complemented with other interventions and coordinated with other MDBs?</b>					
<b>II.1</b>	<b>What are the key drivers for policy-based lending usage?</b>				
<b>II.1.a</b>	What are the characteristics and factors of borrowing countries that drive the use of policy-based operations?	<ul style="list-style-type: none"> <li>Review of demand drivers identified in CPE, ICPR, and XCPE.</li> <li>Identification of drivers through data analysis on policy-based lending use, frequency and intensity; correlation between policy-based borrowing and growth rates, fiscal deficits, and gross financing requirements; countries' reliance on parallel TC; and countries' tendency to fully</li> </ul>	<ul style="list-style-type: none"> <li>Operational documents (e.g. DEM, LP, PCRs)</li> <li>Country documents, CS, CDCs.</li> <li>OVE country products (CPE/ICPR/XCPE).</li> <li>IDB databases and economic indicators from WB, IMF, and other sources.</li> <li>Semi-structured interviews with IDB</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative analysis of input from interviews in country cases.</li> <li>Document review.</li> <li>Quantitative analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties in getting information from interviewees.</li> <li>Limited availability of policy-based operations' stakeholders.</li> <li>CPE/ICPR/XCPE are not always available in recent years.</li> <li>Limited availability of data.</li> </ul>

Criteria, evaluation questions, and sub-questions		How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations
		<p>complete or interrupt PBP series.</p> <ul style="list-style-type: none"> <li>• Statistical analysis of cyclical of policy-based lending.</li> <li>• Comparison of policy-based lending with other MDBs and identification of disparities in their lending behavior.</li> <li>• Analysis of perceptions of IDB staff, IDB Executive Directors and former IDB Executive Directors, and counterparts in countries selected for country cases.</li> </ul>	<p>staff, IDB Executive Directors, former IDB Executive Directors, and country counterparts in country cases.</p>		
<b>II.1.b</b>	<p>How are policy-based loans programmed? How is the allocation of policy-based lending by country decided? What factors influence this allocation? How are the reform areas (sectors) decided?</p>	<ul style="list-style-type: none"> <li>• Analysis of perceptions of IDB staff and counterparts in country cases.</li> <li>• Data analysis and correlations of policy-based lending use and correlates (investment grade, and others).</li> <li>• Quantitative comparison of costs, times, and income generation between policy-based operations and investment loans.</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>• IDB databases and indicators from WB, IMF, and other sources.</li> <li>• IDB rules, regulations, and guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>• Qualitative analysis of input from interviews.</li> <li>• Quantitative data analysis.</li> <li>• Document review.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in getting information from interviewees.</li> <li>• Limited availability of policy-based operations' stakeholders.</li> <li>• Quantitative analysis relies on accuracy of IDB databases.</li> </ul>
<b>II.1.c</b>	<p>What characteristics of the different policy-based operation modalities (PBL, PBP, hybrid, DDO) drive their use?</p>	<ul style="list-style-type: none"> <li>• Analysis of perceptions of IDB staff, IDB Executive Directors and Former Executive Directors, and counterparts in countries selected for country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-structured interviews with IDB staff, IDB Executive Directors and Former Executive Directors, and counterparts in country cases</li> <li>• IDB rules, regulations, and guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>• Qualitative analysis of input from interviews</li> <li>• Document review</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in getting information from interviewees.</li> <li>• Limited availability of policy-based operations' stakeholders.</li> </ul>
<b>II.1.d</b>	<p>How has COVID-19 affected the use of policy-based lending?</p>	<ul style="list-style-type: none"> <li>• Identification of changes in PBL use during COVID-19.</li> <li>• Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Operational documents (e.g. DEM, LP, PCRs)</li> <li>• Country documents, CS, CDCs</li> </ul>	<ul style="list-style-type: none"> <li>• Document review supported by AI and computational methods.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in getting information from interviewees.</li> <li>• Limited availability of PBL stakeholders.</li> </ul>

Criteria, evaluation questions, and sub-questions		How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations
			<ul style="list-style-type: none"> <li>• OVE country products (CPE/ICPR/XCPE).</li> <li>• IDB databases</li> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Qualitative analysis of input from interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Only a few CPE/CPR/XCPE cover the COVID-19 period.</li> </ul>
<b>II.2. To what extent have policy-based operations been carried out as planned?</b>					
<b>II.2.a</b>	To what extent have policy conditions changed during implementation of PBP series and multi-tranche PBLs? Can the drivers of these changes be identified?	<ul style="list-style-type: none"> <li>• Identification of changes in conditionalities from PBL documents.</li> <li>• Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Operational documents (LP, DEM, PMR).</li> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Document review supported by AI and computational methods.</li> <li>• Qualitative analysis of input from interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in getting information from interviewees.</li> <li>• Limited availability of PBL stakeholders.</li> </ul>
<b>II.2.b</b>	What have been the drivers of truncation of PBP series and what are the characteristics of truncated operations?	<ul style="list-style-type: none"> <li>• Review of findings from CPE/ICPR/XCPE and validated PCRs to identify explanations for truncation.</li> <li>• Analysis of correlation of truncation with variables like use of parallel TCs, depth of policy conditions, country's political cycle, economic context, and policy-based operations size, among others.</li> <li>• Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• OVE country products (CPE/ICPR/XCPE).</li> <li>• Validated PCRs.</li> <li>• IDB databases and indicators from WB, IMF, and other sources.</li> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Document review supported by AI and computational methods.</li> <li>• Quantitative analysis.</li> <li>• Qualitative analysis of input from interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of information regarding the truncation in project documents.</li> <li>• Difficulties in getting information from interviewees.</li> <li>• Limited availability of PBL stakeholders.</li> <li>• CPE/ICPR/XCPE are not always available in recent years and do not always have information on truncation.</li> <li>• Limited availability of cross-country data from external databases.</li> </ul>
<b>II.3. To what extent have policy-based operations been complemented by other Bank activities/instruments?</b>					
<b>II.3.a</b>	To what extent have policy-based operations been congruent and complemented with other	<ul style="list-style-type: none"> <li>• Identification of IDB operations (INV, TC) that were implemented prior or during the life of the policy-based</li> </ul>	<ul style="list-style-type: none"> <li>• IDB databases.</li> <li>• Semi-structured interviews with IDB staff and</li> </ul>	<ul style="list-style-type: none"> <li>• Social network analysis to map the interaction between policy-</li> </ul>	<ul style="list-style-type: none"> <li>• CPE/ICPR/XCPE are not always available in recent years.</li> </ul>

Criteria, evaluation questions, and sub-questions		How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations
	IDBG interventions in the country or sector, i.e. do a policy-based operations fit well in the mix of instruments?	<p>operation in the same sector and/or subsector or thematic area.</p> <ul style="list-style-type: none"> <li>• Identification of relevant findings from CPE/ICPR/XCPE and IDB technical notes.</li> <li>• Perceptions of IDB staff and country counterparts in country cases.</li> </ul>	<p>stakeholders in country cases.</p> <ul style="list-style-type: none"> <li>• OVE country products (CPE/ICPR/XCPE).</li> <li>• Program planning documents (CS, OPR, CPD, LTFP)</li> <li>• Operational documents.</li> </ul>	<p>based operations and a set of broader but related operations in each country.</p> <ul style="list-style-type: none"> <li>• Document review supported by AI and computational methods.</li> <li>• Qualitative analysis of input from interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in getting information from interviewees.</li> <li>• Limited availability of PBL stakeholders.</li> <li>• Social network analysis relies on data accuracy of IDB database and cross references in IDB documents.</li> </ul>
<b>II.4. To what extent has IDB coordinated activities with other development partners when using policy-based lending?</b>					
<b>II.4.a</b>	Is there coordination with other multilaterals when programming, approving, and implementing policy-based operations?	<ul style="list-style-type: none"> <li>• Assessment of level of coordination with other MDBs based on country evaluation documents, project reviews, and quantitative analysis.</li> <li>• Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Operation documents (LP, PCR's)</li> <li>• OVE country products (CPE, XCPE, ICPR)</li> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>• IDB and MDB project databases.</li> </ul>	<ul style="list-style-type: none"> <li>• Document review supported by AI and computational methods.</li> <li>• Qualitative analysis of input from interviews.</li> <li>• Quantitative data analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in extracting/identifying information in LP in an efficient manner.</li> <li>• Accuracy/completeness of databases can affect results.</li> <li>• Quantitative analysis relies on data accuracy of IDB and MDBs databases.</li> <li>• Difficulties getting information from interviewees.</li> <li>• Limited availability of policy-based operations' stakeholders.</li> </ul>
<b>III. Effectiveness: To what extent have policy-based operations achieved their objectives?</b>					
<b>III.1 To what extent did policy-based lending contribute to IDB borrowing member countries' predictable access to external financing?</b>					
<b>III.1.a</b>	To what extent have policy-based operations responded to country's current and precautionary financing needs?	<ul style="list-style-type: none"> <li>• Quantitative analysis comparing macroeconomic indicators and policy-based lending use.</li> <li>• Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>• OVE country products (CPE/ICPR/XCPE).</li> </ul>	<ul style="list-style-type: none"> <li>• Qualitative analysis of input from interviews.</li> <li>• Document review supported by AI and computational methods.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties getting information from interviewees.</li> <li>• Limited availability of PBL stakeholders.</li> </ul>

Criteria, evaluation questions, and sub-questions		How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations
		<ul style="list-style-type: none"> <li>• Identification of relevant findings from CPE/ICPR/XCPE.</li> </ul>			<ul style="list-style-type: none"> <li>• CPE/ICPR/XCPE are not always available for recent years.</li> </ul>
<b>III.1.b</b>	To what extent does policy-based lending allow access to flexible, liquid, and timely funding for borrowing countries, when compared to other instruments?	<ul style="list-style-type: none"> <li>• Comparison of planned amounts vs disbursed funds for INVs and policy-based operations.</li> <li>• Perceptions of counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• IDB databases</li> <li>• Semi-structured interviews with counterparts in country cases.</li> <li>• Program planning documents (CS, OPR, CPD, LTFF)</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative analysis of project data.</li> <li>• Document review.</li> </ul>	<ul style="list-style-type: none"> <li>• LP might not state the planned amounts for the entire series</li> </ul>
<b>III.2.</b>	<b>To what extent have policy-based operations achieved their objectives in supporting reforms?</b>				
<b>III.2.a</b>	To what extent have borrowing countries implemented the policy reforms and/or institutional changes supported by policy-based operations?	<ul style="list-style-type: none"> <li>• Assessment of achievement and contribution of result indicators of project objectives for closed PBP series and PBLs.</li> <li>• Identification of effectiveness determinants (truncation, complementary instruments, among others).</li> <li>• Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Indicators from WB, IMF, administrative data, and other sources.</li> <li>• OVE country products (CPE/ICPR/XCPE)</li> <li>• Operational documents (Loan documents, PMR and PCRs).</li> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Document review.</li> <li>• Quantitative data analysis.</li> <li>• Qualitative analysis of input from interviews.</li> <li>• Analysis of information and evidence provided by policy-based operations stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited information to measure result indicators.</li> <li>• CPE/ICPR/XCPE are not always available in recent years.</li> </ul>
<b>III.2.b</b>	Have the reform outcomes of policy-based operations been achieved? Did the operations contribute to this achievement?				
<b>III.2.c</b>	How do policy-based operations' PCR's effectiveness ratings compare with those of investment loans?	<ul style="list-style-type: none"> <li>• Comparison of PCR ratings between policy-based operations and INVs.</li> </ul>	<ul style="list-style-type: none"> <li>• Operational documents (PCRs).</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative analysis of PCR ratings</li> </ul>	<ul style="list-style-type: none"> <li>• Validations only cover operations with a PCR and exclude recent operations.</li> </ul>
<b>III.2.d</b>	What are the factors/conditions that have enabled or hindered the Bank and borrowing countries in achieving the operations' expected reform results?	<ul style="list-style-type: none"> <li>• Perceptions of IDB staff and counterparts in country cases.</li> <li>• Identification of relevant findings from CPE/ICPR/XCPE.</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>• OVE country products (CPE/ICPR/XCPE).</li> </ul>	<ul style="list-style-type: none"> <li>• Qualitative analysis of input from interviews.</li> <li>• Document review.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties getting information from interviewees.</li> <li>• Limited availability of policy-based operation's stakeholders.</li> </ul>

Criteria, evaluation questions, and sub-questions		How judgment will be formed to answer the evaluation questions	Sources	Methods and scope	Limitations
			<ul style="list-style-type: none"> <li>Operational documents (PCRs, PMR).</li> </ul>		<ul style="list-style-type: none"> <li>CPE/ICPR/XCPE are not always available in recent years</li> </ul>
<b>III.2.e</b>	Do complementary INV and TC operations contribute to the reform results of policy-based operations?	<ul style="list-style-type: none"> <li>Identification of TCs and INVs that support the reform processes.</li> <li>Analysis of perceptions of IDB staff and country counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>Interviews with IDB staff and stakeholders in country cases.</li> <li>CPE/ICPR/XCPE</li> <li>Operational documents.</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative analysis of input from interviews</li> <li>Document review supported by AI and computational methods.</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties getting information from interviewees.</li> </ul>
<b>IV. Sustainability: To what extent are the results achieved through policy-based operations sustainable?</b>					
<b>IV.1</b>	Are policy-based operations' results likely to continue over time?	<ul style="list-style-type: none"> <li>Summary of findings from CPE/ICPR/XCPE, validated PCRs.</li> <li>Perceptions of IDB staff and counterparts in country cases.</li> </ul>	<ul style="list-style-type: none"> <li>Semi-structured interviews with IDB staff and counterparts in country cases.</li> <li>OVE country products (CPE/ICPR/XCPE)</li> <li>Operational documents (LP, PCR).</li> </ul>	<ul style="list-style-type: none"> <li>Document review supported by AI and computational methods.</li> <li>Qualitative analysis of input from interviews.</li> </ul>	<ul style="list-style-type: none"> <li>CPE/ICPR/XCPE are not always available in recent years.</li> <li>Validations only cover operations with a PCR and exclude recent operations.</li> <li>Difficulties getting information from interviewees.</li> <li>Limited availability of policy-based operations' stakeholders.</li> </ul>
<b>IV.2</b>	What are the factors that contribute or decrease the likelihood to the continuation of results?				

Source: OVE.

Note: CDC = Country Development Challenges document; CPD = Country Programing Document; CPE = Country Program Evaluation; CS = Country Strategy; DEM = Development Effectiveness Matrix; ICPR = Independent Country Program Review; LFTP = Long-Term Financial Projections; LP = Loan Proposal; OPR = Operational Program Report; PCR = Project Completion Report; XCPE = Extended Country Program Evaluation.



### ANNEX III - CASE STUDY SELECTION

- 3.1 **For an in-depth assessment of policy-based lending, OVE plans to conduct country case studies.** For these country case studies, OVE will interview the main stakeholders for policy-based lending in the country, including officials from the ministry of finance (hacienda), line ministries, IDB country representatives and country and sector experts. While OVE plans to also assess drivers that limit or prevent the use of policy-based lending, OVE does not plan to undertake country case studies in countries that have not used policy-based operations. The rationale is that only very few interviews are likely needed to assess why countries have not used policy-based lending since it would not be necessary to assess how funds were used, why truncation occurred and what aspects of the instruments could have been improved.

**Table III.1. Selection criteria for case studies, 2015-2022**

IDB regions	Frequent users (number of approved operations; only shown if >2 ops)	Heavy users (by % of policy-based lending in all bank approvals, only shown if >30%)	Unique instrument user (if >1 DDO, PBL, GUA)	High policy-based dependency (Disbursements in share of govt expenditure if >4%)	Covid users <sup>a</sup>	High truncation rate (only listed if at least 1 series is truncated)
CAN	Colombia (15) Peru (8) Bolivia (8) Ecuador (9)	Colombia (45%) Peru (51%) Ecuador (34%)	Peru (6 DDO) Ecuador (2 PBL, 2 GUA)		Ecuador (66%) Peru (50%)	Bolivia (3 out of 6) Colombia (2 out of 6) Peru (1 out of 3)
CSC	Chile (14) Argentina (6) Uruguay (7) Paraguay (9)	Chile (47%) Paraguay (36%) Uruguay (36%)	Uruguay (5 DDO) Chile (5 PBL) Paraguay (4 PBL)	Paraguay	Paraguay (56%)	Argentina (3 out of 5) Chile (1 out of 4)
CCB	Jamaica (9) Barbados (5)	Barbados (55%) Jamaica (51%) Bahamas (43%) Suriname (32%)		Guyana Bahamas Suriname Jamaica Barbados	Barbados (100%) Bahamas (100%) Guyana (50%)	Jamaica (1 out of 5)
CID	Mexico (11) Honduras (11) Panama (6) DR (5)	Mexico (46%) DR (45%) Panama (44%) Honduras (32%) Costa Rica (32%)		El Salvador	Costa Rica (75%)	Haiti (1 out of 1) Honduras (2 out of 5) Mexico (1 out of 6)

Source: OVE based on IDB databases.

Note: IDB regions are as follows. CAN: Bolivia, Colombia, Ecuador, Peru, and Venezuela; CSC: Argentina, Brazil, Chile, Paraguay and Uruguay; CCB: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; CID: Belize, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Mexico, Panama and the Dominican Republic.  
<sup>a</sup>“COVID-users” are identified by calculating the share of number of loans approved during the pandemic period (2020-22) in % of all PBL approvals in the 2015-2022 periods. Countries are only shown in the table if the number of approved PBLs is greater than two and the share of COVID-19 approvals is greater than 49% meaning that a majority of operations occurred during the COVID-19 pandemic.

- 3.2 **Country case studies have been selected according to the following criteria:** First, cases from each of the four IDB regions. Second, countries with high preponderance of policy-based operations approved in the period under evaluation (14 borrowing countries approved 3 or more policy-based operations during the period of observation, see table III.1). Third, countries that will provide some

insights into different types of policy-based operations users, including: 1) unique instrument users, e.g. those that have made use of the DDO; 2) budget support users, i.e. those that could finance a significant part of the government expenses, 3) anti-cyclical users, i.e. users in times of crisis. Only Peru and Uruguay have used PBLs with DDO and hence at least one of them should be included in the assessment. Budget support users are those countries for which PBL disbursements reached in one year (or more) at least 4% of total government expenditure. Those are predominantly CCB countries (see table III.1) plus Paraguay and El Salvador. Countries that used PBLs in times of crisis are assessed by their usage during the COVID-19 pandemic. For the analysis, OVE uses the share of PBL operations approved since the outbreak of the pandemic (2020-2022) compared to the previous period (2015-19). Only six countries (among those with more than two operations approved) approved more PBL operations in the second period than in the first. In addition, since truncation has been identified as an important issue in the use of policy-based lending it is also insightful to include countries with a high truncation rate to assess for example the reasons for truncation and if policy reforms are abandoned after the truncation or if they continue without the support of a PBP series.

**3.3 Following the established criteria OVE identified Barbados, Honduras, Mexico, Paraguay and Peru for the case studies.** Each IDB region is represented by at least one country and the sampled countries represent a mix of different user types of policy-based lending. The countries also represent each of the IDB country groupings, one country from A, B, C D1, and D2 regions. For all of them policy-based lending represented at least 32% of their approval volume in the 2015-2022 period and over 50% in two countries. Similarly, all had at least 5 policy-based operations approved (frequent users) during the period. Similarly, the sample also covers the usage of rarely used instruments (unique users) such as the DDO in the case of Peru, PBLs in the case of Paraguay and policy-based guarantees in the case of Barbados (not shown in table because it is one single operation). Barbados, and Paraguay represent countries where the disbursed amounts could cover 4% or more of government expenditure in some years, hence policy-based lending can make a noticeable difference in the countries' budgets. Finally, three of the selected countries (Barbados, Paraguay, and Peru) used policy-based lending heavily during the 2020-22 pandemic period and truncation has been found in three of the selected countries (Honduras, Mexico and Peru).

**Table III.2. Characteristics of selected country cases**

Country	IDB regions	IDB country group	Frequent users	Heavy users	Unique users	High truncation rate	High PBL dependency	Covid users
Barbados	CCB	C	YES	YES	YES		YES	YES
Honduras	CID	D2	YES	YES		YES		
Mexico	CID	A	YES	YES		YES		
Paraguay	CSC	D1	YES	YES	YES		YES	YES
Peru	CAN	B	YES	YES	YES	YES		YES

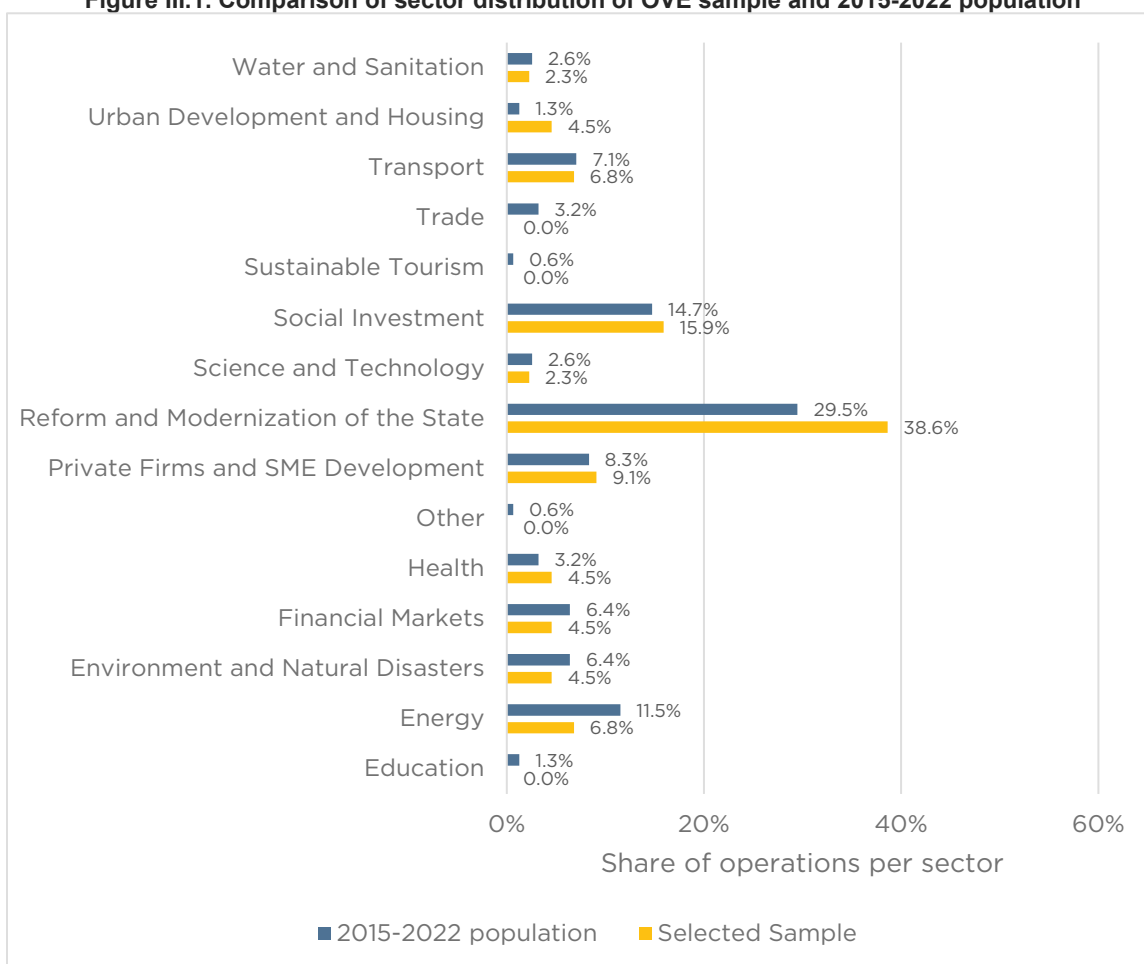
Source: OVE.

Note: For criteria description see Table III.1.

**3.4 The selected countries are also representative of the sector distribution of policy-based lending.** Figure AIII.1 shows the share of operations in each sector for the 2015-2022 period in comparison to the sample of selected countries by OVE. The figure shows that the selected countries have a sector distribution that is similar to the distribution for 2005-2022 period. The selected sample is

somewhat underrepresented in the “Energy” and “Trade” sectors by about 5% points and 3% point respectively. Conversely, the sample is overrepresented in the “Urban Development and Housing” sector by 3%-points and most noticeable in the “Reform and Modernization of State” sector, which is the sector with most policy-based operations in general. Here operations represent 39% in the sample compared to 29% in the 2015-2022 population. Table AIII.3 further shows that the selected countries are diverse in terms of their sector concentration (measured in percentage of the country total of approved policy-based operations). Some countries use policy-based lending in various sectors and hence the sector concentration value is lower at around 25% (e.g., Honduras). In other countries, policy-based lending is concentrated in specific sectors such as in Paraguay where 78% of the policy-based operations are concentrated in the “Reform and Modernization of the State” sector. Some countries that are not part of the sample have even higher concentration rates of up to 100%, however, these high concentrations go hand in hand with a very low number of approved operations, which often means that a single programmatic series is driving the results.

**Figure III.1. Comparison of sector distribution of OVE sample and 2015-2022 population**



Source: OVE based on IDB databases.

Note: If values are shown with 0% they are rounded down to 0%, if value are not shown, no operation from this sector is present in the sample.

Table III.3. Sector concentrations for policy-based operations approved between 2015 and 2022

	Total number of PBL operations	Max number of ops in a sector	Highest sector concentration	Sector with high concentration
<b>CAN</b>				
Bolivia	8	4	50.00%	Multiple
Colombia	15	4	26.67%	Social Investment
Ecuador	9	3	33.33%	Multiple
<b>Peru</b>	<b>8</b>	<b>3</b>	<b>37.50%</b>	<b>Private Firms and SME Development</b>
<b>CCB</b>				
Bahamas	3	3	100.00%	Private Firms and SME Development
<b>Barbados</b>	<b>5</b>	<b>2</b>	<b>40.00%</b>	<b>Multiple</b>
Guyana	4	2	50.00%	Reform and Modernization of the State
Jamaica	9	5	55.56%	Reform and Modernization of the State
Suriname	2	1	50.00%	Multiple
Trinidad and Tobago	1	1	100.00%	Reform and Modernization of the State
<b>CID</b>				
Costa Rica	4	2	50.00%	Multiple
Dominican Republic	7	2	28.57%	Multiple
El Salvador	3	3	100.00%	Reform and Modernization of the State
Guatemala	2	1	50.00%	Multiple
Haiti	1	1	100.00%	Transport
<b>Honduras</b>	<b>11</b>	<b>3</b>	<b>27.27%</b>	<b>Transport</b>
<b>Mexico</b>	<b>11</b>	<b>5</b>	<b>45.45%</b>	<b>Reform and Modernization of the State</b>
Nicaragua	3	2	66.67%	Energy
Panama	13	5	38.46%	Social Investment
<b>CSC</b>				
Argentina	6	4	66.67%	Reform and Modernization of the State
Brazil	1	1	100.00%	Reform and Modernization of the State
Chile	14	4	28.57%	Reform and Modernization of the State
<b>Paraguay</b>	<b>9</b>	<b>7</b>	<b>77.78%</b>	<b>Reform and Modernization of the State</b>
Uruguay	7	4	57.14%	Trade
<b>Grand Total</b>	<b>156</b>	<b>46</b>	<b>29.49%</b>	<b>Reform and Modernization of the State</b>

Source: OVE based on IDB databases.

Note: Countries selected for case study are in bold.

## ANNEX IV - ASSESSMENT METHODOLOGY FOR DEPTH OF POLICY CONDITIONS AND STAGE OF REFORM

- 4.1 **OVE developed a framework being used since 2014, similar to that of other international financial institutions' independent evaluation offices.** This approach tries to capture the depth of policy conditions—that is, the extent to which conditions have sufficient depth to trigger, by themselves, substantial and long-lasting policy or institutional changes. Conditions can have high, medium, or low depth. The broad idea is that conditions that are excessively process-oriented, easily reversible or only indicate intentions have lower depth. As a general guideline:
- **Low:** Conditions that would not, by themselves, bring about any meaningful changes. Low depth conditions are usually too process-oriented and usually involve the preparation of actions plans, strategies, and the announcement of intentions.
  - **Medium:** Conditions that can have immediate (but not lasting) impact are usually considered 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 in order for this effect to be lasting. Submission of draft legislation to Congress, reaching a target (benchmarks) and organizational changes are usually considered of medium depth.
  - **High:** Conditions that could, by themselves, trigger long-lasting changes in the institutional or policy environment are considered of high depth. Some of the conditions in this category entail legislative changes but in other 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 a regular and/or permanent basis, even when legislation is not needed.
- 4.2 **Sequencing assesses whether the conditions (or indicative triggers) included in each tranche of a PBL, or in each loan of a PBP series, follow a logical sequence over time by supporting different stages of the reform process cycle *in crescendo*.** The “ideal” policy and institutional reform cycle consists of five stages: formulation or design; adoption or approval; implementation; monitoring and evaluation (M&E); and eventually, reformulation (which can be considered, again, preparation). For example, in the case of a change in the education curriculum, the preparation stage would probably involve the preparation of technical inputs (such as a study on students' current performance) along with policy dialogue between policy makers and stakeholders. It might also include piloting the new curricula. The adoption stage would probably involve a decree of the ministry, the passage of a law, the approval of a budget line to implement the curricula, etc. The implementation stage will involve carrying out the curricula in the schools, training teachers on the new curricula, etc. Finally, the M&E stage would involve conducting tests to students, interviewing teachers, etc. The sequencing dimension thus assesses to what extent, as a Bank policy-based program advances, it supports measures that correspond to higher stages of the reform cycle.

## Office of Evaluation and Oversight - OVE

Established in 1999 as an independent evaluation office, OVE evaluates the performance and development effectiveness of the activities of the Inter-American Development Bank Group (IDB Group). These evaluations seek to strengthen the IDB Group through learning, accountability and transparency.

OVE evaluations are disclosed to the public in accordance with IDB Group policies to share lessons learned with the region and the development community at large.



[iadb.org/evaluation](http://iadb.org/evaluation)



[linkedin.com/showcase/idb-ove](https://www.linkedin.com/showcase/idb-ove)



[@BID\\_evaluacion](https://twitter.com/BID_evaluacion)