

# Development Lending for a New Reality: The Evolution of Financing Instruments across Multilateral Development Banks

Juan Manuel Puerta  
Germán Ferreyra  
Alejandro Taddia  
Francesca Castellani

Office of Strategic  
Planning and Development  
Effectiveness

TECHNICAL NOTE N°  
IDB-TN-02649

February 2023

# Development Lending for a New Reality: The Evolution of Financing Instruments across Multilateral Development Banks

Juan Manuel Puerta  
Germán Ferreyra  
Alejandro Taddia  
Francesca Castellani

Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library

Development lending for a new reality: the evolution of financing instruments across  
multilateral development banks / Juan Manuel Puerta, Germán Ferreyra, Alejandro  
Taddia, Francesca Castellani.

p. cm. — (IDB Technical Note ; 2649)

Includes Bibliographic references.

1. Development banks-Latin America. 2. Development banks-Caribbean Area. 3.  
Financial instruments-Latin America. 4. Financial instruments-Caribbean Area. 5.  
Financial institutions-Latin America. 6. Financial institutions-Caribbean Area. I. Puerta,  
Juan. II. Ferreyra, Germán. III. Taddia, Alejandro. IV. Castellani, Francesca. V. Inter-  
American Development Bank. Office of Strategic Planning and Development  
Effectiveness. VI. Series  
IDB-TN-2649

<http://www.iadb.org>

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.

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.



# Development Lending for a New Reality: The Evolution of Financing Instruments across Multilateral Development Banks

Juan Manuel Puerta, Germán Ferreyra, Alejandro Taddia, and Francesca Castellani\*

February 2023

## Abstract

Multilateral development banks (MDBs) realize their objective of promoting sustainable development through a combination of financing (lending, guarantees) and non-financing instruments (technical assistance). This technical note reviews the historical evolution and existing offering of financing instruments across MDBs. Financing instruments can be roughly grouped into seven categories: traditional investment lending, programmatic approaches, policy-based lending, emergency lending, disaster risk management instruments, results-based lending, and guarantees. Financing instruments across all MDBs are remarkably similar and they were even introduced at about the same time. The existing offering of instruments is characterized by a high level of inertia, and thus remains dominated by the first lending instrument introduced at MDBs in the 1940s: the traditional Investment Loan.

In adapting to the new economic and social environment faced by borrowing member countries today, MDBs have the opportunity to rethink their lending toolkit. Investment lending could be simplified. The focus could be shifted from reviewing eligible expenses to ensuring the attainment of development results and the strengthening of national systems. Instruments that finance reforms as well as result-based instruments continue to have great potential for a renewed results focus. Finally, since the 1940s, MDBs have progressively moved from financing stand-alone infrastructure projects to financing all types of government programs over longer periods of time. Programmatic approaches that facilitate the preparation and assessment of development programs are likely to play an important role in the future.

**JEL Codes:** O19, F33, F34, F53

**Keywords:** Multilateral development banks, financing instruments, lending instruments, investment lending, policy-based lending, programmatic approaches, results-based lending, emergency lending, guarantees.

---

\*Juan Manuel Puerta ([juanmanuel@iadb.org](mailto:juanmanuel@iadb.org)), Germán Ferreyra ([germanf@iadb.org](mailto:germanf@iadb.org)), Alejandro Taddia ([alejandrot@iadb.org](mailto:alejandrot@iadb.org)), and Francesca Castellani ([francescac@iadb.org](mailto:francescac@iadb.org)); Inter-American Development Bank (IDB). An earlier draft of this study was prepared to inform the discussions on financing instruments held by IDB Governors during 2021–22. The authors thank Annalisa Prizzon, Pablo Fleiss, and the reviewers from the World Bank (WB), the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), and the International Fund for Agricultural Development (IFAD) for their comments. The opinions are exclusively the authors' and do not represent those of the Inter-American Development Bank or its Board of Directors.

## TABLE OF CONTENTS

I. INTRODUCTION .....	4
II. HISTORICAL DEVELOPMENT OF FINANCING INSTRUMENTS AT MDBs.....	5
III. TRADITIONAL INVESTMENT LENDING.....	15
IV. PROGRAMMATIC APPROACHES.....	24
V. POLICY-BASED LENDING .....	28
VI. EMERGENCY LOANS.....	31
VII. DISASTER RISK MANAGEMENT INSTRUMENTS.....	33
VIII. RESULTS-BASED LENDING .....	35
IX. GUARANTEES .....	38
X. CONCLUSION.....	39
XI. APPENDIXES.....	42
REFERENCES .....	70

## Acronyms

ADB	Asian Development Bank
ADF	Asian Development Fund (ADB)
AfDB	African Development Bank
AfDF	African Development Fund (AfDB)
AiIB	Asian Infrastructure Investment Bank
CAF	Development Bank of Latin America
Cat DDO	Catastrophe Deferred-Drawdown Option (World Bank)
CCLIP	Conditional Credit Line for Investment Projects
CCF	Conditional Credit Line for Natural Disasters (IDB)
CERC	contingent emergency response components (World Bank)
CRBS	Crisis Response Budget Support (AfDB)
CSF	Countercyclical Support Facility (ADB)
DDO	Deferred-Drawdown Option
DLI	Disbursement-Linked Indicators (World Bank)
DO	development objective
DPLs	Development Policy Loans
DMC	developing member country
DPF	Development Policy Financing
DSL	Development Sustainability Credit Line
EAL	Emergency Assistance Loan (ADB)
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EME	Emergency Lending facility
E&S	environmental and social
ESG	environmental, social, and governance
ESP	Specific Investment Loan (IDB)
FFA	Framework Financing Agreement (ADB)
FFS	Fee-for-Services (IDB)
FI	financial intermediary
FIL	Financial Intermediary Loan
FSO	Fund for Special Operations (IDB)
GCL	Global Credit Loan (IDB)
GDP	gross domestic product
GOM	Multiple Works Loan (IDB)
HIPC	Heavily Indebted Poor Country initiative
IDA	International Development Association (World Bank Group)
IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development (World Bank Group)
IED	Independent Evaluation Department (ADB)
IEG	Independent Evaluation Group (World Bank–IBRD and IDA)
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IMA	Independent Macroeconomic Assessment (IDB)
IMAC	Independent Assessment of Macroeconomic Conditions (IDB)
IPF	Investment Project Financing
IRF	Immediate Response Facility
IS	Import Support (AfDB)
IsDB	Islamic Development Bank
LAC	Latin America and the Caribbean

LBR	Loan Based on Results (IDB)
MDB	multilateral development bank
MFF	Multitranche Financing Facility (ADB)
MICs	middle-income countries
MPA	Multiphase Programmatic Approach (World Bank)
MSA	Macroeconomic Sustainability Analysis
MTF	Multi-Tranche Financing Facility (AfDB)
NDB	New Development Bank
OC	Ordinary Capital
OCR	Ordinary Capital Resources
OECD	Organisation for Economic Co-operation and Development
OP	Operational Policy (IDB)
OVE	Office of Evaluation and Oversight (IDB)
PA	Project Advances
PBA	performance-based allocation
PBLs	Policy-Based Loans
PBP	Programmatic Policy-Based Loans
PCG	Partial Credit Guarantee
PFM	public financial management
PforR	Program-for-Results Financing
PPF	Project Preparation Facility
PPP	public-private partnership
PRG	Political Risk Guarantee
PROPEF	Project Preparation and Execution Facility (IDB)
PDL	Performance-Driven Loan (IDB)
PRF	Project Readiness Financing (ADB)
RBL	Results-Based Loan
RTC	Reimbursable Technical Cooperation
SDL	Special Development Loan
SEFF	Small Expenditure Financing Facility (ADB)
SG	Sovereign Guarantee
SIP	Sector Investment Program (World Bank)
SME	small and medium enterprise
SPBL	Special Policy-Based Loan (ADB)
SWAp	Sector-Wide Approach
TC	Technical Cooperation
UN	United Nations
UMIC	Upper Middle Income Countries
WAL	weighted average life
WB	World Bank

Note: All currency amounts are in US dollars unless otherwise specified.

## I. INTRODUCTION

The goal of multilateral development banks (MDBs) is to support sustainable development around the world. To achieve this goal, MDBs intervene with a series of financial and non-financial instruments.

Since the creation of the first MDB in 1944, different lending instruments have been developed to cater to the changing needs of the borrowing member countries. From the initial infrastructure Investment Loan of the 1940s, to policy-based instruments developed in the 1980s and—more recently—results-based ones developed in 2010s, different lending instruments have sought to maximize the positive impact of MDBs in developing countries. The evolution of lending instruments reflects the changing needs of developing countries, but it also reflects changing views on the role of MDBs.

This Technical Note describes the historical evolution and current offering of lending instruments at MDBs, comparing their different technical and operational features. The study is based mostly on public information including manuals, regulations, directives, and policies. Whenever possible, these have been complemented by interviews with staff members of different MDBs.

A couple of caveats are in order. First, because the availability of information and manuals varies widely between MDBs, the comparison is not always as complete. That said, this Technical Note covers all the instruments of the “legacy” MDBs: that is, the World Bank (WB) and the traditional regional development banks—the African Development Bank (AfDB), the Asian Development Bank (ADB), and the Inter-American Development Bank (IDB)—for which the operational manuals are more broadly available online. The coverage of other MDBs—such as the Development Bank of Latin America (CAF) and Asian Infrastructure Investment Bank (AIIB)—is less consistent. A second caveat is about the data on instrument use. Although it would be desirable to compare the extent to which instruments are used in different MDBs, this comparison is hardly straightforward. MDBs tend to have different lending categories and instruments and it is difficult to have a homogeneous base from which to compare. However, there are some cases where comparative information on approvals is presented (such as Results-Based Loans). As more data become available, a natural extension of the Technical Note would be to analyze the patterns with which the instruments are used. A final caveat is that this Note refers to the lending instruments with Sovereign Guarantee (SG). This means that the instruments of MDBs that lend mostly (or entirely) without SG are not considered. For instance, this Note does not examine the instruments of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, or those of the IDB’s private sector arm, IDB-Invest.

The structure of this Technical Note is as follows. The next chapter discusses the MDB business model and provides an overview of the evolution of lending instruments since 1944. This chapter introduces a classification of the seven main instruments used by MDBs. Chapters III through IX explore each of the seven categories in depth. Each chapter describes the IDB instrument and compares it with the instrument used by other MDBs. Finally, Chapter X provides some overall conclusions on the evolution of instruments and prospects. Appendixes discuss concessional lending and present detailed tables that compare each instrument across key operational dimensions.



## II. HISTORICAL DEVELOPMENT OF FINANCING INSTRUMENTS AT MDBs

### II.1. The MDB Business Model

Multilateral development banks (MDBs) have the objective of supporting economic and social development of developing countries. There are about 26 MDBs in the world. Their combined authorized capital is about \$1.2 trillion, although about 91 percent of that total is held by the eight largest MDBs: the World Bank (WB), European Investment Bank (EIB), Inter-American Development Bank (IDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), African Development Bank (AfDB), Islamic Development Bank (IsDB), and European Bank for Reconstruction and Development (EBRD).<sup>1</sup>

MDBs were created in several waves corresponding to different historical moments. The first MDBs were created within the Bretton Woods system (WB) or as a part of a regional and subregional integration agreement (IDB, ADB, AfDB, EIB, and IsDB). A second wave of MDBs flourished after the collapse of the Soviet Union (such as EBRD). A more recent wave of MDBs emerged in the 2000s—such as AIIB and the New Development Bank (NDB)—to reflect the appearance of new stakeholders in development lending as well as a renewed focus on infrastructure.

Most MDBs have a business model that relies on brokering funds from the financial markets to borrowing member countries. In the traditional model, shareholders pay only a small share (about 8 percent on average) of the subscribed capital in cash (paid-in capital). The rest is in the form of “callable” capital—so named because it may be “called” upon in case of need. Because of the limited amount of cash paid in, MDBs need to resort to capital markets to obtain liquidity. Specifically, to fund their operations, MDBs issue debt in the international markets, and lend that liquidity to developing countries after adding an intermediation spread to cover the operational costs, provide grants, and accumulate reserves.

In order to work, this business model depends on low funding costs. For that purpose, most MDBs—including the largest eight MDBs—have a triple-A rating, which ensures the lowest possible funding costs.<sup>2</sup> The pressure for lowering funding costs has increased in recent decades, especially in regions with more middle-income countries that have increased their access to international debt and capital markets at competitive interest rates, such as countries in Latin America and Asia.

To support low funding costs, MDBs stress the importance of having a strong balance sheet with high-quality projects. This has generated a dilemma. The development business is, by nature, a risky one. Operations with the highest development impact often have limited short-term economic returns. However, high economic rates of return are essential to ensure a strong balance sheet which, in turn, was perceived as essential to support the triple A rating and low

---

<sup>1</sup> See ODI (2018) for a comprehensive list of MDBs. The term “World Bank” (WB) refers to the International Bank of Reconstruction and Development (IBRD) and the International Development Association (IDA) combined. Not all MDBs focus primarily on development lending (for example, EIB focuses on lending to the EU member countries).

<sup>2</sup> Smaller MDBs usually have a slightly different business model. Some MDBs have their resources periodically replenished by member states (with 100 percent paid-in capital). They tend to focus on highly Concessional Loans and grants fully funded from their subscribed capital. Consequently, many of them do not have a credit rating. Other smaller MDBs have a credit rating and use a business model similar to that of the eight large MDBs but with higher costs. For instance, at the time of writing, the Caribbean Development Bank (CDB) has an AA+ rating; the Central American Bank for Economic Integration (CABEI) has an AA rating; the Development Bank of Latin America (CAF) has an A+ rating; and the International Fund for Agricultural Development (IFAD) has an AA+ rating.

borrowing costs.<sup>3</sup> The dilemma was resolved through the recognition that to pursue both goals at the same time, MDBs needed to have separate Ordinary Capital (OC) and concessional funds. Under the “principle of separation,” operations funded by MDBs through their OC must have a strong economic rationale, including an internal rate of return (IRR) that exceeds the cost of funds. “Soft loans” that have potentially higher development impact ought to be financed through a separate concessional fund.<sup>4</sup> However, MDBs only borrow against their OC, thus ensuring that the triple-A rating is adequately supported by the balance sheet. Instead, concessional funds are replenished from time to time.

Another element of the MDB business model is the role as a provider of technical assistance. Development work does not only entail financing, but also the provision of essential practical knowledge. As such, a key element of the MDB business model is the organization’s role of as a provider of technical assistance, particularly for the preparation and implementation of investment projects and programs.<sup>5</sup> It is offered organically, in the form of time and effort that MDB staff devote to project preparation and supervision, and through small projects to finance specialized consultancies and studies (known as “technical cooperations,” or TCs, at the IDB). Traditionally, TCs were mostly provided on a non-reimbursable basis and financed through concessional funds.

The final element of the model is “country ownership.” In the MDB business model, developing countries are expected to show their own commitment with the development program that MDBs are financing. In practice, this commitment translated into three main characteristics. First, developing countries are required to implement the project themselves. Although MDBs provide support through TCs and they supervise the correct implementation of development projects, they typically do not implement them.<sup>6</sup> Second, developing countries are expected to finance a share of the expenses of the project in what became known as the “local counterpart,” typically financed in the country’s own currency. Finally, developing countries commit to the maintenance of the infrastructure built with the project. In fact, countries were initially required to submit maintenance reports for years after the project was completed.

---

<sup>3</sup> Technically speaking, the individual quality of the projects financed by MDBs does not affect the triple A rating. MDBs are assuming the country risk and not the risk of each individual project. However, at the time the policies and safeguards of MDBs were developed, this was the prevalent belief.

<sup>4</sup> The idea that MDBs had a dilemma between development impact and financial soundness appeared at some point between the creation of the WB (1944) and the IDB (1959). The WB was exclusively conceived to supply the capital “needed for reconstruction, for relief, and for economic recovery.” For those reasons, the idea that the WB would do “soft” loans was not even discussed and the word “development” is not even mentioned in the draft proposal. See Kapur, Lewis, and Webb (1997, p. 57). Instead, the dilemma was widely discussed at the time of the foundation of the IDB. Both the trade-off and the proposed solution (the principle of separation) are better summarized in the statement of the delegation of Cuba in the specialized committee that created the IDB: *“In view of the nature of the institution and the evident need to have recourse to the capital market, its loans and investments shall necessarily have to be of the highest quality. The so-called “soft loans” should not be charged against the resources of the Bank, although the latter should indeed administer the funds that were contributed for such purposes or given by governments and public, private, or joint entities, creating for the purpose a special department whose operations will be always kept separate from the regular Bank operations”* (OAS, 1959, Vol. 1, p. 334). These ideas were reflected in the IDB Charter as the “principle of separation” whereby OC operations will be kept separately (not only financially but also operationally) from those from the concessional fund—the Fund for Special Operation (FSO). Soon after, the World Bank, the Asian Development Bank, and the African Development Bank created similar funds.

<sup>5</sup> The importance of providing technical assistance was recognized early on. In the closing statement of the specialized committee that created the IDB, its chairman noted that *“especially important are the provisions relating to technical assistance, since we believe the contribution that can be made by capital, leading to a greater production, and more use of machinery, is only a partial answer to the question of the economic development of our countries”* (OAS 1959, Vol. V, p. 168).

<sup>6</sup> There are a few exceptions. The IDB implements projects. The WB is allowed to do some initial implementation activities in cases of conflict or natural disasters.

The business model described refers to the original one developed between the 1940s and 1960s. Some elements of it were subsequently adapted. For instance, the concept of “country ownership” changed over time and the emphasis on local counterpart was reduced. Yet, the most important lending instruments were developed in this early period and, thus, they reflect the original MDB business model.

## **II.2. The Evolution of Financing Instruments at MDBs**

### Investment Loans

The first lending instrument developed was the traditional Investment Loan. In this type of loan, a specific and fully designed infrastructure project (such as a dam) is prepared subject to technical, economic, fiduciary, and environmental and social (E&S) due diligences. These due diligences would both ensure that the project was profitable and that it was designed according to sound fiduciary and social policies. An Expenditure Eligibility Framework defined which expenses were financed by the MDB and which by the country. The country would implement the project, creating a project execution unit when needed, and the Bank would provide TC and supervise the compliance of the project with the Bank’s policies.

An important implication of this model was the development of very specific and prescriptive policies that regulated which expenses were eligible for financing in the hard currency provided by the MDBs.<sup>7</sup> In a context where developing countries had chronic shortages of foreign exchange, these policies were designed to ringfence the MDB-financed project to ensure its effectiveness.<sup>8</sup>

While keeping these basic features, variations of the traditional Investment Loan were developed over time. Very soon it became apparent that not all investment projects corresponded to the pattern of a single, independent, and large infrastructure investment project. For instance, sometimes Investment Loans involved financing small beneficiaries, for which the MDB had no comparative advantage to provide direct financing. So MDBs created Investment Loans by which their funds were channeled to financial intermediaries that, in turn, would originate and supervise the loans provided to final beneficiaries. In other cases, the infrastructure loan did not consist of a single large project but rather of a set of similar, yet independent, smaller subprojects (such as rural water systems). A variation of the Investment Loan was developed to regulate these “multiple works” loans. Variations were also developed to finance specific types of activities that did not fit within the standard Expenditure Eligibility Framework (such as pre-investment or technical cooperation on a reimbursable basis). Over time, each of these different “instruments” was added to the offering of the MDBs. Each of them provided its own policy, guidelines, and Expenditure Eligibility Framework.

As for Concessional Loans, although initially there was an expectation that these “soft” Investment Loans would be prepared, assessed, and even implemented differently, over time they became indistinguishable (except for the pricing) from regular Investment Loans. The difficulty of distinguishing Concessional Loans from traditional Investment Loans had two long-term consequences. First, concessional resources were rapidly depleted as, all else equal, countries preferred cheaper loans. Second, over time the concessional windows became associated with

---

<sup>7</sup> These included policies that regulated expense eligibility, retroactive financing, additional financing for cost overruns, and rules for recognition of local counterpart financing, among others.

<sup>8</sup> Most of these policies were developed before the 1970s, when many developing countries pursued an import substitution development strategy and thus faced chronic shortages of foreign exchange.

poorer countries and entirely divorced from the nature of the underlying project being financed (for more on concession assistance, see Appendix 1).

Starting in the 1980s, MDB's lending started to change in ways that made the traditional Investment Loan inadequate. First, most MDBs had switched goals to reducing poverty.<sup>9</sup> For that, an increasing share of overall lending was directed toward social sectors. The nature of this lending was significantly different from that of traditional Investment Loans. When funding social sectors it was more common to finance part of a government program, which, in many cases, included the financing of recurring expenses (such as wages for doctors or teachers). Existing policies had difficulties in both financing programs and financing certain expenses (particularly recurrent expenses). In sum, given the new focus of MDBs, the Expenditure Eligibility Frameworks developed in the 1940s became too restrictive. In addition, by the late 1990s, most developing countries had overcome the policy distortions that justified those Frameworks—rendering them of limited use.

In parallel, a deep discussion on the role of MDB lending occurred toward the end of the 1990s. In 1998, the US Congress commissioned a review of the US policy toward seven international financial institutions.<sup>10</sup> The debate that ensued focused on how to deliver effective development aid at the lowest cost for the donor countries. In terms of financing instruments, the debate centered on two main questions. First, was it more effective to provide loans or grants?<sup>11</sup> Second, what was the real effectiveness of lending for individual investment projects? The latter discussion was motivated by the observation that money is fungible and, therefore, all the rules that surround investment lending only add to the transaction costs without having an obvious effect in terms of development impact. The counterargument was that even if money is fungible, the set of rules that surround investment lending are effectively a way to transfer institutional capacity on how to prepare, implement, and evaluate an investment project. Under this view, the financing itself was merely a pretext to transfer knowledge and build institutional capacity that are embedded in the policies and Expenditure Eligibility Framework of the Investment Loan.

In this context, most MDBs introduced reforms to the policies surrounding lending instruments. First, to reduce transaction costs, MDBs created ways of combining Investment Loans, mostly in the form of programmatic approaches that ensured longer-term commitments and simplified preparation (see Chapter IV). In addition, fiduciary policies applied to Investment Loans were swiftly modernized in all MDBs. Specifically, between 2003 and 2008, the WB, the ADB, the IDB, and the AfDB reformed the policies that they apply to eligible expenses, retroactive financing, and

---

<sup>9</sup> The word “poverty” was virtually absent from MDBs documents until the mid-1970s. For instance, the first IDB capital increase that had the reduction of poverty as an explicit objective was IDB-5 (1978). However, it was only following Latin America’s “lost decade” that the IDB incorporated “poverty reduction and social equity” as an overarching objective during IDB-8 (1994). At the ADB, although more emphasis on poverty reduction was present in the discussions leading to the ADF-5 replenishment (1990), poverty reduction would only become an overarching goal with President Chino (1999–2005). See McCawley (2017). At the World Bank, the emphasis on poverty reduction came with the McNamara presidency (1968–91). See Chapter 5 in Kapur, Lewis, and Webb (1997).

<sup>10</sup> The Meltzer Commission was created to recommend future US policy toward seven international financial institutions: the International Monetary Fund (IMF), the WB, IDB, ADB, AfDB, the World Trade Organization (WTO), and the Bank of International Settlements (BIS). The Commission presented its report to Congress in 2000.

<sup>11</sup> Part of the discussion of instruments followed directly from the Meltzer Commission report (which recommended replacing Investment Loans with Performance-Based Grants) and focused mostly on whether it was optimal to have development loans or grants. See Bulow and Rogoff (2005) and Clements et al. (2004). This discussion ultimately fed the debt forgiveness initiatives under the Heavily Indebted Poor Country Initiative (HIPC) (launched in 1996) and the Multilateral Debt Relief Initiative (MDRI) (approved in 2005).

additional financing in order to introduce flexibility, and reduce transaction and supervision costs.<sup>12</sup>

With those policy changes, the distinction of some instruments within the investment lending category became effectively blurred. These modalities had been developed mostly around the inflexible Expenditure Eligibility Frameworks that existed before the reforms were undertaken. Once the frameworks were simplified and relaxed, many instruments became irrelevant.

The most recent evolution of the investment lending category has been the consolidation of all Investment Loans into a single policy. Not least because of the blurred distinction between instruments due to the reforms of the 2000s, some MDBs proceeded to simplify and unify their policies for investment lending. The leader in this regard was the WB, which approved a single Investment Project Financing (IPF) policy back in 2012.<sup>13</sup> Interestingly, newer MDBs—such as the AIIB, established in 2015—have also adopted a unified lending policy from the outset.

### Policy-Based Loans

By the early 1990s, many developing countries were faced with the challenge of reforming their economies to boost economic growth. In Latin America, the debt crisis had ushered in a decade of economic stagnation and increased poverty. The Soviet Union and the countries in the Eastern bloc were also suffering from slow economic growth and stagnant standards of living.

In these overregulated environments, with high distortions in relative prices, traditional MDB support through Investment Loans was mostly ineffective. Traditional infrastructure investments in this context were often not economically profitable. Although developing countries still needed development support, the needed support was of a different nature. Developing countries needed fungible support to implement economic reforms. These economic reforms would, in turn, create an enabling environment for public and private investment projects to become profitable.

Policy-Based Loans (PBLs)—also known as Development Policy Loans (DPLs)—were first introduced in the late 1970s at the WB and the ADB.<sup>14</sup> They provided general budget support, in one or more tranches, to the government against the fulfillment of specific policy conditions coded in a policy matrix. Because funding was not associated with specific goods, services, or works, these loans did not apply procurement policies and had a very simplified application of environmental policies. PBLs were used to support the market-oriented reforms, especially during the 1990s.

Toward the end of that decade, the outbreak of the Asian Crisis in 1997 prompted MDBs to create a variation of the PBL, the emergency PBL or the “special” DPL. Unlike the PBL that supported structural reforms, these emergency loans aimed at providing emergency support during an economic crisis. Crucially, these emergency loans had to be a part of a rescue package led by

---

<sup>12</sup> Both the WB and the IDB updated their Expenditure Eligibility Framework in 2004 (Operations Policy and Country Services [OPCS], Eligibility of Expenditure in World Bank Lending: A New Policy Framework, March 26, 2004; IDB, 2004, Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans, GN-2331-5). The ADB did so in 2005 (Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach, August 2005), followed by the AfDB in 2008 (Policy on Expenditure Eligible for Bank Group Financing, Operation Policy and Compliance Department).

<sup>13</sup> World Bank (2012).

<sup>14</sup> Initial introduction of PBLs at the WB and ADB in 1978 was essentially for balance-of-payments support to countries during the oil crisis. During the 1980s, PBLs were adopted as structural reform instruments by the ADB (in 1983), the AfDB (in 1986), and the IDB (in 1989).

the International Monetary Fund (IMF). Initially a short-term emergency response, emergency PBLs became a permanent instrument in all institutions.

PBLs have undergone limited changes since their creation. Following the drive for more programmatic approaches, the Programmatic PBL (which consists of a series of uncommitted stand-alone PBLs) was introduced around 2005. Programmatic PBLs were meant to support reforms that mature over a longer period and, consequently, whose conditions could not be all coded in a single policy matrix at the outset.

The most recent evolution in PBLs aims at providing flexibility in the timing of the disbursements. Originally PBLs disbursed immediately upon the fulfillment of the policy conditionalities. Under a Deferred-Drawdown Option (DDO), there is window of time (typically three years) in which PBLs can be disbursed after the fulfillment of the policy conditions. Effectively a DDO moves the PBL instrument more toward an insurance-type instrument. DDOs became common in all MDBs around the 2010s.

### Disaster Risk Management

During the late 1990s, most MDBs started to approve financing instruments that mitigated the impact of natural disasters. The logic behind this was twofold. First, natural disasters disproportionately affect developing countries. Second, natural disasters were becoming increasingly more deadly and costly.<sup>15</sup> In the Latin America and the Caribbean region alone, Hurricane Mitch was responsible for more than 11,000 deaths and \$6 billion worth of damage in 1998.

The ADB was the first MDB to have an emergency response policy. The policy was approved in 1987 for small countries and in 1989 for all developing member countries.<sup>16</sup> The WB and the IDB followed in 1995 and 1997, respectively.<sup>17</sup> Initially, the instruments created by these policies provided support under the form of fast-disbursing Investment Loans that were approved and disbursed immediately following the natural disaster. To ensure that loans disbursed quickly, these early natural disaster management loans had streamlined preparation processes, and, in some cases, approval was delegated to the Bank's Management. To ensure swift disbursement, these loans typically waived (or applied in a simplified way) the standard procurement and expense eligibility policies. Because of their fast and simplified preparation and disbursement mechanism, MDBs imposed some restrictions on these Investment Loans for natural disasters. First, they could typically finance only the reconstruction and rehabilitation (but not upgrading) of damaged infrastructure.<sup>18</sup> Second, they had to be disbursed within a very specific (short) period. Finally, natural disaster instruments could typically not fund the immediate humanitarian response, for which MDBs were deemed not to have a comparative advantage.

During the 2000s, disaster risk management policies at different MDBs were updated to progressively shift the focus from responding to natural disasters to creating resilience.<sup>19</sup> In terms

---

<sup>15</sup> See IEG (2006).

<sup>16</sup> See ADB (2019b).

<sup>17</sup> World Bank, August 1995, OP. 8.50, Emergency Recovery Assistance; and IDB, 1998, Emergencies Arising from Natural and Unexpected Disasters, OP-704.

<sup>18</sup> In the case of IFAD, they can also fund the restoration of rural markets (including financial markets) and people's accesses to them. See IFAD, 1998, IFAD Framework for Bridging Post-Crisis Recovery and Long-term Development.

<sup>19</sup> The ADB, IDB, and WB all changed their disaster risk management in the 2000s (2004, 2006, and 2007, respectively). The new policies strengthened the focus on integrated responses to natural disasters from post-disaster response to long-term mitigation of impacts.

of financial support, the emphasis was switched from the ex post investment lending instruments to fund the rehabilitation of basic services after a disaster struck to a more comprehensive disaster risk management approach that includes not only ex post investment lending support but also ex ante prevention and budget support instruments. These new instruments were approved ex ante with specific triggers related to natural disasters. In most cases, these new instruments were Policy-Based Loans (such as the Catastrophe DDO, known as Cat DDO), which disbursed entirely upon the verification of the natural disaster. Among the policy conditions, most of them also required countries to strengthen their capacity to manage natural disasters to create resilience.

### Programmatic Approaches

As mentioned, MDB policies had been designed to finance large infrastructure projects. Each project was treated as unique and independent from any other project and, more importantly, it was implicitly assumed to be a temporary endeavor. During preparation, all the technical, financial, fiduciary, and environmental and social (E&S) due diligences were carried out under the assumption of a single, independent, and unique project. However, increasingly from the 1970s, MDBs supported development “programs” that were delivered continuously over time. This was particularly true in the social sectors but also, to some degree, in large infrastructure programs that were effectively divided in phases or series of related projects. The procedures used for preparing and supervising individual investment projects, when applied to programs, had several pitfalls. First, they lead to duplications and inefficiencies by unnecessarily repeating diagnoses and due diligences in projects that were related. Second, by looking at each project individually, they missed the opportunity to identify structural challenges and risks to the overall program, as well as opportunities.

The Meltzer report increased the consensus that the offering of instruments by the MDBs, centered on the traditional infrastructure Investment Loan, was ill equipped to support development programs. Starting in 2000, most MDBs approved some version of a programmatic approach to be applied with their Investment Loans. These programmatic approaches typically simplified the internal processing and due diligence for low-risk investment projects that fit within a programmatic line. Initially the programmatic approach was limited to the same sector and the same implementing agency. Some of the programmatic approaches created incorporated some level of delegation of approval for management for second and subsequent projects—subject to the conditions laid down in the first project for the whole programmatic line.

The most recent evolution in programmatic approaches occurred in the late 2010s. Led by the World Bank’s Multiphase Programmatic Approach (MPA), programmatic approaches have been broadened to include projects from different countries or sectors but that contribute to the same development objective. This expansion proved extremely powerful during the COVID-19 emergency. Indeed, the WB channeled most of its investment lending support for mitigating the world-wide consequences of the COVID-19 pandemic through a single MPA.

### Newer Instruments Tailored for Upper-Middle-Income Countries (UMICs)

The most recent motivation to create new financing instruments was related to the changing trends in development finance as well as the emerging needs from borrowing member countries. Although the review of MDBs of the late 1990s proposed that MDBs focus on the poorest countries and promote graduation, most MDBs did not significantly change the structure of their non-concessional lending. They did, however, reduce the access of upper-middle-income countries

(UMICs) to concessional and grant funding.<sup>20</sup> In parallel, after the economic boom of the early 2000s, an increasing share of borrowing member countries, particularly in Asia and Latin America and the Caribbean, became HMICs. The combination of both trends resulted in MDBs with a larger share of lending devoted to HMICs, while the funds available for concessional and grant financing for those countries became increasingly limited.<sup>21</sup>

HMICs have specific development challenges that have implications for MDB lending instruments. First HMICs are very diverse economically and geographically and so is the support they need from MDBs. Some HMICs are small states (including small island states) that are particularly vulnerable to the impact of natural disasters and climate change. These HMICs demand more financially sophisticated products, including insurance products. Other HMICs continue to have challenges in terms of government effectiveness and institutional capacity. They continue to need support in the form of technical assistance for traditional project planning and implementation or policy reform. A third type of HMICs have already good market access and, therefore, the financial competitiveness of MDBs loans is reduced. For these HMICs, the main value of MDBs is in the non-financial contribution (sometimes known as “additionality”) of the development projects. These HMICs demand more knowledge, best practices from developed countries, and extensive policy advice. Finally, some HMICs have strengthened their own internal systems for project preparation and implementation, including the fiduciary and E&S safeguards. These HMICs place little value in the traditional support for project management and safeguard compliance provided by MDBs. In sum, HMICs demand tailor-made solutions, including more sophisticated financing instruments (including risk-sharing structures) with lower transaction costs and increased focus on knowledge and development results.

One instrument that was developed to respond to the emerging needs of HMICs was the Results-Based Loan (RBL), introduced at most MDBs during the 2010s.<sup>22</sup> Unlike Investment Loans that disburse against the outputs (such as the construction of a school) needed to produce the development result (such as to improve education), RBLs disburse directly against the achievement of the result. The development result is reflected in Disbursement-Linked Indicators (DLI), which, upon independent verification, trigger the disbursement. Because RBLs disburse directly against the achievement of results, country policies (including procurement policies) and systems are typically used.

The fact that some HMICs did not value the technical assistance embedded in the Investment Loans did not mean that they did not value technical assistance at all. On the contrary, in the process to transitioning to modern and developed economies, HMICs had specific demands for technical assistance in the form of knowledge transfer and institutional capacity strengthening. In

---

<sup>20</sup> All MDBs have “graduation” policies for their concessional funds. The WB and the ADB also have graduation policies for their lending from the Ordinary Capital (OC) funds. For more details, see Appendix 1.

<sup>21</sup> There are several evaluations examining support to upper-middle-income countries by different MDBs. They all share similar conclusions. See IED (2016); IEG (2017); IEO (2020); and OVE (2013). The IDB’s Office of Evaluation and Oversight (OVE) estimated that about 74 percent of IDB lending was devoted to HMICs between 2007 and 2011. The share was even higher (88 percent) for the WB in Latin America and the Caribbean. The ADB estimates that the share of resources devoted to middle-income countries (MICs) more than doubled from 41 percent in 2006 to more than 96 percent in 2015.

<sup>22</sup> The IDB was a pioneer in introducing RBLs. In 2003, it launched a Performance-Driven Loan (PDL) with all the features of an RBL, except for the fact that the instrument did not waive the application of procurement policies. Because the PDL required the borrower to prove both that expenses were allocated to the outputs and that the outputs obtained the results, PDLs were at a disadvantage compared to a regular Investment Loan (which only had to show that expenses were associated with the outputs). For this reason, the PDL was not used much, and it expired after six years in 2009. Current RBLs were introduced by the WB, ADB, IDB, and AfDB in 2012, 2013, 2016, and 2017, respectively.



a context of limited concessional and grant funding for technical assistance, new financing modalities were developed to provide technical cooperation for HMICs.

One such modality was the Reimbursable Advisory Services (RAS) or Fee-for-Services (FFS). Developed by the WB after its first countries were “graduated” in the 1970s, RAS programs provide advisory services, analytical services, and implementation support to beneficiary countries, which then reimburse the WB for the costs of delivering these services. Similar arrangements were developed at the IDB (the Advisory and Knowledge Services Product, adopted in 2013) and the ADB (Transaction Advisory Services, adopted in 2017).<sup>23</sup>

Two other instruments that, although not new, gained significant relevance for HMICs were Partial Credit Guarantees (PCG) and Political Risk Guarantees (PRGs).<sup>24</sup> Guarantees have the potential to promote resource mobilization from the private sector. This potential is maximized when countries are closer to having complete market access (that is, becoming investment grade). Many HMICs are in this situation and thus are uniquely positioned to benefit for guarantees. Although guarantee instruments are not new, since the 2010s, there has been a renewed call for increasing their use as a development instrument.<sup>25</sup> Despite the conceptual appeal, all MDBs have struggled to promote the use of guarantees, not least because of the liquidity bias of clients and the high cost of structuring each operation.

Table 1 describes the seven major financing instruments. Before proceeding, is important to note that, although all instruments are present in all MDBs, the way each MDB organizes them internally differs. For instance, RBLs are within the investment category at the IDB but are their own separate category at the World Bank. For that reason, Table 1 is a possible grouping of instruments but does not necessarily map directly to the operating manuals of each MDB. The seven categories of Table 1 will guide the discussions of Chapters III through IX.

---

<sup>23</sup> However, the ADB instrument is more narrowly defined because it focuses on the structuring of public-private partnerships (PPPs).

<sup>24</sup> See IEG (2009b) and OVE (2022).

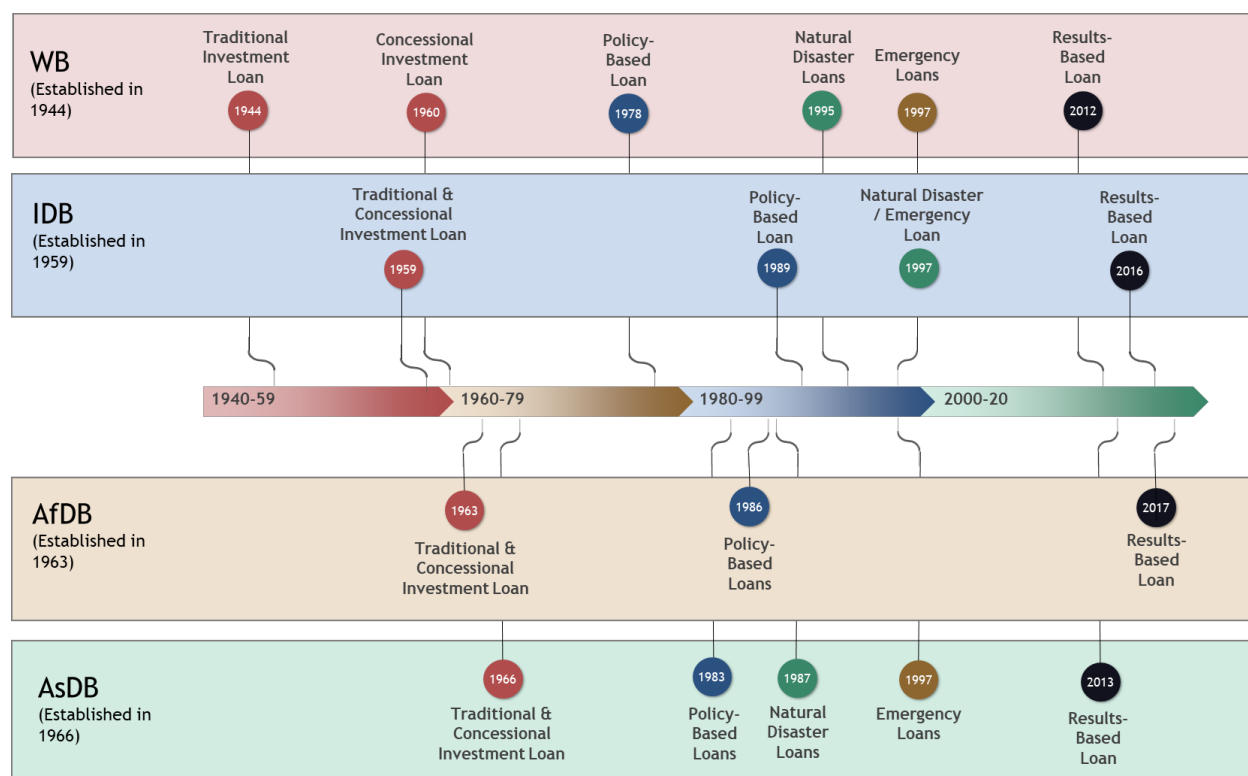
<sup>25</sup> Guarantees may be provided with a Sovereign Counter-Guarantee (to public sector clients) or without it (to private sector clients). At the IDB Group, Sovereign Guarantees have been done through the public sector arm (IDB), while Non-Sovereign Guarantees have been done through the private sector arm (IDB-Invest). Most MDBs can do both.

**Table 1. Categories of Lending Instruments**

<b>Lending instrument</b>	<b>Main features</b>	<b>Introduction</b>
<b>Traditional investment lending</b>	Finances specific infrastructure projects for which a technical, financial, fiduciary, and environmental and social (E&S) due diligence is carried out. Disburses against eligible expenses and following procurement and safeguard policies. Traditional Investment Loans include instruments to reach smaller clients (such as through financial intermediaries), to finance pre-investment, and so on.	1940s
<b>Programmatic approaches</b>	Finances large or complex interventions. This includes multiphase approaches that are structured as a set of smaller linked operations (or phases) under one program or multiple operations that contribute to the same objective even if in different sectors or with different implementation agencies.	2000s
<b>Policy-Based Loans</b>	Provides budget support upon the implementation of a predefined policy actions.	1980s
<b>Macroeconomic crisis response</b>	Provides budget support, as a part of a rescue package led by the International Monetary Fund (IMF) to mitigate the impact of a macroeconomic crisis.	1990s
<b>Disaster Risk Management</b>	Provides resources to improve management and financial planning for natural disasters. It includes different instruments to mitigate the impact of natural disasters (such as investing in prevention) and support physical reconstruction, as well as to provide fungible support to bridge the fiscal gap immediately following a disaster event.	1990s
<b>Result-Based Loans</b>	Disburses funds directly to the delivery of specific development results agreed at the outset.	2010s
<b>Guarantees</b>	Provides guarantees for investment or policy-based operations with a Sovereign Counter-Guarantee.	1940s

Before proceeding to the individual analysis of each category, a final thought is in order. Lending instruments are not only similar but, historically, they tend to have been introduced at about the same time in each MDB (Figure 1). The almost simultaneous introduction of instruments at all legacy MDBs is likely explained by several reasons. First, staff is expected to benchmark their instruments against other MDBs. In fact, instrument-related discussions tend to have a specific section that describes the situation at other MDBs. For instance, the policy paper that introduced RBLs at the ADB (ADB, 2013) has a whole chapter on RBLs at other legacy MDBs. A similar situation is found in the IDB proposal (IDB, 2016). Also important, there is some rotation of MDB staff and Board members, which contributes to this cross-fertilization of ideas and instruments between MDBs.

**Figure 1. Evolution of Financial Instruments at the Legacy MDBs**



Note: ADB = Asian Development Bank; AfDB = African Development Bank; IDB = Inter-American Development Bank; WB = World Bank.

### III. TRADITIONAL INVESTMENT LENDING

At all MDBs, the investment lending is considered the main instrument and the one that should account for the majority of MDB lending.<sup>26</sup> While there is no common definition for investment lending, it has three distinctive features: (1) the project size is determined by the cost of the project outputs (such as a highway); (2) project disbursements are made upon the verification of eligible expenses; (3) the borrower implements the project following specific policies established by the MDB.

The typical Investment Loan is structured in components, often interdependent, that include the activities and products needed to achieve the intended results. Disbursements occur against eligible expenses, for which the MDB provides non-objections following its internal procurement and financial management policies. Borrowers are required to identify and mitigate potential

<sup>26</sup> This comes directly from the respective Charters. In the case of the IDB, the Agreement Establishing the Inter-American Development Bank, Art. III, Section 7, g. Rules and Conditions for Making or Guaranteeing Loans, states that: “[L]oans made or guaranteed by the Bank shall be principally for financing specific projects, including those forming part of a national or regional development program. However, the Bank may make or guarantee overall loans to development institutions or similar agencies of the members in order that the latter may facilitate the financing of specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank.” The Agreement Establishing the Asian Development Bank and the Agreement Establishing the African Development Bank both contain a similar provision (Art. 14, I, and Art. 17, 1, respectively). Similarly, the Articles of Agreement of the IBRD (World Bank) establish that “loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development” (Article 3, Section 4, vii).

negative impacts to the environment or the communities located near the area of intervention of the project. Finally, Investment Loans often have a *pari passu* condition by which the MDB disbursements must be disbursed proportionally to the counterpart funding from the beneficiary. The basic Investment Loan (at the IDB, the Specific Investment Loan, ESP) is similar in all MDBs.

At the IDB, the traditional Investment Loan was adapted over time. By 1972, the IDB had developed three new instruments which, to date, constitute the main investment lending instruments:<sup>27</sup>

- Multiple Works Loan (GOM) finance a series of smaller, independent, and similar works, such as small, standardized infrastructure projects. GOMs are prepared in a way similar to standard Investment Loans, except that only a sample of complete designs (30 percent) is needed before approval by the Board of Directors. The rest of the designs—which must be like the ones submitted in the sample—are to be completed during implementation.
- Global Credit Programs (GCRs) fund financial intermediaries for onlending to final beneficiaries (typically, small and medium enterprises, SMEs).<sup>28</sup> The logic was to provide the IDB with an instrument to reach small clients (such as SMEs) in a cost-effective manner. Over time, specific guidelines and regulations were developed to adapt the application of investment policies (such as an environmental framework) to the GCRs, as well as to define certain financial parameters (such as the interest rate charged to final beneficiaries).
- Reimbursable Technical Cooperation (RTC) consists of Investment Loans that finance studies, particularly pre-investment studies. Further, to support pre-investment efforts, a pre-investment instrument was created in 1989 and expanded in 2000—the Project Preparation Facility (PROPEF).

Other instruments within the investment category were developed at the IDB during the early 2000s directly as a response to the decline in investment lending of the late 1990s. Most of them were eliminated in 2011.

The three traditional Investment Loans (ESPs, GOMs, and GCRs) accounted for the largest share of operations at the IDB from 2000 to 2020. Since 2016, these three categories have represented about 95 percent of all investment lending. Although historically the dominant category has been ESP (56 percent), GOMs and GCRs represented a consistent share of 20 percent and 9 percent of the amounts approved in the investment lending category between 2000 and 2020. Moreover, the use of both modalities increased significantly from 2011 to 2020, to 26 percent and 11 percent of overall approvals during that period, respectively.

The investment lending category continues to be the dominant category in terms of both number of loans and amount approved across MDBs. At the IDB, Investment Loans represent about three-quarters of the operations, and more than two-thirds of the amounts approved for countries. A similar pattern can be seen in other MDBs. For example, at the ADB, 76 percent of total operations approved from 2016 to 2020 were provided under investment lending, which represented 67

---

<sup>27</sup> In the early decades of the IDB, all regulations applicable to lending instruments were compiled in an Operational Policy. The first Operational Policy (Doc. GN-263-1) was issued in 1966 and further guidelines were issued in 1972 (GN-750-1). These documents remain the main reference for the traditional investment lending instruments.

<sup>28</sup> Global Credit Programs (GCRs) are loans to “intermediary financial institutions (IFIs) or similar agencies in the borrowing countries to enable them to on-lend to end borrowers (sub-borrowers) for the financing of multi-sector projects, and when their size does not warrant direct Bank handling” (PR-203).

percent of the total volume provided to country clients in the same period. Similarly, during the same period, at the WB, the investment lending category represented 61 percent of the total amount.

The discussion that follows compares four main differences of the investment lending policies across MDBs: (1) the overall policy that applies to investment lending; (2) the “instruments” that focus on Financial Intermediary Loans (FILs); (3) the instruments that focus on standardizing independent and smaller loans—Multiple Works Loans (GOMs); and (4) the instruments that apply to pre-investment activities.

## **1. Overall Investment Lending Policy**

Although all MDBs can finance similar investment needs (such as financial intermediaries, specific loans, Pre-Investment Loans, and so on), the way in which they are organized for preparing and approving the loans is slightly different. In essence, there are two approaches to the overall investment lending policy.

On the one hand, the ADB, IDB, and AfDB all have individual lending instruments, each regulated by a separate policy approved by the Board of Directors. Internal operational guidelines or staff guidance provide teams with additional instructions on the specific procedures needed to be followed for appraisal, approval, implementation, and evaluation of each “instrument” within the investment lending category. These individual policies are complemented by cross-cutting policies that regulate different aspects (such as procurement policy, environmental and social [E&S] policy, and so on).

On the other hand, a few MDBs (most notably the WB) have a single policy that regulates the overall investment lending category. The WB policy, known as the Investment Project Financing (IPF), contain a general and adaptable framework with operational principles (see Box 1). This allows applying a wide array of different Investment Loans that in other MDBs are regulated as separate “instruments.”<sup>29</sup>

---

<sup>29</sup> Another MDB that has a single investment policy is the AIIB (founded in 2015), which focuses on infrastructure investment projects. The AIIB single Operational Policy on Financing (OPF) covers all lending. AIIB’s OPF covers both sovereign-backed financings (SBF) and non-sovereign-backed financings (NSBF) and provides significant flexibility in enabling AIIB to offer a wide variety of financial instruments for both types of financings, in support of its primary purpose of promoting investments in infrastructure. The OPF thus allows AIIB to offer traditional investment lending, financial intermediary (FI) loans, equity investments, guarantees, and project preparation advances for SBF, among others. Although the OPF does not cover Results-Based Loans (RBLs) or Policy-Based Loans (PBLs), AIIB’s Board has authorized AIIB to co-finance these types of operations with the WB and the ADB under the AIIB’s COVID-19 Crisis Recovery Facility (CRF).

### Box 1. The World Bank Project Investment Policy

Reviews in 2010 and 2011 made by the World Bank's Independent Evaluation Group (IEG) and the IDA-14 Internal Controls Review identified the possibility of an operational risk resulting from 37 regulations that were applicable to Investment Loans, with their gaps, overlaps, inconsistencies, and sheer volume. All of these reduced the flexibility and increased the operational inefficiency of investment lending at the World Bank (WB).

In response to this diagnosis, the WB undertook a reform of its investment policy in 2012. Until then, the WB had different instruments and 19 Operational Policies and 18 directives to regulate investment lending. Many of these policies had been changed over time and were not fully consistent with the rest. To solve that, and to simplify the system, the WB consolidated all investment categories in a single investment lending policy (OP 10.00) and a single directive—equivalent to Inter-American Development Bank (IDB) guidelines—(OPS5.03-DIR.110). This regulates not only all investments but also guarantees. Investment Project Financing (IPF) supports both loans and guarantees with defined development objectives, activities, and results. The proceeds of the loans are made against specific eligible expenditures.

**General case.** The policy is a short document (12 pages) that defines the central elements applicable to an Investment Loan such as the definition, scope, and applicability. The policy provides the general principles on how the WB should conduct the due diligence in project preparation, particularly regarding Technical Analysis, Economic Analysis, Financial Management, Procurement, and Environmental and Social (E&S) Safeguards and Risks. The more procedural aspects (which activities are done in different moments of the project cycle) and the specific thresholds (such as retroactive financing or project advances) are defined in a companion directive.

The WB policy and directives have some distinctive features:

- The WB may execute Investment Loans (albeit under exceptional circumstances).
- It is possible to approve Project Advances for pre-investment and small implementation activities up to \$6 million.
- Retroactive financing is capped at 20 percent (although Management may approve higher retroactive financing in exceptional circumstances).

**Special cases.** To provide flexibility, the WB policy conceives of two special cases where the borrower/beneficiary: (1) is in urgent need of assistance because of a natural or man-made disaster or conflict; or (2) is experiencing capacity constraints because of fragility or specific vulnerabilities (including for small states). Special treatment is possible for these projects:

- Certain policies (related to resettlements, environmental assessments, indigenous peoples, and physical cultural resources) applicable during the preparation stage can be deferred to the implementation phase.
- Project advances are higher (up to \$10 million per project vs. \$6 million in a normal case).
- Retroactive financing is higher (up to 40 percent of the project vs. 20 percent in the normal case).
- The Bank may enter into agreements with third parties (such as United Nations agencies, national agencies, private agencies) to implement the project. If there is no alternative, the Bank may execute small startup activities.

*Source:* World Bank, IPF Policy and Directive.

A single policy offers several advantages including:

- **Avoidance of potential inconsistencies:** Under the umbrella of the investment lending policy, the WB updated its entire Operational Manual to: (1) make it easier for staff, clients, and the public to access and interpret; (2) eliminate duplicative or obsolete sections; and (3) replace a myriad of older policies that had been approved over decades and were not necessarily internally consistent.
- **Flexibility to mix and match instruments:** The clarification and consolidation of the investment lending menu promoted flexibility to respond to clients' diverse development and financing needs without the need to set boundaries encompassed in specific instruments. In other frameworks, a loan must fit exactly into one of the existing categories and the procedures to combine instruments is sometimes challenging.
- **Transparency and ease in updating instruments:** Under the new framework, there is only one policy to keep updated. This makes it operationally very simple to make changes to the policy. Only a few sentences or paragraphs need to be changed in a single document. It also makes the changes more transparent for the approving authorities. For instance, when the WB created the Multiphase Programmatic Approach (MPA) in 2018, only a few paragraphs in the IPF had to be changed and submitted to the Board of Directors.

## 2. Financial Intermediary Loans (FILs)–Global Credit Programs (GCRs)

All MDBs developed Financial intermediary loans (FILs) very early on.<sup>30</sup> At the IDB, the financial intermediary loan is known as Global Credit Programs (GCRs). All FILs provide funds to financial intermediaries (FIs) for on-lending to final beneficiaries that are small in scale (such as SMEs). The small size of the individual sub-loans does not justify direct MDB involvement. The key feature of the FIL is that, during project preparation, the MDB and FI agree the rules that will be applied to assess, approve, and supervise each of the individual sub-loans.

Appendix 2 presents a comparison of FILs at the IDB, ADB, and WB. It reveals that all MDBs have essentially similar operational guidelines, which were largely developed in the 1970s and 1980s.<sup>31</sup> The regulations focus on the eligibility of financial institutions, sectors, and types of projects, the interest rate applicable to sub-loans (including provisions about possible subsidies), and different provisions about how to monitor FILs.<sup>32</sup>

The principles and structure of the guidelines is broadly similar in the IDB, the ADB, and the WB: subprojects need to be economically viable and undergo due diligence; interest rates must be market based; and directed credit policies are to be avoided. All three MDBs give specific treatment to GCRs in terms of safeguards (FI Category) and do not require procurement policies

---

<sup>30</sup> At the ADB, a precursor of the current FIL was created in 1968, when a credit line was provided to the Industrial Finance Corporation of Thailand for private sector industrial development. Similarly, the WB started using credit lines from the early 1950s. See IED (2008) and IEG (2006).

<sup>31</sup> Until then, FILs were treated identically to any other Investment Loan. Starting in the late 1970s and early 1980s, concerns increased about the use of GCRs, particularly in contexts of macroeconomic instability and negative interest rates.

<sup>32</sup> For instance, at the WB, several circulars were issued in the 1970s and 1980s regulating interest to be paid by Commercially Oriented Project Entities or discussing the Interest Rates Policy. These were ultimately consolidated in a financial intermediary lending policy (BP.8.30) in 1998. With the creation of a single investment lending policy in 2012, all of these were replaced. The IDB has specific regulations on recuperations, approved in 1975 (GP-30-1).

to be applied at the sub-loan level. However, the ADB encourages the use of international competitive bidding procedures for procurement.

Among the few differences, the WB has the most flexible policy. It contains a single paragraph regarding GCRs (IPF Policy, par. 15; IPF Directive, par. 59) (see Box 1).<sup>33</sup> In contrast, IDB's regulations are scattered in different documents. Most of these regulations have to do with restrictions on the interest rate chargeable on the sub-loans. Also, IDB has a slightly more restrictive definition of the purpose of the GCR (restricting it to providing credit for SMEs, not including policy reform).

The use of FILs has varied over time. In Latin America and the Caribbean, MDB lending through national development banks was popular in the 1970s and 1980s. However, as a part of the efforts to stabilize economies and curb inflation, many national development banks—which in many cases were the cause of sustained quasi-fiscal deficits—were closed or privatized in the 1990s.<sup>34</sup> This led to a period of lower use of FILs in the early 1990s and 2000s.

Since 2008, FILs have regained some of their previous appeal. First, there has been a renewed emphasis on lending to small beneficiaries, particularly as an effective way to help mitigate the effects of a systemic crisis. In fact, FILs have recently been an important modality to deliver support to the region in the context to the COVID-19 pandemic. FILs accounted for about 32 percent of overall Investment Loan approvals done at the IDB during the COVID emergency in 2020.

A second reason for the revival of FILs is related to the renewed support to national development banks. MDBs are, once again, supporting and strengthening national development financing institutions. The creation of these new development financial institutions implies the strengthening of a network of FIs through which FILs could be implemented to reach SMEs and other small beneficiaries. In addition, in the context of the discussions around the financing of new global agendas (such as dealing with climate change and meeting the Sustainable Development Goals, SDGs), there has been a recent emphasis on the potential role of lending to second- and third-tier financial institutions as a means of achieving these goals.<sup>35</sup>

### **3. Multiple Works Loans (GOMs)**

Multiple Works Loans (GOMs) are a type of Investment Loan directed to financing many small and independent works. The reason for creating a separate modality is that the GOMs have a slight difference in their appraisal: Rather than requiring each project to be prepared before consideration by the Board of Directors, GOMs are considered by the Board based on a representative sample of 30 percent (by amount) of the operation. The sample of projects

---

<sup>33</sup> Unlike other MDBs, the WB IPF does not define an objective for the FIL and simply establishes that they can be used to provide loans or guarantees to eligible financial intermediaries to be used by them for loans, equity, or guarantees. However, the former policy (OP/BP.8.30)—turned into a staff guidance—is used for guidance for teams to prepare GCRs. It contains specifications broadly similar to those of the other MDBs.

<sup>34</sup> This trend was not exclusive to the IDB but extended to other MDBs. When the WB Independent Evaluation Group (IEG) tried to quantify FILs in 2006 (in the context of an evaluation of credit lines), they found that, except for microfinance, the use of financial intermediary loans had been reduced in the decade before the evaluation (1993–2003). The IEG recommended making guidelines more flexible and ensuring that project teams follow them to increase the development effectiveness of loans. At the ADB, a similar evaluation of financial intermediary lending in 2008 found that FILs represented about 14 percent of Sovereign Guarantee (SG) approvals during 1968–2007, but only 7 percent during the latter part of that period (2001–07).

<sup>35</sup> The “Addis Ababa Action Agenda of the Third International Conference on Financing for Development” calls for an increased role for national development banks toward the achievement of the SDGs. See also Carlino et al. (2017).



presented during preparation remains indicative. All projects are granted eligibility during execution as long as they are similar to the projects in the sample—including in terms environmental, social, and governance (ESG) impact. GOMs are otherwise prepared and implemented exactly like traditional Investment Loans.<sup>36</sup> The modality is unique to the IDB.<sup>37</sup>

GOMs are a modality that has consistently represented about 15 percent of investment lending approvals at the IDB. They have been particularly useful in combination with programmatic approaches (Conditional Credit Line for Investment Projects, CCLIPs) that allow for a long-term programmatic engagement in basic infrastructure sectors that involve smaller independent works (such as water and sanitation, or rural roads).

This modality can speed up project preparation because only 30 percent of the works need to be designed at the time of Board approval. On the negative side, with GOMs it becomes difficult to estimate ex ante the development impact of the project because its exact scope has yet to be defined at approval. More importantly, approving projects whose works are not fully designed poses significant execution risks if those designs are not completed in time. Indeed, IDB studies have found evidence that although GOMs tend to disburse similarly to other Investment Loans, they also tend to have more problems in implementation.<sup>38</sup> That said, it is difficult to establish causality because it could very well be the case that GOMs are used with weaker implementing agencies only because there are fewer requirements at approval.

Although other MDBs do not have a specific instrument like the GOM, their investment lending policies and directives seem to be sufficiently flexible in terms of appraisal and implementation of Investment Loans to replicate the benefits of the GOM. At the WB, the distinction between ESP and GOM operations is redundant because the definition of how the project appraisal due diligence should proceed during project preparation is broad enough to include a series of small, independent subprojects.<sup>39</sup>

#### **4. Pre-Investment Support**

All MDBs have mandates to provide technical cooperation, including pre-investment support, on both a concessional (often non-reimbursable) and non-concessional basis.

The IDB Charter provided the Bank with a mandate to support each countries' national development plan and to support preparation of individual projects. A modality created during the 1960s was the Global Pre-investment Loan, which consisted of a loan made to planning agency or the central bank to finance multiple project pre-investment studies and national development plans. Global Pre-Investment Loans could use a combination of reimbursable, contingently reimbursable, and non-reimbursable funding, depending on the project and the income level of the country. Over time, detailed criteria for the preparation of Global Pre-investment Loans were developed, including criteria to prioritize non-reimbursable funding.<sup>40</sup>

---

<sup>36</sup> There is a subtle difference in the way the Project Monitoring Report (PMR) rates performance in the case of GOMs.

<sup>37</sup> The main reference for GOM projects at the IDB is Manual PR-202 and the Safeguard Policy (GN-2965-23, para. 4.4).

<sup>38</sup> See Avellán et al. (2018) and Avellán et al. (2021).

<sup>39</sup> IPF Policy, III. 4-6; and IPF Directive, III 17-19.

<sup>40</sup> IDB guidelines for pre-investment were developed in 1965 (GN-112). Shortly afterward, a specific Pre-Investment Fund for Latin American Integration was created with funds from IDB's concessional window. At the request of the Bank's Comptroller, those guidelines were further developed in the late 1970s (GP-38-6 and GP-38-7).

Although Global Pre-investment Loans remained on the books, they have not been used since the 1980s. Instead, specific pre-investment operations have been financed under three different instruments: Reimbursable Technical Cooperation (RTC); the Project Preparation and Execution Facility (PROPEF)—created in 1980 and expanded in 2000; and, more recently, the Fee-for-Services (FFS), mostly for PPPs.

As availability of concessional resources was reduced during the 1990s, current pre-investment instruments do not convey any concessionality. In fact, under the FFS arrangement, the IDB does not even provide non-concessional financing.

**Reimbursable Technical Cooperation (RTC).** The first Technical Cooperation (TC) policy at the IDB was established in 1974. It defined four objectives for TC activities: (1) to support development planning; (2) to support pre-investment activities; (3) to provide institutional strengthening; and (4) to support economic integration. Technical Cooperation could be provided on a non-reimbursable, contingently reimbursable, or reimbursable basis.

Although regulated by the TC policy, RTCs operate as an Investment Loan in which specific expenditures are financed (consultancy services). The preparation and internal appraisal procedure is, however, slightly simpler.<sup>41</sup>

The use of RTCs is low and has progressively been reduced, although the size of individual operations has increased. About half of the approved amounts have been concentrated in funding pre-investment activities for the infrastructure sector (particularly transportation). However, there have been other uses of TCs to support reforms (such as for pensions) or even data gathering efforts (such as censuses).

**Project Preparation and Execution Facility (PROPEF).** The PROPEF was established as a pre-approved revolving credit line for financing project preparation in 2000. The activities eligible under the facility are (1) project preparation; (2) execution capacity support; (3) limited investments; (4) institutional strengthening after project completion to ensure sustainability; and (5) ex post project evaluations. Each operation is capped at a maximum of \$5 million and there are specific limits for some of the components. For instance, the pre-investment component is capped at \$1.5 million. The approval of individual operations under the PROPEF is delegated to Management, which establishes different levels of approval depending on how early in the pre-investment process the operation was identified and the overall amount of the operations.<sup>42</sup> An important feature of IDB's PROPEF is that the pre-investment needs to be associated with an operation in preparation by the IDB, which, upon approval will repay the funds borrowed from the PROPEF. To date, 19 of IDB's borrowing countries have a PROPEF line approved for median amount of \$5 million, although most of the facilities were approved between 1992 and 2000.

Almost two-thirds of PROPEF approvals occurred before 2004—and the last update to an individual credit line occurred in 2005. Since 2005, PROPEF has been used by a few countries, most notably Paraguay (with 56 percent of the approvals). No PROPEF has been financed since 2013.

---

<sup>41</sup> TC policy (AT-80-10, p. 20, 1974). The Operational Policy for TCs was first compiled in 1970 (AT-80), and underwent several changes between 1970 and 1974. The update of the TC policy in 2008 (GN-2470-2) kept the main elements from the original policy but further distinguished the TCs operationally. In 2019, specific guidelines defined a simplified procedure for processing stand-alone reimbursable TCs (OP-1906-1).

<sup>42</sup> As a rule, the earlier the operation is identified in the project cycle and the lower the amounts, the lower the approval authority.

**Fee-for-Services (FFS).** FFS is the newest instrument to finance studies, including pre-investment studies. The original FFS of the IDB was approved in 2013 and was reformed in 2019. Under the FFS, the Bank provides advisory and knowledge services in exchange for fees covering the costs incurred by the Bank in providing them. Although FFS have broader scope, they have been used to finance pre-investment, particularly of PPPs.

### Benchmarking with Other MDBs

As in the case of the IDB, other MDBs had pre-investment facilities funded from the concessional windows and typically target the least developed countries.<sup>43</sup> The ADB has relied on Non-Reimbursable Technical Cooperation provided as a part of the loan preparation for pre-investment activities during most of its history. Similarly, the AfDB approved a Project Preparation Facility (PPF) in 2000 and has financed it through the concessional window.<sup>44</sup> Although the WB's PPF has both non-concessional (IBRD) and concessional (IDA) funding, most of the commitments are concessional (about 85 percent of the amounts approved).<sup>45</sup>

As concessional funds became scarce, MDBs like the ADB serving upper-middle-income countries began to develop new instruments. In 2018, the ADB developed two new instruments to support project preparation and execution. Project Readiness Financing (PRF) finances consulting services for project preparation, including detailed engineering designs, capacity development support, and pilot-testing of project designs. The Small Expenditure Financing Facility (SEFF) is a revolving facility that provides swift funding to support certain low-risk project preparation, implementation, or even post-completion activities related to ADB-funded projects.<sup>46</sup>

Appendix 3 compares the existing pre-investment instruments across MDBs. The key feature of a pre-investment instrument is the internal processing time, which explains why most instruments feature a combination of simplified internal due diligence and delegated approval. Most instruments can fund a broad scope of activities, including project preparation and some start-up activities (including limited works). With the exception of IDB's PROPEF, limits per type of activity within the operation (such as project preparation, implementation, evaluation) and individual limits per operation within the facility are uncommon. Repayment options also vary. IDB's PROPEF has a rigid mechanism for repayment, which is tied to the approval of the operation for which the pre-investment is being financed. In contrast, the WB and ADB have more flexible options for repayment, not least because their instrument is not tied to the approval of a specific operation in the MDB pipeline. Once approved, most pre-investment instruments tend to be treated as a regular Investment Loan.

Despite having higher average levels of income, many middle-income and upper-middle-income countries continue to face institutional capacity challenges that result in weak national public

---

<sup>43</sup> IFAD created a Project Pre-Financing Facility (PPF) in 2018 as a revolving fund that could provide liquidity early on in the project cycle so that activities can be initiated and financed before entry into force of the financing agreement.

<sup>44</sup> In addition to the PPF, the AfDB has the New Partnership for Africa's Development (NEPAD) preparation facility, a donor trust fund to support feasibility studies in Africa.

<sup>45</sup> The WB's PPF was created in 1975. It was governed by a separate policy (BP 8.10 Project Preparation Facility) until the unification of the investment category in 2012. Since 2012, the WB's PPF has been regulated through the investment lending policy. Regarding commitments, see World Bank (2016). Approvals are particularly concentrated in Africa (65 percent of all approvals).

<sup>46</sup> PRF supports project preparation activities for investments that are expected to be financed by the ADB. The Small Expenditure Financing Facility (SEFF) assists ADB's developing member countries in responding quickly and responsively to the small financing needs. Once an SEFF has been established, the borrower can propose eligible activities (up to a maximum \$15 million per activity) for financing under the facility, and ADB can fund them, as and when needed, through a simplified business process.

investment systems. Support to the preparation and implementation of Investment Loans continues to be relevant. The initial experience from the ADB with a pre-investment facility in a region with many middle-income countries is promising. Since its introduction in 2018, PRF has approved 19 loans for \$239 million. This good initial uptake suggest that the simplified processing and approval procedures have been effective. In contrast, the IDB pre-investment instruments have had very limited use in recent years: the last PROPEF was approved in 2013 and the last RTC in 2018. This is consistent with IDB's lower level of delegations, ceilings, and earmarks for components and lack of a simplified internal procedure. The WB's PPF, although available to all countries, continues to be used almost exclusively for least developed countries.

#### **IV. PROGRAMMATIC APPROACHES**

Programmatic approaches were developed in the late 1990s and early 2000s in view of the increased size and complexity of investment projects. Specific investment lending instruments, developed in the postwar era, were suitable for individual interventions such as building a dam or a specific road. In time, infrastructure investment programs became larger and more complex. Thus, there was a need to divide these investment "programs" into different phases that could be implemented sequentially, ensuring continuity, and providing a programmatic approach to investment lending.<sup>47</sup> Another programmatic approach was the Sector Wide Approach (SWAp), developed in the early 2000s to harmonize the interventions of multiple donors that were trying to promote a sector-wide development result.

**Multiphase Approaches.** Multiphase approaches involve approving a facility that is composed of many individual Investment Loans that jointly contribute to the achievement of the results through a causal chain. The individual projects can be sequential phases of modular projects (such as rural roads, phases I, II, and III) that sequentially contribute to the common goal. Multiphases approaches can also have projects in different sectors or even with different borrowers as long as they contribute to a common goal. For instance, the WB investment lending support during the COVID-19 pandemic was structured around a single Multiphase Programmatic Approach (MPA) with the objective of reducing COVID-19 mortality by vaccinating 1 billion people worldwide. Each individual national loan contributes to the overarching objective of the MPA.

In 2003, the IDB became the first MDB to adopt a multiphase approach to investment lending by creating the Conditional Credit Line for Investment Projects (CCLIP). The initial CCLIP was conceived as a mechanism to support an executing agency that had a solid track record of good performance in the preparation and execution of projects. In these circumstances, the CCLIP provided a streamlined procedure for preparing and approving subsequent operations as long as they contributed to the objective of the line. Importantly, the CCLIP remains an uncommitted line. Each operation needs to be prepared and approve by the Board of Executive Directors.<sup>48</sup>

IDB clients have found CCLIPs useful. Between 2016 and 2020, about \$5,920 million, or 10 percent of total IDB lending, took the form of CCLIPs. CCLIPs were mostly preferred by bigger and relatively more advanced countries such as Argentina, Mexico, Brazil, Costa Rica, and Colombia, which together account for about 87 percent of the amounts lent in the form of CCLIPs. The preference for CCLIPs tends to be explained by at least two elements. First, countries saw

---

<sup>47</sup> There is also a programmatic equivalent to policy-based lending.

<sup>48</sup> The CCLIP was amended in 2016 (GN-2246-9) to include a multi-sector modality involving more than one sector executing agency. In 2018, three additional changes were made. These were related to the scope, the institutional capacity requirements, and the definition of the eligibility criteria of subsequent operations (GN-2246-13). In terms of scope, the new CCLIP allowed for projects to be dependent (therefore rendering the old multiphase modality irrelevant) and guarantees were explicitly conceived.

the CCLIP as a means to reduce transaction costs related to internal MDB processing. Second, CCLIPs supported countries' programmatic efforts in a given sector over longer periods of time. The IDB has also combined CCLIP lines with different instruments, although mostly with specific Investment Loans.<sup>49</sup>

### *Benchmarking with other MDBs*

All multiphase approaches are similar in terms of the scope of the instrument (for a detailed comparison, see Appendix 4). The most distinctive of all the approaches is the WB MPA, which was approved significantly after the others.<sup>50</sup> The key difference is related to delegation of approval of the subsequent phases to the MDB Management. The WB and the ADB delegate approval of subsequent tranches to Management. Consistent with this delegation, both have developed mechanisms for reporting on the individual operations approved by Management. Also consistent with broad delegation, the WB places stringent conditions on modifications of the MPA lines, requiring Board reapproval when the objective is substantially changed or a new borrower is added.<sup>51</sup> In contrast, the lines approved at the IDB or the AfDB only approve the first operations. Subsequent operations need to seek Board approval one by one, albeit with simplified business processes.

The ADB is an intermediate case. Although the ADB's Management approves each of the tranches of the Multi-Tranche Financing Facility (MFF) by delegation, its manuals establish a very complex and prescriptive due diligence. The MFF requires ADB staff to verify the fulfilment of six preconditions that should signal the country's long-term commitment to the program. These preconditions are then translated into specific commitments, which become the Framework Financing Agreement (FFA). The FFA is signed by ADB's Management and the country. It is presented to the Board at the time of approval of the line. Once the line has been approved, ADB staff has flexibility for converting the MFF into different tranches as needed.

Both the MPA and the MFF seem to be used more than the CCLIP, notably because of the delegated approval of the subsequent phases. In the case of the MPA, even though the approach is relatively new, it has become the key vehicle to deliver support during the COVID-19 pandemic.<sup>52</sup> As of June 15, 2022, the MPA was supporting IBRD and IDA clients in more than 90 countries.<sup>53</sup>

---

<sup>49</sup> According to approved amounts, about 56 percent of CCLIPs are Specific Investment Loans, 21 percent are Global Credit Loans, and 19 percent are Multiple Works Loans. Only 3 percent of CCLIPs are Loans Based on Results (LBRs).

<sup>50</sup> The ADB approved a Multitranche Financing Facility (MFF) in 2005, while the WB's Multiphase Programmatic Approach (MPA) was not approved until 2017. Finally, in 2022, the AfDB approved a Multi-Tranche Financing Facility (MTF).

<sup>51</sup> Changes to the MPA objectives or the addition of new borrowers are one among four modifications of Investment Loans that require Board reapproval. The others are: (1) an increase to environmental Category A; (2) an extension of a Guarantee expiration date; and (3) reliance on alternative procurement arrangements.

<sup>52</sup> The MPA supports two types of programs: (1) vertical programs focus on a single country and address deeper sectoral issues over a longer term (8 to 10 years) in phases; and (2) horizontal programs have one overarching development objective for connected projects in multiple countries, or states within a country, and a short-/medium-term duration (such as 5 to 7 years). An example of a horizontal MPA was the COVID-19 Strategic Preparedness and Response Program (SPRP MPA).

<sup>53</sup> In April 2020, to support countries' emergency health response to the COVID-19 pandemic, the World Bank's Board of Executive Directors approved an initial \$6 billion under the Global SPRP MPA. On October 13, 2020, it approved an additional \$12 billion to support the acquisition and deployment of COVID-19 vaccines in client countries.

In the case of the MFF, while demand was high initially, the instrument has lost its appeal recently.<sup>54</sup> According to the ADB's Independent Evaluation Department (IED), one of the reasons for the decline in the demand for MFF is that the flexibility for Management to prepare later phases of the MFF was slowly undermined.<sup>55</sup> Over time, more details and due diligence were required for the initial agreement (FFA) and the approval of the successive tranches. This rendered the instrument increasingly less attractive to clients because of the increase in transaction costs. In addition, the 10-year limit for disbursing all the tranches of an MFF proved unrealistic, and defeating the purpose of establishing a long-term commitment with the country. Among other things, the IED recommended reducing transaction costs and revisiting the 10-year implementation rule.

In January 2022, the ADB reformed the MFF in the light of the IED's findings. There were two main changes. The first was the simplification of duplications in the MFF line and each of the tranches, which is expected to reduce transaction costs. The second was the change of the 10-year rule to require all tranches of the MFF to be approved (but not disbursed) within 10 years of the approval of the credit line.<sup>56</sup>

Finally, the AfDB instrument has recently been approved and it is not yet possible to assess its impact.

**Sector-Wide Approach (SWAp).** SWAps were another programmatic approach that emerged from the Meltzer Commission's criticism of the traditional project approach.<sup>57</sup> The project-based approach to development financing led to fragmented aid and provided limited country ownership, being mostly a donor driven process. These problems were most conspicuous in social sectors (such as health and education) where MDBs were mostly financing national programs (not projects) that were centrally administered.

SWAps were developed as a solution to overcome these challenges. Under a SWAp, "*all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds.*"<sup>58</sup>

The IDB established its SWAp in 2004. The practical implication of a SWAp was that Bank disbursements could be pooled with other sources in a common account and some Bank policies be waived. In particular, the following policies are waived: (1) the nationality of bidders and origin of goods be from member countries, or goods, works, and consulting services be financed from the pool to follow national procurement rules and procedures; (2) supporting documentation for

---

<sup>54</sup> See IED (2019). The ADB approved 105 MFFs to 16 countries from 2005 to 2018, for a total resource envelope of \$52.3 billion, equivalent to 31 percent of all ADB sovereign financing. On average, each MFF was about \$500 million, typically committed in three or four tranches over eight to ten years. Since 2012, MFF approvals have declined because of changes in both internal and external operational conditions that reduced some of the initial advantages of the modality.

<sup>55</sup> See IED (2019).

<sup>56</sup> Other reforms included (1) strengthening sector assessments to ensure institutional capacity development beyond that needed for the delivery of the outputs committed in the line (such as procurement, financial management); (2) strengthening the preparation of each tranche (particularly the first one), to ensure increased project readiness and, thus, improved project implementation; and (3) increasing Board consultations during preparation (similar to the ADB practice with PBLs). See ADB (2022a).

<sup>57</sup> For general analyses on SWAps, see Brown et al. (2001) and Foster and Leavy (2001).

<sup>58</sup> Brown et al. (2001).

the individual transactions financed by the pool be submitted to the Bank for review; and (3) no special account created for Bank loan proceeds.<sup>59</sup>

The IDB has made limited use of SWApS. In practice, coordination with other MDBs lengthened preparation times and rendered the instrument inflexible. This was more severe for the countries that borrowed from the concessional window (FSO/Concessional OC) because the allocation of resources for these countries was more inflexible.<sup>60</sup> SWApS were applied infrequently (about 6 operations between 2004 and 2010) and very rarely in less developed countries, where SWApS were anticipated to be used more widely. That said, SWApS were used with success in social sectors and conditional cash transfer programs in upper-middle-income countries such as Brazil and Colombia. SWApS also had specific restrictions on the maximum size of the contract that could be funded through the common account of a SWAp. Finally, IDB policy required other MDBs to participate in order to undertake a SWAp, limiting the possibility of doing a SWAp just with a relevant government program.

With the procurement reform at the IDB in 2019, the new procurement policies incorporated the possibility of using “alternative procurement arrangements,” including using the procurement rules and procedures of another multilateral or bilateral organization or international agency.<sup>61</sup> With this change, the SWAp approach became redundant.

### Benchmarking

SWApS were introduced at the WB in 1995 as Sector Investment Programs (SIPs).<sup>62</sup> There was no specific SIP policy. In practice, “Sector Investment Program” was used as a title for operations that focused on public expenditure programs in particular sectors. The “instrument” was incorporated into the single investment lending policy in 2012, because there was nothing that a SIP could do that could not be done through the investment lending category.

Before the WB updated its procurement policy for IPFs in 2016, the use of national policies was allowed only for contracts under the International Competitive Bidding (ICB) for each country, while WB rules were to be used above that threshold. The new policy eliminated the reference to SWApS and has a general provision that allows the WB to use alternative procurement arrangements, including relying on the procurement rules and procedures of the borrower or another multilateral or bilateral agency.<sup>63</sup> As with the IDB, the WB’s SIPs became redundant after the procurement reform. Even before their elimination as a separate instrument in 2012, SIPs were rarely used. The WB approved on average about six SIPs per year (less than 2 percent of total approvals). SIPs seem to have been used with positive results in the health sector.<sup>64</sup>

---

<sup>59</sup> There are two types of SWApS, pooled and non-pooled. In pooled SWApS, the funds of the government and donors are pooled under a single account. In non-pooled SWApS, each financier keeps a separate account. The proposal refers to the pooled SWApS.

<sup>60</sup> See GN-2564, Proposal to Reform the Bank’s Sovereign Guaranteed Lending Instruments and the Emergency Lending Category; and GN-2246-7, Assessment of the New Lending Instruments.

<sup>61</sup> See GN-2349-15, Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank, 2019; and GN-2350-15, Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank, 2019.

<sup>62</sup> Harrold (1995).

<sup>63</sup> The old policy was OP.11 Procurement, last reviewed in 2014. Paragraph 21 discusses Sector-Wide Approaches. The new procurement policy for investment lending is “Procurement in IPF and Other Operational Procurement Matters,” section III.F, approved in 2016.

<sup>64</sup> IEG (2009a).

At the ADB, SWAPs are not a separate instrument and do not have separate guidelines. However, the ADB has several instruments that allow “sector support” (see Box 2). Although the ADB may waive its procurement rules (for instance, in the case of Cofinancing OM Section E1), there is no specific instrument that establishes the automatic adherence of other procurement rules. Sector development programs represented a small fraction of approvals (about 2 percent) and less than 1 percent of commitments, on average during 2016–20.

### **Box 2. Sector Support at the ADB**

**Sector lending** is a form of ADB assistance to a developing member country (DMC) for project-related investments based on considerations relating to a sector or subsector of the DMC as a whole. The sector loan aims to assist in the development of a specific sector or subsector by financing a part of the investment in the sector planned by the DMC. Such lending is particularly appropriate when many subprojects in the sector or subsector are to be financed. A Sector Loan is expected to improve sector policies and strengthen institutional capacity.

A **Sector Development Program (SDP)** is a combination of an investment (project or sector) component and a policy-based (program) component, as well as technical assistance, where appropriate, with a view to meeting sector needs in a comprehensive and integrated fashion. The SDP is not a separate lending modality, but represents a combination of policy and investment-based assistance, under appropriate circumstances.

Sources: ADB, OM Section D3/BP and OM Section D5/BP.

## **V. POLICY-BASED LENDING**

After years of discussions, in the context of its Seventh General Capital Increase, IDB finally introduced policy-based lending in 1989.<sup>65</sup> Policy-Based Loans (PBLs) were intended to provide balance-of-payments financing and support sector policy or institutional reforms. Similar instruments had been introduced by the WB and the ADB in the previous decade.

During the 1990s, PBLs at the IDB were structured with two or more tranches whose disbursement was subject to the fulfillment of policy conditions. Each tranche was automatically disbursed upon the verification that the conditions had been fulfilled. In case of partial fulfillment of conditions, a disbursement was possible only after the Board of Directors granted a corresponding waiver. In addition to the specific conditions specified in the policy matrices, PBLs required the borrowing country to maintain macroeconomic stability—although no specific procedure was specified to verify it. This early form of PBL is what is now known as the “multiple-tranche” PBL. When combined with Investment Loans, multi-tranche PBLs were known as “hybrid” loans.

Until 2005, multiple-tranche PBLs were the only modality of PBLs. In that year, Programmatic PBLs (PBP) were introduced. PBPs consisted of a series of single-tranche PBLs, each of them approved individually by the Board of Directors. In addition to containing the conditions for the disbursement of the single-tranche PBL, the first operation of a PBP series contains the overall reform program, including indicative triggers for each of the operations in the series. PBPs

---

<sup>65</sup> IDB-7 (AB-1378, 1989). Initially, PBLs could be carried out only with the WB and their disbursement had to be used to purchase imports (excluding the negative list). The IDB later eliminated the requirement of proof of imports for the disbursement. However, the Bank kept the right to audit disbursements (GN-2001-2, 1998).



provided an additional flexibility over the traditional multi-tranche PBL because it allowed conditions (of the later operations) to be adjusted.

Crucial to the design of PBLs and PBP was the notion that the size of the loan is not directly related to the cost of the reforms that is supporting. Instead, the loan amount was established based on the country financing requirements and the Bank's available lending envelope.

An initial concern with PBLs was that they would crowd out investment lending. For that reason, from the time of their introduction, a ceiling has been in place for these operations. This ceiling was defined in terms of percentage of approvals (from 1989 to 2002, and since 2011) and as a specific amount in US dollars (between 2002 and 2011). The cap is currently fixed at 30 percent—temporarily increased to 40 percent to deal with the COVID-19 emergency.

The documents establishing PBLs as a lending category provided very limited guidance regarding how Management was supposed to ensure the application of macroeconomic safeguards. In practice, the Bank relied on documents prepared by the IMF, particularly Article IV Consultations. Following an internal self-assessment and OVE's evaluation on instruments, in 2005 the Bank approved internal guidelines. These guidelines provided that the Bank was to conduct its own independent analysis, using as an input the IMF Article IV Consultations and other sources. Since then, there has been a specific template for the macroeconomic safeguard document and a process for review and approval. Over time, the complexity and requirements around the macroeconomic safeguards were increased (see Box 3).

### **Box 3. Evolution of Macroeconomic Safeguards in PBLs**

Between 2005 and 2010, the IDB produced Independent Macroeconomic Assessments (IMAs) as a prerequisite to approving a PBL. While using the available reports and data from the International Monetary Fund (IMF), IMAs provided an independent assessment of the macroeconomic situation. In 2010, as part of the commitments of the Ninth Capital Increase (AB-2764), the Bank created an additional macroeconomic safeguard known as the Macroeconomic Sustainability Analysis (MSA). IDB Governors established a very specific governance for the MSA, which was meant to ensure the independence of the exercise. It also provided specific requirements of the areas that had to be deemed sustainable by the Chief Economist (debt, financial sector, balance of payments, prices). Finally, a positive MSA was needed as a precondition to increasing the overall exposure of the Bank to a country. This safeguard applied to all loans and not only to Investment Loans.

The establishment of MSAs did not change the requirement that an IMA should be issued before the approval of a PBL. For a while, the Bank was simultaneously producing IMAs and MSAs for the same countries at the same time, effectively generating duplications in macroeconomic safeguards. Following an independent evaluation in 2013, both macroeconomic safeguards were consolidated into a single Independent Assessment of Macroeconomic Conditions (IAMC). The IAMC is similar in terms of content and scope to the IMA. The main difference is that a valid IAMC is not only needed for the approval of PBLs but also for the approval of Investment Loans that are designed to be disbursed quickly (such as Investment Loans that finance conditional cash transfers).

PBLs have enjoyed strong demand ever since their introduction. As a share of the total approved amounts, PBLs (all modalities) increased from 24 percent in early 2000s to 38 percent by 2020. This growth has been supported by the increase in the cap for PBL lending during the past

decade.<sup>66</sup> Nearly 90 percent of all PBLs approved are in the form of Programmatic PBLs. Multi-tranche PBLs are still used in some countries where regulatory conditions impose high transaction costs on PBPs.<sup>67</sup> Hybrid loans have seldom been used and account for only 1.1 percent of total resources approved in PBLs since 1989—most of it early in the period.

### Benchmarking with other MDBs

Policy-based instruments are remarkably similar in all MDBs (for a detailed comparison, see Appendix 5).<sup>68</sup> All MDBs offer multi-tranche PBLs as well as programmatic lines.

In terms of the modalities, there are some minor differences. The IDB is the only MDB that does not allow for a single-tranche, stand-alone PBL.<sup>69</sup> Deferred-Drawdown Options (DDOs) are generally available across MDBs, although not all of them allow for a natural disaster to serve as a trigger (as in a Catastrophe DDO, known as a Cat DDO).

The IDB also stands out for having the most stringent macroeconomic safeguards. Although all other MDBs require countries to maintain a stable macroeconomic environment as a condition for the disbursement of a PBL, they typically do not have detailed governance and document requirements to regulate this requirement.

Aside from the traditional PBLs (stand-alone, multi-tranche, and programmatic), some MDBs—most notably the WB—offers other PBL modalities. Under the WB's Development Policy Financing (DPF), the following modalities of PBL are possible: a Supplemental PBL, a PBL for debt restructuring, and a Regional PBL (see Box 4). None of these modalities has been used much.

#### **Box 4. PBL Modalities that Are Unique to the World Bank**

**Supplemental PBL.** The Supplemental Development Policy Financing may be provided for a development policy operation for which an unanticipated gap in financing jeopardizes a reform program that is otherwise proceeding on schedule and in accordance with the agreed policy agenda. Specific eligibility conditions are that: (1) the program is performing well; (2) the country does not have other sources of funding; (3) there is not enough time to process a DPF; and (4) the country remains committed to the reforms.

**Debt and Debt Service Reduction DPF.** A DPF for debt and debt service reduction helps highly indebted countries reduce commercial debt and debt service to a manageable level, as part of a medium-term financing plan in support of sustainable growth. It disburses funds against tendered commercial debt for buy-backs or for purchasing acceptable collateral, to reduce principal and interest payments on new instruments issued in exchange for existing debt.

<sup>66</sup> Note that for the purposes of meeting the governor's PBL cap, the cross-booked operations with IDB Invest (private sector Non-Sovereign Guarantee) must be considered. Since this note focuses on Sovereign Guarantee approvals only, the percentages presented here are not entirely comparable with the caps.

<sup>67</sup> For instance, countries with legislative ratification may prefer to have a multi-tranche PBL (single contract), rather than having several contracts (one for each PBL within the series), which must be sent to the legislative for ratification in the case of PBPs.

<sup>68</sup> See also OVE (2018a). OVE confirms that the differences in terms of PBLs among MDBs are very limited (para. 2.17).

<sup>69</sup> The ADB allows both multi-tranche and single-tranche PBLs under its Stand-Alone PBL modality. The AfDB has a third modality called Self-Standing Operation, which is a one-off PBL (a single disbursement and not part of a series). The WB's Development Policy Financing (DPF) does not place any limit on the number of tranches.

**Regional PBLs (IDA countries only).** Starting in IDA-19, the IDA Regional Window is supporting a few selected high-priority PBLs to coordinate policy reform across a number of IDA countries that have a standard policy framework for coordinating and sequencing reforms.

The IDB remains the MDB with the highest percentage of PBLs, although the proportion of PBLs has increased in all MDBs over time.<sup>70</sup> Also, when compared to the WB Latin America and the Caribbean region, the use of PBLs is broadly similar: about 30 percent of the overall portfolio in the long run.<sup>71</sup>

## **VI. EMERGENCY LOANS**

The emergency lending (EME) facility for economic crises was created by the IDB in 1998 as a short-term response to the Asian Crisis. It became one of the three permanent emergency lending categories (together with investment lending and policy-based lending) between 2002 and 2012. At the outset, two distinctive features of emergency lending were defined: it was to be done at a premium (with shorter maturities and higher interest rates), and in coordination with the IMF. More specifically, it should be subject to periodic surveillance by the International Monetary Fund.

The emergency lending facility was replaced in 2012 by the Development Sustainability Credit Line (DSL). In contrast to the EME facility, the DSL was created as a contingent credit line to be approved before the onset of a financial crisis, and it disbursed against country-specific or systemic market triggers. In practice, the DSL was not much used, and it became unfunded in 2015.<sup>72</sup>

In 2017, the IDB approved the Special Development Lending (SDL) as a budget support lending instrument to address the effects of a macroeconomic crisis on a country's economic and social progress. The SDL operates much like the EME facility. Its approval is conditional on the existence of an IMF program, while by its nature as an emergency category, it is exempted from the application of the macroeconomic safeguard.

### **Benchmarking with Other MDBs**

As in the case of PBLs, the emergency lending instruments are remarkably similar across MDBs.<sup>73</sup> In all but the IDB, emergency lending is regulated as an option within their Policy-Based Loan policy (for a detailed comparison of all the emergency instruments, see Appendix 6).

All emergency lending windows—except the ADB's Countercyclical Support Facility (CSF) and AfDB's Import Support (IS)—have similar objectives: to provide budget support in the context of a response to an economic crisis. Only the AfDB has a slightly broader definition of "crisis" that includes not only macroeconomic crises but also humanitarian or political crises.

---

<sup>70</sup> Between 2016 and 2020, the average percentage of PBLs (relative to total lending) was 15.5 percent at the ADB, 26.2 percent at the WB, and 35.9 percent at the IDB.

<sup>71</sup> See WB, 2021 Development Policy Financing Retrospective: Preliminary Findings.

<sup>72</sup> The DSL had been funded through the temporary liquidity increase related to the paid-in amounts of the IDB-9 capital agreement. For that reason, an allocation of \$6 billion was approved for the facility to be used until December 2015. More importantly, the DSL required the country to meet the macroeconomic safeguards (macroeconomic sustainability, MSA) not only at approval but also at disbursement—which defeated the purpose of the instrument.

<sup>73</sup> See also OVE (2018a).

The IDB and the WB have a single emergency lending instrument. In the case of the WB, it is governed by the DPF under the name of Special DPL. Some MDBs have generated different modalities of emergency lending. For instance, the ADB and the AfDB have subdivided the emergency window into different instruments. The ADB windows are divided between loans to support an IMF-led rescue package (the Special PBL, SPBL) and countercyclical demand support (CSF).<sup>74</sup> The SPBL operates as a part of a rescue package led by the IMF and is not expected to be used for domestic payment difficulties alone. Instead, the CSF is expected to provide support for financing an expenditure program to mitigate the impact of an exogenous shock—or even in anticipation of the shock under the Precautionary Financing Option (PFO). Similarly, the AfDB has two emergency lending alternatives under its PBL: (1) Crisis Response Budget Support (CRBS), as a fast-disbursing loan to mitigate the impacts of a crisis and to protect the poor and vulnerable; and (2) the Import Support (IS) loan for balance-of-payments support, to be used only in exceptional cases as part of a coordinated donor action led by the IMF. However, there are no cases of IS being used, according to the most recent independent evaluation.<sup>75</sup>

In terms of pricing, all MDBs share the principle that emergency lending should be priced according to the risk. This, in practice, implies loans with higher spreads and shorter maturities (see Table 2).

**Table 2. Emergency Lending Conditions by MDB**

Dimension	WB	ADB <sup>a</sup>		AfDB	CAF	IDB
		SPBL	CSF			
<b>Grace period</b>	Up to 5 years	3 years	3 years	Same as other loans: depends on the lending category: AfDF only (regular or advance) ; blend; or AfDB only.	18 months	3
<b>Maturity</b>	5 to 10 years	8 years	7 years		Up to 7 years	7
<b>Cost base</b>	6-month LIBOR	SOFR + funding cost margin (surcharge/rebate)	SOFR + funding cost margin (surcharge/rebate)		6-month LIBOR plus/minus funding margin	3-month LIBOR plus/minus funding margin
<b>Loan spread</b>	Min. 200 bps	200 bps	75 bps		175 bps (same as regular OC loans of same tenor)	Lending spread (90 bps) plus additional lending fee (115 bps)
<b>Front-end fee</b>	100 bps	None	None		45 bps	100 bps
<b>Commitment fee</b>	0.25%	0.75%	0.15%		0.35%	0.75%

Note: ADB = Asian Development Bank; AfDB = African Development Bank; bps = basis points; CAF = Development Bank of Latin America; CSF = Countercyclical Support Facility; IDB = Inter-American Development Bank; LIBOR = London Inter-Bank Offered Rate; OC = Ordinary Capital; SOFR = Secured Overnight Financing Rate; SPBL = Special Policy-Based Loan; WB = World Bank.  
a. Does not consider concessional Ordinary Capital Resources (OCR).

<sup>74</sup> The CSF has some special requirements. It requires the country to (1) have a track record of good macroeconomic management; (2) have a countercyclical development expenditure program and to commit to its implementation; and (3) commit to solving structural weaknesses that increase the vulnerability to the shock. The CSF also requires “coordination” with the IMF.

<sup>75</sup> IDEV-AfDB (2018).

All MDBs require that their main emergency lending instrument be undertaken in coordination with an IMF program. That said, for the MDBs that have multiple instruments within the emergency lending category, some have milder conditions. For instance, the AfDB's Crisis Response Budget Support (CRBS) has a broader definition of crisis lending (including political and humanitarian). Therefore, it may remove the macroeconomic and/or political stability requirements due to the crisis context. Moreover, it does not require a specific IMF program to be in place. Similarly, the ADB's Countercyclical Facility (CSF) does not require an IMF program.

Emergency lending at MDBs is typically not available for low-income countries. The WB's Special DPF and the ADB's SPBL are available only to countries eligible for ordinary resources.<sup>76</sup> The IDB's Special Development Lending (SDL) is in theory available to all borrowing members, but the requirement for low to moderate risk of debt distress for concessional-eligible countries might in practice exclude some borrowing members. The AfDB is the only MDB where crisis lending is available to all borrowing member countries.

Some MDBs also allow PBLs to be approved with a Deferred-Drawdown Option (DDO), whereby the disbursement may occur in a period after the conditions have been met. In practice, the DDO has blurred the distinction between the regular PBL and emergency or precautionary instruments.

## **VII. DISASTER RISK MANAGEMENT INSTRUMENTS**

Disaster risk management instruments aim at supporting countries before, during, and after a disaster strikes. The support is achieved by increasing resilience and preparedness before the natural disasters occurs, backing rehabilitation efforts immediately after the disaster occurs, and implementing measures that generate resilience and mitigate the impact of future disasters.

To achieve these goals MDBs use several lending, insurance, and knowledge instruments. Some specific instruments have been developed for disaster risk management, both in the investment lending category and policy-based lending.<sup>77</sup>

The IDB currently has two lending instruments (one ex ante and one ex post) designed for response to natural emergencies. Both are in the investment lending category. The first one is the Conditional Credit Line for Natural Disasters (CCF), which is a contingent line approved ex ante that disburses immediately after the occurrence of the natural disaster. The CCF has two modalities, one where the triggers are parametrized and another where the disbursement occurs following a declaration of emergency by the country. During 2020, the coverage was expanded to add health risks. To increase the flexibility of the instrument, the CCF can use newly approved funds or redirect funds from already approved operations.

The second instrument for disaster risk management is the Immediate Response Facility for Emergencies Caused by Natural and Unexpected Disasters (IRF). This instrument predates the CCF and was created in 1998, initially as a response to the impact of Hurricane Mitch in Central America. The IRF provides up to \$20 million following a disaster to cover the costs of restoring basic services to a population adversely affected in the immediate aftermath of a disaster. The

---

<sup>76</sup> Ordinary resources here refers to resources from the ordinary capital (OC) of the respective institution. The ADB updated its policy in 2022 to grant CSF-eligibility to all ADB borrowing members.

<sup>77</sup> The recent comprehensive evaluation of disaster risk management at the WB finds that between 2010 and 2020, the WB approved 1,138 operations with disaster risk reduction activities, including 634 loans (86 percent Investment Loans, 13 percent PBLs, and 1 percent LBR) (see IEG 2022). At the IDB, the portfolio of operations with disaster risk reduction between 2004 and 2013 included 29 lending operations (and 113 Technical Cooperation operations). Most (82 percent) of the lending operations were investment loans (see OVE 2014).

IRF is prepared and approved following a natural disaster. For that reason and to provide fast response, the IRF has expedited processes for preparation and streamlined procedure for approval by delegation to Management.

Because they are within the investment lending category, both the CCF and the IRF are subject to the procurement and financial management policies of Investment Loans. IRF operations, which are prepared and approved ex post, tend to have a higher percentage (sometimes 100 percent) of retroactive financing. In the case of CCF, there is a 12-month period to provide the justification of the disbursement against eligible expenses.

CCF lines have become increasingly popular since they were first approved. In contrast, the use of the IRF has been very limited, not least because it takes too long to prepare, approve, and disburse compared to a CCF that is approved ex ante and disburses immediately after the shock. In that sense, there seems to be significant duplications between the instruments.

Currently, the IDB has no policy-based instrument specifically designed for natural disasters. Between 2012 and 2015, the Bank had a PBL that disbursed against the declaration of an emergency—the Contingent Credit Line for Natural Disasters (CCL). This is similar to the Cat DDO Development Policy Loan used at the WB. The instrument was funded with a special liquidity buffer related to the Ninth Capital Increase and has since become inactive.

### *Benchmarking to Other MDBs*

This section compares the investment lending instruments for natural disasters (for a detailed comparison, see Appendix 7).

In contrast with the IDB, the WB and the ADB both have PBL instruments with a DDO that can be activated in the case of natural disasters: Cat DDO for the WB, and Contingent Disaster Financing (CDF) for the ADB.<sup>78</sup> Because those instruments do not differ from a regular PBL, they are not further considered here.

Other MDBs also have instruments for disaster risk management in the investment lending category. The ADB has an Emergency Assistance Loan (EAL), which is approved ex post to provide immediate support for rebuilding critical infrastructure and restoring essential services after a natural disaster. Like IDB's IRF, the EAL has a streamlined procedure for preparation. As an ex-post instrument, the EAL faces a challenge similar to IDB's IRF: namely, to be prepared fast after the disaster strikes. For those reasons, EALs also have streamlined procedures and are approved by the Board within one week of the circulation of the proposal. The WB's IPF includes several provisions that apply to the case of disasters (see Box 5). In addition, the WB allows investment projects to be included with components that provide swift support for immediate rehabilitation and reconstruction needs in the event of a major disaster (Contingent Emergency Response Components, CERCs).

Two critical aspects of Investment Loans for emergencies are retroactive financing and application of safeguards. Regarding retroactive financing, the IDB has the most flexible policy, which allows up to 100 percent of retroactive financing, compared to 30 percent to 40 percent at other MDBs. That said, the IDB is the only MDB that has a cap on the overall loan amount (\$20 million). In terms of safeguards, the WB and the ADB allow the application of safeguard policies

---

<sup>78</sup> Similar to the case of the CCF at the IDB, during the pandemic a declaration of health emergency was added as an eligible event.

to be deferred to the implementation phase. At the IDB, IRF projects are exempted from the environmental and social (E&S) safeguards.

#### **Box 5. The World Bank's Approach to Natural Disasters within Investment Project Financing**

Lending for emergencies in the case of natural disasters is built in within the general Investment Project Financing Policy (par. 12 and 13, IPF) under one special case, when the country is under "urgent need of assistance because of a natural or man-made disaster or conflict."

If that condition is met, the IPF allows the World Bank (WB) to: (1) defer all fiduciary and environmental, social, and governance (ESG) requirements in the preparation phase to the implementation phase; (2) increase the limit for project advances (from \$6 million to \$10 million) and retroactive financing (from 20 percent to 40 percent); (3) arrange the implementation through other international agencies, or even do some start-up implementation directly through the WB.

The WB also allows the inclusion of Contingent Emergency Response Components (CERCs) in investment projects. These components provide swift support for immediate rehabilitation and reconstruction needs in the event of a major disaster. CERCs are embedded in a project, usually with zero funds allocated to them, and can be activated in response to disasters triggered by natural hazards and disease outbreaks. Once the requirements for activating a CERC are met, uncommitted funds from the project are reallocated to the CERC and made available for crisis or emergency response, with an implementation period of up to 18 months.

## **VIII. RESULTS-BASED LENDING**

The results-based instruments are among the newest instruments adopted by the MDBs. In contrast to Investment Loans that disburse against the implementation of the project inputs (such as building infrastructure), Results-Based Loans (RBLs) disburse directly against the achievement of specific results, irrespective of the inputs needed to attain that result. The idea of results-based instruments started to be discussed in the 2000s but took a relatively long period to be incorporated.

At the IDB, a first attempt to enact a result-based instrument was the Performance-Driven Loan (PDL), introduced in 2003. Although the PDL incorporated the main elements of a RBL, it also required the Bank to apply the procurement policies. This was duplicative because the teams had to both show proof of eligible expenses and proof of the attainment of results. As such, the instrument was not very successful and was ultimately taken off the books in 2011, after several attempts to change it failed. The current RBL was introduced in 2016 as the Loan Based on Results (LBR). The LBR was similar to the PDL but, crucially, includes a waiver on the procurement policies.

The IDB approved 11 LBR operations from 2017 to July 2021 totaling \$1.4 billion in various sectors (health, agriculture, education, and innovation) in Argentina, Brazil, Chile, Colombia, Dominican Republic, Mexico, and Uruguay; 7 of those operations are currently disbursing. This is not different from other MDBs that have experienced a low but increasing demand. LBRs seem to be a niche instrument.<sup>79</sup>

---

<sup>79</sup> The WB approved 120 Program-for-Results (PforR) loans totaling \$39 billion between 2016 and 2020. Demand has been increasing in IDA countries and in sectors supporting human development and basic services. Uptake in the LAC region remains limited (8 programs) and covers the same countries as at the IDB (Argentina, Brazil, Colombia, Costa Rica, Mexico, Uruguay). Sectors include transport, finance, water, health, and education. The ADB had limited approvals (18 RBLs for \$5.3 billion) between 2016 and 2020.

## Benchmarking

RBLs are common across MDBs and they were all introduced in the 2010s (for a detailed comparison, see Appendix 8).

Given the key differences in the RBL instrument with respect to traditional investment and policy-based lending, MDBs tended to take a cautious approach. LBRs were typically introduced as pilot instruments for a definite period and placed limits on amount that affected programming and disbursements. RBLs were reviewed internally after the pilot period and, in the case of the World Bank and the ADB, they also benefitted from “early stage” (formative) independent evaluations.

All RBL instruments are remarkably similar in their basic features. They all disburse against predefined results that are verified through a credible (often independent) verification mechanism. All RBLs waive the application of the specific procurement policies of the MDB and adapt the financial management rules (costing, auditing) to reflect the unique nature of the instrument. All MDBs restrict the use of RBLs to relatively lower-risk projects (no projects with high environmental impacts or large contracts).<sup>80</sup>

RBLs differ in minor ways across MDBs. First, RBLs vary slightly in terms of the internal regulations and policies. For example, except for the IDB, in all other MDBs RBLs are their own lending category, separated from investment lending and from policy-based lending. This separation has pros and cons. On the one hand, given the differences in the principles to design, assess, approve, and supervise an RBL, it seems logical to have a separate policy and guidelines in the interests of clarity. On the other hand, such separation would typically make it difficult to mix traditional investment components with RBLs under the same loan.<sup>81</sup>

A second difference is related to the nature of the Disbursement-Linked Indicators (DLIs): that is, what exactly is considered a result indicator whose achievement triggers the disbursement of the loan. Most MDBs allow disbursements against outputs (such as the construction of a school), intermediate outcomes, and even processes in addition to project outcomes (such as increased learning). Moreover, actions related to project performance (such as strengthening of environmental or fiduciary national systems) are also acceptable. The IDB instrument tends to be more stringent. It allows disbursements only against outcome indicators, except in cases of institutional capacity, where it allows disbursements against outputs.

A third difference, albeit slight, regards the specific limits added to the RBL. All MDBs have limits for the amounts allowed to be disbursed against prior results (results that took place during project preparation but before Board approval) and project advances (the amounts that can be disbursed at the outset in order to finance the results). Although they are all in the same range, the IDB's individual limits for recognition of prior results and project advances are slightly lower. In addition, IDB continues to have an additional limit of 25 percent for the ratio between amounts approved in RBLs and the overall amount approved in the investment lending category. Other MDBs have

---

<sup>80</sup> Following a request from the IFAD-11 replenishment, IFAD implemented a pilot for RBLs in the agricultural sector. According to the concept paper for the pilot, the IFAD instrument is similar to that of the four MDBs that already had the instrument in place (IFAD 2018).

<sup>81</sup> That said, the WB investment project financing policy allows the introduction of RBL-like components in their Investment Loans, somewhat mitigating this effect.



softened such limits.<sup>82</sup> These additional limits, particularly when they are coded as “hard” limits, increase the rigidity of the instrument, reducing its usefulness.

Related to the cautious approach discussed earlier, all MDBs have excluded high-risk projects from RBL financing. However, whereas the IDB has an explicit and clear exclusion (impact category A projects), the WB and the ADB have definitions that require some interpretation. The independent evaluations of both institutions made recommendations about this. In the case of the ADB, the evaluation recommended that projects involving involuntary resettlement be excluded.<sup>83</sup> In the case of the WB, the evaluation found that teams were being too cautious in the application of the exclusion criteria. As noted in the evaluation *“this exclusion is only intended for high-risk activities, and is not intended to exclude substantial- and moderate-risk activities, such as small- and medium-scale investments that are integral to the supported programs and are likely to cause mostly local and short-term negative environmental and social impacts for which effective mitigation measures are readily available.”*<sup>84</sup>

A common difficulty faced in all MDBs has been related to costing and auditing of the expenses. All LBRs establish that the size of the program must be commensurate to the cost of producing the results. The “expenditure framework” defines the cost of the program and serves as the basis of the financial audit. In practice, there have been challenges both doing the costing and the audits of these programs, not least because of the lower level of detail these expenditure frameworks contain relative to the regulation of Investment Loans. An evaluation of RBLs at the WB found that *“costing methodologies used to prepare the expenditure frameworks for the supported programs [were] often unclear”* and that *“without accurate costing, budgeting, procurement, and performance measurement can be compromised.”*<sup>85</sup> Similarly, the evaluation of ADB’s RBLs found that although the expenditure framework of the analyzed operations was often adequate, questions can arise when the framework covers long periods of time because costs can become very difficult to estimate.<sup>86</sup>

Finally, LBRs imply a significant reliance on national systems, requiring high institutional capacity. It comes as no surprise that the independent evaluations of the system asked for increased efforts in the due diligence phase—given the additional demands of the instrument—as well as support to countries for monitoring and evaluation (M&E). This has been consistent with the IDB experience, where demand for RBLs has mostly come from upper-middle-income countries.

---

<sup>82</sup> As a part of this cautious approach, both the WB and the ADB initially established limits on the overall share of RBLs relative to total loan approvals. The WB established a 5 percent limit in 2012, subject to review after two years. In 2015, the cap was increased to 15 percent. However, if approvals were to exceed 15 percent, Management would discuss with the Board how to proceed. The most updated RBL policy and directive contains no such limit. The ADB had a similar 5 percent cap during the pilot LBR phase (2013–19) (see ADB 2013). In 2018, the ADB increased the ceiling for RBLs to 10 percent. In 2019, the ADB made the RBL a permanent instrument, removing the formal ceiling for the instrument (see ADB 2019a). However, if the commitments for the instrument approaches 10 percent of the combined total of the Ordinary Capital and ADF resources (on a three-year rolling average), a consultation to their Board needs to take place to address the future demand for RBLs. The IDB’s recent update of the LBR policy established a 25 percent limit (relative to the approvals within the investment lending category), increasing it from 10 percent during the pilot phase. Note, however, if the IDB limit is converted to a limit against overall approvals (using the current ratio of PBLs to Investment Loans), the IDB limit would be roughly 15 percent of overall approvals.

<sup>83</sup> IED (2017).

<sup>84</sup> IEG (2016).

<sup>85</sup> IEG (2016).

<sup>86</sup> IED (2017).

## **IX. GUARANTEES**<sup>87</sup>

Although there was an initial expectation that guarantees would play a big role in development financing, so far, MDBs have made limited use of this instrument. Guarantees have the potential to disaggregate risks, develop missing markets, and leverage investments, particularly from the private sector. In a context of stagnating official development assistance, increased needs to achieve the Sustainable Development Goals (SDGs), and the emergence of new private and non-profit actors in development finance, guarantees have recently received renewed attention.

As in other MDBs, at the IDB guarantees are explicitly considered in the foundation Charter. As with all the other legacy MDBs, the initial expectation was that the IDB would use a small share of its authorized capital to fund its own operations. Instead, the Bank was expected to provide mostly guarantees to loans “*issued through the ordinary channels of the investment market where on account of the risks involved there would be difficulty otherwise in placing the loan on terms which the borrowing country could afford to pay.*”<sup>88</sup> In practice, very early on all legacy MDBs focused almost exclusively on development lending and the initial idea of having MDBs that focused on guaranteeing loans was lost. At the IDB, it was not until 2013 that a specific policy for SG guarantees<sup>89</sup> was developed. The policy distinguishes between Partial Credit Guarantees (PCGs) and Political Risk Guarantees (PRGs), based on the type of risks being covered (commercial or credit risk vs. sovereign risk, respectively). The policy was drafted in a way that it allowed supporting both investment projects (investment guarantees) and policy-based interventions (Policy-Based Guarantees, PBGs).

The operational and financial treatment of guarantees closely mirrors the treatment of loans. Investment guarantees follow the investment lending policies, while Policy-Based Guarantees follow the guidelines for PBLs. Financial terms applied to guarantees mirror that of investment loans (in the case of guarantees to investment projects) and PBLs (in the case of policy-based guarantees). Crucially, for the purposes of provisioning, guarantees consume the same capital as a similar loan.

### **Benchmarking**

Guarantee instruments tend to be similar across all MDBs. In all MDBs, bank-type guarantees<sup>90</sup> seek to provide the minimum coverage needed to achieve mobilization. They all make their guarantee products equivalent and consistent to their loans in terms of eligibility, safeguards, and environmental policies.

There are, however, some differences in operational details (for a detailed comparison, see Appendix 9. For instance, the IDB’s SG guarantees offer less coverage and stricter weighted average life (WAL) requirements than the WB’s and the ADB’s SG guarantees. Both WB and ADB

---

<sup>87</sup> For a complete assessment of the use and potential of guarantees in MDB financing, see Humphreys and Prizzon (2014). Even though the report is almost a decade old, the challenges the authors mentioned for increased MDB financing in the form of guarantees remain relevant.

<sup>88</sup> See *Opening Remarks of Lord Keynes at the First Meeting of the Second Commission on the Bank for Reconstruction and Development* in “Proceeding and Documents of the United Nations Monetary and Financial Conference,” Bretton Woods, New Hampshire, July 1–22, 1944, Vol. I, p. 85.

<sup>89</sup> For simplicity, the phrase “SG guarantees” is used to refer to a guarantee made to a sovereign that, in turn, gives its counter-guarantee.

<sup>90</sup> For bank-type guarantees, there is an agreement by the guarantor and a government to cover their debts or obligations. Prices are determined by the underlying risk, which is typically the credit risk associated with the obligor. In insurance-type guarantees, there is typically a direct agreement between the claim beneficiary and the insurer to cover potential losses. Their pricing is based on the underlying risk of a loss event or the probability of loss.

allow for longer maturities, which could be critical to boost the use of the instrument and match the maturity of the underlying asset. The IDB is also less flexible than the WB in terms of coverage. Finally, other MDBs are more flexible to accommodate debt acceleration.

Despite these minor differences, all MDBs face similar limited demand for SG guarantees.<sup>91</sup> Because the treatment of guarantees in terms of capital provisions is like that of loans, SG guarantees tend to be priced similarly to loans in all MDBs (see Humphrey and Prizzon 2014; OVE 2022). This, in addition to the fact that the instrument is both difficult to understand and costly to prepare (due diligence) has resulted in very limited uptake.

Most MDBs seem to be working in generating internal and external incentives to encourage the use of guarantees (for a detailed comparison, see Appendix 10). To make SG guarantees more successful, some MDBs are working with having dedicated “envelopes” set aside to support guarantee operations. This allows borrowing countries to increase the overall financial envelope they can access from the MDB if they choose to use the SG guarantee instrument. Similarly, the existence of small, specialized teams to originate SG guarantees seems to be the strategy MDBs are taken to address the challenges to understand and prepare new SG guarantees.

Finally, a permanent challenge of the SG guarantee instrument has been to properly document the mobilized resources. Given that increasing resource mobilization is the main motivation for having SG guarantees, better documentation and tracking of mobilized private resources will probably be needed going forward.

## **X. CONCLUSION**

MDBs have the objective of promoting sustainable development, which they implement through a combination of financing (lending, guarantees) and non-financing instruments (technical assistance). Since their creation after World War II, MDBs have developed a series of financing instruments, mostly lending instruments. Originally developed from the traditional Investment Loan, where a loan is provided to finance the implementation of a specific infrastructure project, over time financing instruments have evolved according to the changing needs of borrowing countries.

This Technical Note reviewed the existing offering of financing instrument across MDBs. The scope was all the available MDBs that finance investment interventions, although the coverage is uneven, given the disparate availability of information. The Note focuses exclusively on the instruments offered from the SG window of the MDBs.

One important conclusion from the review is that financing instruments can be roughly grouped into seven categories: traditional investment lending, programmatic approaches, policy-based lending, emergency lending, disaster risk management instruments, results-based lending, and guarantees. These seven categories seem to cover the needs of borrowing member countries. Although all seven categories are present in all MDBs, the way they are internally arranged varies significantly. For instance, emergency and reform instruments are grouped together in the WB,

---

<sup>91</sup> The IDB has issued ten guarantees since the instrument was created, half of them since 2020. Demand has also been limited for the ADB and AfDB. During the first ten years after the adoption of its guarantee policy in 1988, the ADB issued ten Partial Credit Guarantees. From 2000 to 2006, it issued another nine Political Risk Guarantees. The AfDB introduced African Development Fund (ADF) Political Risk Guarantees in 2011 and operational guidelines for ADF Partial Credit Guarantees in December 2013. It has since issued five guarantees, including two in 2019, for a total of six guarantees. The WB seems to have been more successful, having issued 81 guarantees through mid-2022, including four in Latin America and the Caribbean (two in Argentina, one in Colombia, and one in Peru).

and results-based instruments are within the investment category at the IDB. These differences make it difficult to compare the use of instruments across MDBs.

A second conclusion is that, broadly speaking, the instruments of all MDBs are remarkably similar. Some categories (PBL, emergency lending) are virtually identical, while the biggest differences are in the investment lending category. Moreover, the introduction of instruments tends to be highly correlated. For instance, all economic emergency lending instruments were introduced in 1998 in the aftermath of the Asian Crisis.

The third conclusion is that the existing offering of instruments is characterized by a high level of inertia. MDBs instruments are dominated by the traditional Investment Loan, created in the 1940s. At the time the MDBs were founded, the concept of development was still in its infancy. Development banks had the role of financing infrastructure projects with the purpose of increasing productivity and growth. For that, they developed a lending instrument, the specific investment project loan, which tailored the intervention to large, isolated investment projects for which a specific set of rules were developed. These rules effectively ringfenced the project (such as expenditure eligibility and fiduciary processes) from the environment in which it was being implemented, providing safeguards to the MDBs.

Although MDBs now faced a completely different environment in which many of the challenges and constraints of the 1940s are no longer relevant, their lending toolkit continues to be dominated by variations of the investment lending instrument. The scope of projects financed by MDBs was successively broadened, first in the 1970s to financing programs in social sectors, then in the 1980s to finance modernizing reforms, and so on. In parallel, countries have significantly strengthened their fiduciary and safeguard systems. In that context, most of the features of the traditional Investment Loan, which earlier was seen as a source of value added, are now simply seen as an additional transaction cost.

Looking forward, MDBs have the opportunity of rethinking their instrument toolkit and, particularly, their investment lending category. A simplified investment lending category could be guided by a policy that provides general and strategic guidance, yet promotes the use of sound financial, procurement, and environmental and social (E&S) policies. Such a flexible policy could accommodate the future needs that might emerge in investment financing. In any case, efforts to modernize the investment lending category should keep in mind that attempting to “ringfence” the use of funds to finance specific expenses is a fool’s errand given the reality that money is fungible. Instead, investment lending policies should aim to strengthen national systems and increase the focus on results. In that vein, the effort and resources that MDBs devote to supervise operations, which now is focused on outputs and expense eligibility, could be more effective if used to ensure that the project development results are attained.

Some instruments will continue to have strong demand and high potential to promote results. PBLs have enjoyed significant demand and are likely to remain a popular instrument. MDBs will likely have to strengthen their internal processes to ensure that PBLs continue to promote reforms and the division between the macroeconomic emergency loans and PBLs remains clear.

Another instrument with great potential is RBLs, as they rightly place the stress on attaining development results. Designing RBLs with a clear theory of change and solid outcome indicators will ensure the future success of this instrument.

It is also likely that MDBs will further transition into financing more long-term programs, which means that programmatic instruments and RBLs are likely to become even more important. For

that reason, the demand for programmatic interventions (in both investment lending and policy-based lending) will likely increase. The same is true regarding policy-based lending, which is naturally better suited to financing longer-term programs.

## XI. APPENDIXES

### Appendix 1. Concessional Assistance

As originally conceptualized, Concessional Investment Loans were supposed to target specific Investment Loans in areas where unsubsidized lending would not work. This was the case, for instance, of sectors that provided important social benefits in the long term but did not generate short-term profits. To prepare these special loans, it was originally envisioned that MDBs would develop their own specific structure and procedures to prepare, appraise, implement, and evaluate these Concessional Investment Loans.<sup>93</sup>

In practice, from early on, Concessional Investment Loans became indistinguishable from ordinary Investment Loans. The types of interventions (sectors, etc.) supported with Concessional and non-Concessional Loans were similar. Moreover, the separate structure to prepare and implement these loans was never created. In practice, the staff and procedures for preparing, appraising, and implementing Concessional Loans were similar.

Concessional Loans did have a key difference: their price. At the Inter-American Development Bank (IDB), a loan from the Fund for Special Operations (FSO) loan had a level of concessionality (a grant component) of about 80 percent to 90 percent of the total loan, compared to 10 percent to 15 percent for a normal Ordinary Capital (OC) loan.<sup>94</sup> The conditions were similar in all other concessional funds. In a context where Concessional Loans were indistinguishable from other loans except for the price, it comes as no surprise that concessional resources had an ever-increasing demand. At the IDB, the lack of a predefined schedule for FSO replenishments—unlike the arrangements at the Asian Development Fund (ADF) or International Development Association (IDA)—led to a rapid depletion.<sup>95</sup>

The excess demand for Concessional Loans meant that concessional funds were increasingly rationed to the poorest countries. By the 1970s, the initial notion that concessionality could be allocated on a project basis had all but disappeared. Concessionality was discussed at a country level (rather than a project level). It is around this time that most MDBs developed a country classification system that regulated access to concessional funds. Eligibility for concessional resources was reduced from all borrowing countries in 1959 to just the 5 poorest countries in

---

<sup>93</sup> The Charter of the IDB established that there would be a Vice-Presidency exclusively focused on the concessional fund. Similarly, the World Bank's International Development Association (IDA), was created with a separate structure, although it established that "to the extent possible" staff should serve both the World Bank's International Bank for Reconstruction and Development (IBRD) and IDA. Similar provisions are contained in the Charters for the Asian Development Bank (ADB) and the African Development Bank (AfDB) regarding their respective concessional funds, the Asian Development Fund (ADF) and the African Development Fund (AfDF).

<sup>94</sup> The "concessionality" of a loan is measured by the grant component according to the methodology of the International Monetary Fund (IMF). FSO loans were highly concessional because of the combination of extremely low interest rate, a single "bullet" repayment at the end of the maturity period, and the possibility of repaying the loan in local currency even if the funds were disbursed in US dollars. See for instance, IDA, Grant Element Calculation, <https://ida.worldbank.org/en/financing/debt/grant-element-calculations>.

<sup>95</sup> The Fund for Special Operations (FSO) was the only one that did not have a predetermined schedule for replenishments every three or four years. Instead, discussions at the FSO were typically tied to the less frequent discussions on a capital increase. As a result, since its creation, there have been only three replenishments. The situation was slightly different for IDA, the ADF, and the AfDF because they all received periodic replenishments. IDA has been replenished 20 times in 62 years of existence, ADF has had 13 replenishments in 48 years of existence, and AfDF has had 15 replenishments in its 50 years.

1989.<sup>96</sup> A similar process occurred at the ADB and IDA.<sup>97</sup> Multilateral development banks (MDBs) developed “graduation policies” that defined, from time to time, the eligibility criteria to the concessional funds.<sup>98</sup>

With the debt relief discussions of late 1990s and early 2000s, MDBs incorporated the concept of debt sustainability into the allocation decisions for concessional resources. The idea was to avoid the heavily indebted poor countries (HIPC) that benefited from the debt relief again becoming overindebted. For that reason, MDBs, led by the International Monetary Fund (IMF) and the World Bank (WB), started monitoring the debt sustainability of borrowing countries. The IMF also placed restrictions on the level of concessionality new loans to borrowers under the Heavily Indebted Poor Country Initiative (HIPC) could have. For that purpose, MDBs started to “blend” highly concessional resources with non-concessional resources based on the countries’ ability to borrow on non-concessional terms. To date, concessional windows have eligibility criteria constructed around (1) the absence of creditworthiness and (2) the concept of absolute poverty.

Table A1.1 presents information about the latest availability of concessional resources, including grant funds at the WB, Asian Development Bank (ADB), African Development Bank (AfDB), and IDB. From this table, a couple of conclusions emerge.

First, most of the concessional funds are devoted to country-specific allocations. These country-specific allocations provide most MDBs with an effective mechanism for price differentiation. The reason is that by mixing concessional and non-concessional resources (mostly through blending) in different proportions, most MDBs are able provide a differential price by group of countries even if they do not have price differentiation in their OC funds. For instance, at the ADB, there are four groups that can access the concessional funds on the following terms: (1) 100 percent grant (11 countries); (2) 50 percent grant (3 countries); (3) Concessional OC Loans (5 countries); (4) blend loans (7 countries). At the AfDB, there are three different prices for their loans, which are determined based on country creditworthiness and income level.<sup>99</sup> The level of price differentiation is somewhat more limited at the IDB, which has only 5 countries that can borrow from the concessional fund. Finally, the WB group has probably the most complete scheme of price differentiation, with different prices both for their OC loans (International Bank for Reconstruction and Development, IBRD) and IDA loans.

---

<sup>96</sup> At the IDB, concessional funds had been available to all members since the 1960s. By 1974, a four-point classification had been created, and Concessional Loan eligibility had been reduced to 19 of the 26 member countries (the C and D countries). It was further reduced in 1989 to the 5 poorest countries in 1989 (the D2 group). See OVE (2018b).

<sup>97</sup> At the ADB, the first country classification was created in 1977. It divided the countries in three groups (A, B, and C), according to per capita income and debt repayment capacity. The classification defined the access to the concessional fund. This three-tier classification allows for a differentiation among groups in regard to ADF eligibility. Group A developing member countries (DMCs) are “fully eligible.” Group B DMCs are eligible for “limited amounts in particular circumstances.” Group C DMCs are ineligible for ADF resources. See [A Graduation Policy for the Bank’s DMC](#), 1998, and Manual [OM Section A1](#). IDA’s country classifications date back to the 1970s, and they were initially based on absolute poverty.

<sup>98</sup> The ADB developed a graduation policy in 1998 (reviewed in 2008). IDA updated its graduation policy in 1999. The AfDB did the same in 2011.

<sup>99</sup> Countries with low creditworthiness borrow exclusively from the concessional funds. The poorer countries in that group access “regular” loans, which have a 61 percent concessionality or grant element. The better-off countries in that group access the “advance” loans, which have 51 percent concessionality. Finally, the group of creditworthy but still relatively poor countries can access the “blend” loans, which blend funds from the AfDB and AfDF, resulting in a 35 percent concessionality. The terms are the following for regular, advanced, and blend countries. Maturity: 40, 40, 30 years. Grace period: 10 years, 5 years, 5 years. Interest rate: 0 percent, 0 percent, 1 percent. Service charge: 0.75 percent. Commitment fee: 0.5 percent.

Second, the concessional resource window allows MDBs to promote specific corporate agendas. As it can be seen in the table, concessional funds support certain types of priorities (such as regional integration, climate change, gender, and diversity) and fund the provision of technical assistance, particularly to support institutional capacity, project preparation, and project supervision. Concessional resources seem to be the high-powered funds that allow MDBs to promote specific development objectives.

**Table A1.1. Concessional Funds by MDBs, Three-Year Period<sup>a</sup>**

	WB (IDA-19)	ADB (ADF-13)	AfDB (AfDF-14)	IDB
<b>Concessional lending and Technical Cooperation</b>		Technical Assistance Special Fund 7		
<b>Country allocations<sup>b</sup></b>	\$37.7 billion	\$1,054 million	\$3,462 million <sup>c</sup>	\$1,348 million <sup>d</sup>
<b>Country allocations for fragile states<sup>e</sup></b>	\$13.7 billion	\$413 million	\$900 million	
<b>Specific allocations for individual countries<sup>b</sup></b>	\$1 billion	\$516 million		
<b>Number of eligible countries</b>	74	25	36	3
<b>Thematic agendas</b>				
<b>Regional projects</b>	\$7.6 billion	\$268 million	\$1,266 million	
<b>Climate change</b>		\$268 million		
<b>Gender</b>		\$135 million		
<b>Host communities and refugee support</b>	\$2.2 billion			
<b>Private sector window<sup>f</sup></b>	\$2.5 billion	\$64 million	\$285 million	
<b>Capacity building in fragile countries<sup>g</sup></b>			\$86 million	
<b>Emergency</b>				
<b>Crisis response</b>	\$2.5 billion	\$256 million <sup>h</sup>		
<b>Debt relief/Arrears</b>	\$1 billion	\$224 million	\$28 million	
<b>Dedicated envelopes (non-concessional)<sup>d</sup></b>				
<b>Scale-up and transition countries</b>	\$9 billion			
<b>Regional</b>				
<b>Funded directly from Ordinary Capital</b>				
<b>Grants from Ordinary Capital income</b>		\$382 million <sup>i</sup>	\$135 million <sup>j</sup>	\$300 million

Note: ADB = Asian Development Bank; AfDB = African Development Bank; AfDF = African Development Fund; IDA = International Development Association; IDB = Inter-American Development Bank; WB = World Bank.

a. Corresponds to the last replenishment of each Bank's concessional fund (IDA-19, ADF-13, and AfDF-14), which have a three-year period duration, except by the ADB (four-year period). For the IDB, the figures have been projected to three-year periods.

b. All MDBs use a performance-based allocation to country envelopes. In addition, the WB and the ADB have specific allocations for Syria and Afghanistan, respectively.

c. In the AfDB, most allocations are tied to the performance-based allocation (PBA). For instance, the regional envelope leverages each dollar of the country allocation. This is increased to 1.5 dollars if a country eligible for the fragile/conflict window. As a result, 90 percent of the AfDB is either directly or indirectly link to the PBA.

d. Based on the annual allocation for 2020–2021 (GN-2442-78, table 7). These are specific envelopes lent on a non-concessional basis but still reserved for specific countries or topics.

e. The World Bank has specific allocations to top up the allocations of fragile and conflict states (FCV). The ADB has specific allocations for Small Island States (SIDS). In the AfDF, this corresponds to Pillar 1 of the Transition Support Facility.

f. Under the Framework for IFAD Non-Sovereign Private Sector Operations, the International Fund for Agricultural Development (IFAD) established a Private Sector Trust Fund in 2022 to seek and accept contributions and funding from non-member states and other non-state actors. An Agri-Business Capital (ABC) Fund was also established to invest in small-scale companies and in small and medium



enterprises (SMEs), young entrepreneurs, women entrepreneurs, and financial institutions, so as to catalyze impact capital for agri-SMEs and small-scale producers.

g. This corresponds to Pillar 3 of the Transition Support Facility (TSF).

h. Includes eligibility for refugee crises.

i. Corresponds to allocations from the Ordinary Capital (ORC) to Special Funds in the last three years (Asia Pacific Disaster Response Fund; Climate Change Fund; Financial Sector Development Partnership Special Fund; Regional Cooperation and Integration Fund). See ADB 2020 Annual Report, p. 9.

j. Corresponds to the income transferred by Governors in 2019 and 2020 to any development fund except the African Development Fund. This is equivalent to 63 million UA (\$90 million) for Post Conflict Assistance–Democratic Republic of Congo, Special Relief Fund, MIC Middle-Income Country Technical Assistance Fund, and the New Partnership for Africa’s Development (NEPAD). UA is the official currency for the AfDB projects. 1 UA=1 SDR (International Monetary Fund Special Drawing Rights).

Compared to the other MDBs, the IDB stands out in at least two dimensions. First, the IDB stands out as the MDB with the lowest overall level of concessionality. Total equivalent grants reach 16 dollars per 1000 dollars of loans made, well below the 43 dollars made by the ADB, 93 dollars made by the World Bank, and 130 dollars made by the AfDB.<sup>100</sup> The IDB’s low level of concessionality is mostly explained by the fact that the Bank has limited donor trust funds and it has a very limited concessional window.

Second, unlike the WB and the ADB, the IDB does not have a graduation policy for its regular lending. At the ADB, graduation policies extend not only to concessional but, with different thresholds and conditions, to regular OC lending.<sup>101</sup> The IBRD also has a graduation rule that is based on income per capita but takes into consideration market access on reasonable terms and progress in establishing key institutions for economic and social development too. In practice, the IBRD graduation rule is soft. Graduation poses the issue of defining how graduated country will interact with the MDB in the future. The WB, for instance, has kept the access of graduated countries to certain loans.<sup>102</sup>

---

<sup>100</sup> Equivalent grants were calculated using the methodology in Clemens and Kremer (2016). They represent a calculation of the theoretical transfer of resources from the MDB to the country. The calculation takes into consideration three elements: (1) the opportunity cost of the capital contributed in cash (paid-in capital); (2) the value of the implicit guarantee (callable capital) in case of a default; and (3) the direct contributions for grants or heavily subsidized loans through concessional windows and trust funds.

<sup>101</sup> To date, five members have graduated from the ADB (Brunei Darussalam; Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China).

<sup>102</sup> At the IBRD, graduating countries have access to emergency lending (Special Policy-Based Loan) and to Reimbursable Technical Cooperations. See Prizzon, Mustapha, and Rogerson (2016).

## Appendix 2. Comparison of Financial Intermediary (FI) Loans

Dimension	IDB (Global Credit Program, GCR)	ADB (FI loans)	WB (FI loans)
<b>Purpose</b>	<ul style="list-style-type: none"> <li>Increasing the supply of and access to credit for financing SMEs.</li> <li>Encouraging intermediary financial institutions to become effective vehicles for the mobilization and channeling of domestic and external savings toward investment.</li> <li>Strengthening the technical, economic, financial, administrative, and managerial aspects of financial intermediaries (FIs).</li> </ul>	<ul style="list-style-type: none"> <li>Furthering policy reforms in the financial and real sectors.</li> <li>Financing real sector investments.</li> <li>Strengthening the capacity, governance, and sustainability of financial intermediaries.</li> <li>Helping increase the outreach, efficiency, infrastructure, and stability of the financial system.</li> </ul>	<ul style="list-style-type: none"> <li>Supporting reform programs in the financial sector or real sectors.</li> <li>Financing real sector investment needs.</li> <li>Promoting private sector development.</li> <li>Helping to stabilize, broaden, and increase the efficiency of financial markets and their allocation of resources and services.</li> <li>Promoting the development of the participating FIs.</li> <li>Supporting the country's poverty reduction objectives.</li> </ul>
<b>Use of funds</b>	<p>Governed by a "set of rules" agreed upon by the Bank and the borrower.</p> <p>These rules define the conditions for project implementation, and other aspects such as the eligibility criteria of the beneficiaries, the terms and conditions of the sub-loans (interest rate, grace period, amortization), sectors, or projects that can be financed by the credits, and other parameters and/or restrictions that govern the use of the resources of the loan, as well as the local contribution.</p>	<p>Financial Intermediary Loans (FILs) can finance subprojects for the production of and trade in goods and services and the development of housing and infrastructure.</p> <p>Subprojects are usually undertaken by the private sector, although public sector subprojects can be considered depending on the sector and country situation.</p> <p>Subprojects must meet criteria stipulated and defined by the ADB, including financial and economic viability and positive developmental impact.</p>	<p>FI loans are used to finance investments in subprojects for increased production of goods and services.</p> <p>The subprojects meet eligibility and development criteria agreed with the Bank.</p> <p>These criteria ensure that subprojects are financially viable and technically, commercially, managerially, and environmentally sound.</p>
<b>Eligibility criteria</b>	<p>In considering an application for a GCR, the Bank scrutinizes all aspects common to the several modes of lending operations. It also assesses the applicant agency's ability to act as an intermediary.</p>	<ul style="list-style-type: none"> <li>Financial soundness as evidenced by adequate capital, asset quality, liquidity, and profitability.</li> <li>Adequate credit and risk management policies, operating systems, and procedures.</li> <li>Compliance with prudential regulations, including exposure limits.</li> <li>Acceptable corporate and financial governance and management practices including transparent financial disclosure policies and practices.</li> <li>Sound business objectives and strategy and/or plan.</li> </ul>	<ul style="list-style-type: none"> <li>Adequate profitability, capital, and portfolio quality, as confirmed by financial statements prepared and audited in accordance with accounting and auditing principles acceptable to the Bank.</li> <li>Acceptable levels of loan collections.</li> <li>Appropriate capacity, including staffing, for carrying out subproject appraisal (including environmental assessment) and for supervising subproject implementation.</li> <li>Capacity to mobilize domestic resources.</li> <li>Adequate managerial autonomy and commercially oriented governance</li> </ul>

Dimension	IDB (Global Credit Program, GCR)	ADB (FI loans)	WB (FI loans)
		<ul style="list-style-type: none"> <li>• Autonomy in lending and pricing decisions.</li> <li>• Adequate policies, systems, and procedures to assess and monitor the economic, social, and environmental impact of subprojects in accordance with parameters established by the ADB for this purpose.</li> </ul>	<p>(particularly relevant when state-owned or state-controlled FIs are involved).</p> <ul style="list-style-type: none"> <li>• Appropriate prudential policies, administrative structure, and business procedures.</li> </ul>
<b>Subsidy policy/Directed credit</b>	<p>There is a benchmark of positive interest rates over time.</p> <p>During the interim period in which it may be necessary to depart from interest rates that would cover the cost of financing and administrative expenses, the authorities in the borrowing countries should make a commitment to transfer sufficient government resources to the financial intermediaries to prevent their decapitalization (OP-709, 1983).</p>	<p>Relending rates from the borrower of the ADB FIL to the FI should have local cost anchors, which best reflect the costs of raising such funds locally and avoid discouraging domestic resource mobilization.</p> <p>The ADB, for a certain period, may accept relending rates that are below market rates, but not below the ADB's Ordinary Capital Resources lending rates in the case of a foreign-currency-denominated loan or the equivalent rate in the case of a Local Currency Loan, which should reflect an adequate foreign exchange risk premium.</p>	<p>Bank funds are priced to be competitive with what the participating FIs and their sub-borrowers would pay in the market for similar money, considering, as relevant, maturities, risks, and scarcity of capital.</p> <p>The Bank supports programs involving subsidies only if they (1) are transparent, targeted, and capped; (2) are funded explicitly through the government budget or other sources subject to effective control and regular review; (3) are fiscally sustainable; (4) do not give an unfair advantage to some FIs vis-à-vis other qualified and directly competing institutions; and (5) are economically justified, or can be shown to be the least-cost way of achieving poverty reduction objectives.</p>
<b>ESG policy</b>	Applies FI category.	Applies FI category.	Applies FI category.
<b>Procurement policy</b>	Does not apply to subprojects.	The ADB does not insist on international competitive bidding procedures for procurement under FIL-financed subprojects, but encourages such use where (1) the amount of a subproject investment is unusually large, and (2) the procedures foster economy and efficiency.	Does not apply to subprojects.
<b>Disbursement period</b>	Typically, all the resources of the program should be committed within three years and disbursed with four years.	Not specified.	Not specified.
<b>Applicable regulations</b>	Regulations PR-203, GN-750-1, GP-30-1, OP-309, OP-709.	OM Section D6/BP.	Bank Policy for Investment Project Financing (para. 15); Bank Directive for Investment Project Financing (para. 59).

Note: ADB = Asian Development Bank; ESG = environmental, social, and governance; FI = financial intermediary; FIL = Financial Intermediary Loan; GCR = Global Credit Program; IDB = Inter-American Development Bank; SMEs = small and medium enterprises; WB = World Bank.

### Appendix 3. Comparison of Pre-Investment Instruments

Dimension	IDB	ADB	WB	AfDB
<b>Instruments</b>	Reimbursable Technical Cooperations (RTCs) and PROPEF	PRF and SEFF	Project Advances (PA) (before PPF)	PPF
<b>Scope</b>	<p>PROPEF finances project preparation, execution capacity, limited start-up activities, institutional strengthening to ensure sustainability, and ex post project evaluations.</p> <p>RTCs finance transfer of knowledge to the region, including pre-investment activities.</p>	<p>PRF is specific for pre-investment activities that finance consulting services for project preparation, including detailed engineering designs, capacity development, pilot-testing, and limited start-up activities.</p> <p>SEFF finances certain low-risk project preparation, implementation, post-completion activities (such as consulting services, as well as non-consulting services, works, and goods)</p>	PA finances preparatory and limited initial implementation activities for WB projects, as well as institutional capacity activities.	Exclusively centered in project preparation activities (feasibility studies; detailed design; environmental impact assessments; sector studies; pre-contract services including revision of tender documents).
<b>Funding</b>	Non-concessional only	Concessional and non-concessional	Concessional and non-concessional	Concessional (only for ADF-eligible countries)
<b>Relationship with the pipeline</b>	PROPEF may only support an operation already in the pipeline (PR-805, GN-2351).	PRF and SEFF for pre-investment support must be connected to investments that are expected to be financed by one or more ensuing ADB-financed projects.	There must be a strong probability that the operation for which the PPF is made will materialize, but granting a PPF does not obligate the Bank to support the operation for which it is made.	PPF is directed to projects with “very high probability” of entering the AfDB’s pipeline.
<b>Basic operation</b>	PROPEF is revolving facility. Each country has a pre-approved maximum amount. Individual contracts per operation.	<p>PRF is a Technical Assistance (TA) loan.</p> <p>SEFF is a revolving line (with 5 years for processing new commitments).</p>	A revolving line at the WB level. Each operation is an individual contract.	
<b>Country and operation caps</b>	No limit for each individual country facility approved. Each	PRF: No cap.	As of January 2017, the Board has provided World Bank Management with the approval	The AfDB PPF is entirely funded from the ADF allocation on concessional basis. Only

Dimension	IDB	ADB	WB	AfDB
	<p>country is guaranteed a minimum facility of \$5 million.</p> <p>Operations have a \$5 million ceiling.</p> <p>Project preparation components have a \$1.5 million ceiling.</p> <p>Ex post institutional strengthening and evaluation have a combined ceiling of \$0.5 million.</p>	<p>SEFF has country ceilings<sup>a</sup> and activity sub-loans under the facility can be up to \$15 million.</p>	<p>authority over a notional allocation of \$750 million that is managed as a revolving fund.</p> <p>Each PPF project is limited to \$6 million for the general case, and \$10 million per project in the special cases (such as emergencies, low institutional capacity).<sup>b</sup></p> <p>The Board from time to time determines, the ceiling on the commitment authority and the maximum amount of individual projects.</p>	<p>ADF-eligible countries can access it, and they do so on a first-come, first-served basis. There are no specific project limits.<sup>c</sup></p>
<b>Administrative procedures</b>	<p>RTC: The procedure is similar to preparing an Investment Loan.<sup>d</sup></p> <p>PROPEF: The procedure is similar to preparing an Investment Loan.<sup>e</sup></p>	<p>PRF: Small-scale PRF up to \$15 million follows a simplified business process.</p> <p>SEFF: The facility is approved first. Individual activities are appraised through simplified business processes.</p>	<p>Letter Agreement negotiated with purposes, terms, and conditions of the PPF advance. May be approved at any point before the approval of the loan at the Board.</p>	
<b>Delegation of approval</b>	<p>PROPEF: Approval of each individual operation is delegated to Management.<sup>f</sup></p> <p>RTC: No delegation. Approved by the Board.</p>	<p>PRF: Approval of operations under \$15 million is delegated.<sup>g</sup> Above this threshold, they are approved by the Board by non-objection.</p> <p>SEFF: Facility approved by the Board by-non objection. Individual activities are delegated to Management.</p>	<p>Approval and refinancing of PAs is delegated to Management.</p>	<p>PPF advances require, in principle, Board approval. Some delegation is possible.<sup>h</sup></p>
<b>Terms</b>	<p>Same as other Investment Loans.</p>	<p>PRF: Is exempted from the commitment fee.<sup>i</sup></p> <p>SEFF: 15-basis points front-end fee for the facility. Each sub-loan has a five-year tenor with bullet repayment, there is no commitment fee, and the</p>	<p>Same as other Investment Loans.</p>	<p>Service charge of 0.75 percent per year for amounts not repaid.</p>

Dimension	IDB	ADB	WB	AfDB
		interest rate has a discount for shorter maturity.		
<b>Repayment</b>	The IDB establishes that the PROPEF is repaid by the specific operation it supports or directly by the borrower. <sup>1</sup>  RTCs are repaid like a regular loan.	Refinanced with the proceeds of any loan. The borrower may also directly repay the loan.	Refinanced from the proceeds of any Bank loan. If a Bank loan does not materialize, the PA is repaid by the borrower.	
<b>Board reporting</b>	No reporting specified.	Small-scale PRFs are circulated to the Board for information.  Annual summary also submitted for both SEFF and PRFs.	Management informs the Board of approved PAs.	
<b>Reference</b>	GN-2351, OP-1906-1.	Manual OM Section D16 (Project Readiness Facility); OM Section D17 (Small Expenditure Financing Facility).	IPF Policy and Directive; World Bank, 2016, Project Preparation Facility: Increase in Commitment Authority and Enhanced Scope, Operations Policy and Country Services.	ADF–Project Preparation Facility, Operational Guidelines, Central Operations Department, 2000.

Note: ADB = Asian Development Bank; ADF = Asian Development Fund; AfDB = African Development Bank; IDB = Inter-American Development Bank; OC = Ordinary Capital; PA = Project Advance; PPF = Project Preparation Facility; PRF = Project Readiness Financing; PROPEF = Project Preparation and Execution Facility; RTC = Reimbursable Technical Cooperation; SEFF = Small Expenditure Financing Facility; TC = Technical Cooperation; WB = World Bank.

- a. A country can establish multiple facilities. These ceilings apply to the sum of all facilities in the country. For SEFF funded with (1) regular Ordinary Capital Resources (OCR), the size should not exceed 20 percent of the average annual commitments of regular OCR for the country in the past three years, or \$150 million, whichever value is smaller; (2) for concessional OCR or ADF, the size should not exceed 20 percent of the average annual concessional and the ADF performance-based allocation (PBA) for the country. To ensure a reasonable facility size in small countries with small resource allocations, a SEFF of up to \$10 million can be established in cases in which 20 percent of the annual average commitments of regular OCR resources, or 20 percent of the average annual PBA, is less than \$10 million.
- b. The limits are established by the Directive for Investment Project Financing (and not the policy).
- c. Given that the PPF does not appear in the ADF-4 replenishment paper, it is not clear whether this line continues to be funded.
- d. The stand-alone RTC operation will be processed following the standard “Procedures for Processing Sovereign Guaranteed Operations” (PR-200, Annex I). There were some minimal differences in terms of the review (such as default virtual review).
- e. In theory, there is a simplified procedure in the original guidelines from 2004 (GN-2351). In practice, they have followed standard internal processes.
- f. The exact rule for delegation within Management is included in Manual PR-216.
- g. Provided that the overall commitment under the facility does not exceed \$100 million per year. Operations exceeding \$15 million are approved by the Board by non-objection.
- h. It is proposed that the President approve PPF Advances below UA 250,000 (approximately \$342,000 as of September 2022) with immediate report to the Board and that the Board approves Advances above UA 250,000 up to UA 500,000 (\$684,000) on a 10-day lapse-of-time basis, with the document provided in English and French. UA is the official currency for the AfDB projects. 1 UA=1 SDR (International Monetary Fund Special Drawing Rights).
- i. For OC loans: 15-year amortization period, including a three-year grace period for regular OCR loans, with no commitment charge. For concessional OC and ADF loans, the general terms of the fund apply.
- j. For amounts less than \$100,000, repaid in semiannual installments over one year. For higher amounts, repaid in semiannual installments over five years.

## Appendix 4. Comparison of Multiphase Approaches across MDBs

Dimension	IDB	ADB	WB	AfDB
<b>Name</b>	CCLIP (Conditional Credit Line for Investment Projects)	MFF (Multitranches Financing Facility)	MPA (Multiphase Programmatic Approach)	MTF (Multi-Tranche Financing Facility)
<b>Scope</b>	<p>Allows financing a set of dependent (modular) or independent loans in the same sector.</p> <p>They may also include projects in different sectors that contribute to the same goal.</p>	<p>It can finance multiple projects under an investment program in a sector or in various sectors; large-scale, stand-alone projects with substantial and related individual components with a long-term implementation; and slices of long-term contract packages in large-scale, stand-alone projects or investment programs.</p>	<p>Allows financing a set dependent (modular) or independent loans in the same sector.</p> <p>They may also include projects in different sectors that contribute to the same goal.</p> <p>A Multiphase Programmatic Approach (MPA) Program can be a combination of both Investment Project Financing (IPF) and Program-for Results (PforR) financing. Individual phases can be financed by IPF (including project-based guarantees) or PforR financing.</p>	<p>Allows financing a set dependent (modular) or independent loans in the same sector.</p> <p>They may also include projects in different sectors but that contribute to the same goal</p>
<b>Relation with other instruments</b>	Allows combining all the available investment instruments (loan and guarantees), as well as the results-based instrument.	Allows combining all the available investment instruments.	MPAs may be composed of Investment Loans or the results-based instrument, but not a combination of the two.	Not clear.
<b>Due diligence for approval</b>	<p>The line should have a solid sector diagnosis. It should identify sectors and executing agencies.</p> <p>Each individual operation must: (1) include an analysis of the institutional capacity and the actions to be applied in the areas of improvement of the proposed executing agency or agencies; (2) verify that the performance of previous</p>	<p>In preparation, the following are needed: (1) the road map for the sector; (2) the policy framework; (3) the strategic context (how the MFF fits into the program); (4) the investment program (list of investment interventions needed and their sequencing); (5) the financing plan; and (6) undertakings (a monitorable set of commitments by clients).</p>	<p>Due diligence requirements for each loan are similar to those of Investment Loans (IPF) and Results-Based Loans (PforR).</p> <p>Specifically, for MPA programs, during preparation stage: (1) define the program's development objectives (DOs), rationale, and relationship with the country strategy; (2) estimate</p>	<p>Eligibility conditions include: (1) a strategic paper; (2) a detailed investment program; (3) commitments from the beneficiary country; and (4) a results framework for the whole program.</p>

Dimension	IDB	ADB	WB	AfDB
	phases was satisfactory; (3) provide an evidence-based readiness assessment to justify the development of a new operation.	Teams negotiate and sign a Framework Financing Agreement (FFA). This FFA contains the central elements of the financing proposal as well as the specific commitments of the borrower throughout its implementation (undertakings).	the number of operations in the program and their financing requirements; (3) identify known environmental and social (E&S) risks to the achievement of the DOs; and (4) for all operations other than the first in the MPA program, specify the lessons learned from previous operations.	
<b>Approval of the line</b>	Board of Executive Directors.	Board of Executive Directors.  The FFA and the client's request for the first tranche are attached.	Board of Executive Directors.	Board of Executive Directors.
<b>Approval of subsequent loans/tranches</b>	Board of Executive Directors through the Short Procedure.	Approval by the President (Management).  Projects with an environmental impact Category A classification in a subsequent tranche are submitted to the Board (for its decision as to whether to authorize the President to convert the tranche into loans, guarantees, or cofinancing administered by ADB).  For approving each tranche, Management considers the preconditions, achievement against the road map, investment program, policy considerations, and compliance with the undertakings under the FFA and loan covenants.	Management.  Board approval needed: (1) when a project under the MPA program has E&S risks classified as Category A or classified as High or Substantial Risk under the Environmental and Social Management Framework; (2) when a PforR program introduces a new disbursement-linked indicator(s); and (3) all phases (IPF or PforR) that provide financing to a new borrower that was not identified in the program design approved by the Board.	Board of Executive Directors through a streamlined procedure.
<b>Changes to the line</b>	Not specified.	Board approval is required if a change in MFF during its implementation includes (1) a substantial and material change in the strategic direction of the	In case of (1) a substantive change in the MPA program's DO or (2) the addition of (a) new borrower(s),	Not specified.



Dimension	IDB	ADB	WB	AfDB
		sector road map; (2) a change in the policy framework that negatively affects the viability or sustainability of the investment program; (3) a change in the sectors covered by the investment program; or (4) substantial and material change in the type of the investments contemplated under the investment program.	Management should seek Board Approval.	
<b>Duration</b>	The duration is not specified at the credit line level. However, when proposals are presented for approval, a timeframe for the line is required.	The Board approves a maximum amount for each MFF under specific terms and conditions and the date by which the last tranche under the MFF must be approved.  All tranches under an MFF are expected to be approved within 8 years from Board approval of the facility.	The MPA does not have a maximum date for the line. After 10 years of the approval of the first operation, it will have to produce an interim project completion report.	Not to exceed 10 years.
<b>Reporting and supervision</b>	There is no specific requirement to report at the portfolio level at the IDB, but this is largely explained by the fact that there are few differences in the treatment that first and later operations receive under the CCLIP.	A consolidated annual report is prepared for all approved MFFs and submitted to the Board.	The WB also has a commitment to report periodically to the Board. The WB informs the Board about progress through the approval implementation of the MPA and each tranche (such as appraisal documents and negotiation for each phase, a quarterly operational update, etc.). <sup>a</sup>	Not specified.
<b>Applicable regulation</b>	GN-2246-13.	OM Section D14.	IPF Policy and Directive and PforR Policy and Directive.	Draft Policy.

Note: ADB = Asian Development Bank; AfDB = African Development Bank; CCLIP = Conditional Credit Line for Investment Projects; DO = development objective; FFA = Framework Financing Agreement; IDB = Inter-American Development Bank; IMF = International Monetary Fund; IPF = Investment Project Financing; MDBs = multilateral development banks; MFF = Multitranches Financing Facility; MPA = Multiphase Programmatic Approach; MTF = Multi-Tranche Financing Facility; PforR = Program-for-Results Financing; WB = World Bank.  
a. World Bank, Multiphase Programmatic Approach, 2017, Para. 58.

## Appendix 5. Comparison of Policy-Based Lending across MDBs

Dimension	IDB	ADB <sup>a</sup>	WB	AfDB
<b>Purpose/use</b>	Support policy reforms and/or institutional changes in a particular sector or subsector.	Support policy reforms and development expenditure programs in a sector or between sectors, with sector-wide and economy-wide impacts, and at the subnational level as well.	Support a program of policy and institutional actions that promote growth and sustainable poverty reduction.	Support of policy and institutional reforms in country's national development plan or national poverty reduction strategy or a particular sector.
<b>Modalities</b>	<p>Programmatic (two or more single tranche PBLs) and multitranche.</p> <p>Policy-Based Guarantees available.</p> <p>DDO approach available (no Cat DDO).<sup>b</sup></p>	<p>Programmatic (one or more single tranche PBLs) and stand-alone (multitranche)</p> <p>Policy-Based Guarantees available.</p> <p>DDO approach (including Cat DDO).</p>	<p>Programmatic (one or more single tranche PBLs) and stand-alone (single tranche and multitranche).</p> <p>Policy-Based Guarantees available.</p> <p>DDO approach (including Cat DDO).</p>	Programmatic Tranching Self-standing.
<b>Use of funds</b>	Budget support.	Budget support; Sovereign Guarantee.	Budget support.	Budget support.
<b>Loan dimensioning</b>	Takes into consideration sector financing gaps, broad financing needs, expected financing from other MDBs, and debt sustainability.	Takes into consideration financing needs, available support from other development partners, borrowing capacity, and debt sustainability.	Takes into consideration the overall projected financing requirements, availability of alternative financing, debt sustainability, creditworthiness and IBRD exposure (for IBRD borrowers), or relative claim on available concessional resources (for IDA countries).	No indication of loan size at the project level. Expected Policy-Based Loan (PBL) approvals at the country level are determined at the country strategy level based on a number of criteria (financing requirements, policies applicable to the allocation of concessional resources, debt sustainability, recent PBL

Dimension	IDB	ADB <sup>a</sup>	WB	AfDB
				implementation performance, etc.).
<b>Eligibility criteria</b>	<p>Development policy letter.</p> <p>Sound macroeconomic framework, as determined by an Independent Assessment of Macroeconomic Conditions (IAMC).</p> <p>Requires an IAMC.</p> <p>All countries are eligible.</p>	<p>Strong government ownership of the reform program and commitment to reform.</p> <p>Implementation of substantive policy reforms with sector- or economy-wide impacts.</p> <p>Direction of macroeconomic policies deemed satisfactory.</p> <p>All countries are eligible.</p>	<p>Development policy letter.</p> <p>Adequate macroeconomic framework, as determined by the Bank with inputs from IMF assessments.</p> <p>Requires judging whether the macroeconomic framework is satisfactory before being able to implement a PBL.</p> <p>All countries are eligible.</p>	<p>Poverty reduction or national development plan with effective implementation mechanisms.</p> <p>Development policy letter.</p> <p>Macroeconomic stability.</p> <p>Political stability.</p> <p>All countries are eligible.</p>
<b>Donor coordination</b>	<p>Requirement to coordinate with other partners in design. IMF article IV and program measures are considered for the IAMC.</p>	<p>General requirement to consult (article IV or letter from the IMF) and closely coordinate with the IMF. Cat- DDO requires IMF comfort letter.</p>	<p>General coordination requirement.</p>	<p>For Ordinary Capital (OC) borrowers, an IMF program is not a formal requirement.</p> <p>Program or comfort letter requirement for determining eligibility for concessional and blend countries.</p> <p>In cases when an IMF program is not in place, management checks whether the IMF has any concern.</p>

Dimension	IDB	ADB <sup>a</sup>	WB	AfDB
<b>Delegation of approval</b>	All programmatic PBLs are approved by the Board of Executive Directors by standard procedures. <sup>c</sup>	Streamlined procedure (approval by non-objection) for PBLs that are below \$50 million. <sup>d</sup>	Approval delegation for certain PBLs to the Management according to their policy and directives.	Subsequent loans within a programmatic series are approved by the Board on a streamlined basis.
<b>Fiduciary requirements</b>	Requires fiduciary due diligence on the public financial management systems.  IDB also keeps the right to request an audit for any of the disbursements. <sup>e</sup>	Requires fiduciary due diligence on the public financial management systems and keeps the right to audit any accounts.	Requires fiduciary due diligence on the public financial management systems and keeps the right to audit any accounts.	Requires fiduciary due diligence on the public financial management systems and keeps the right to audit any accounts.
<b>Limits</b>	30% of aggregate Bank lending. (Increased to 40% for 2019–22).  Hard limits.  No country limits.	20% of total public sector lending on a three-year moving average basis in non-crisis years (does not apply to crisis response). Soft limit. In 2022, a pilot process was approved to increase PBL approvals to \$18 billion for the 2022–2024 period (expected to increase the ceiling to 30%).  22.5% of total concessional lending. For concessional lending, hard limit.  No country limits.	None (implicit tradition at 25% of total lending). Soft limit.  30% of the IDA allocation.  No country limits.	Fixed annually. Currently 15% limit for AfDB countries. 25% of aggregate ADF allocations.  Soft limits.  No country limits.
<b>Fiduciary assessments</b>	Public financial management (PFM) and procurement systems.	PFM, procurement, and corruption.  Audit only upon ADBs request.	Foreign exchange, PFM and procurement systems.	PFM and audit systems, supervision and monitoring mechanisms, financial reporting.

Dimension	IDB	ADB <sup>a</sup>	WB	AfDB
	Audit upon IDB request.			
<b>Reference</b>	Various Governors' resolutions and PBL guidelines (CS-3633-2)	OM Section D4 Strategic Management of Policy-Based Lending, 2022–2024, Manila.	DPF Policy.	PBO Policy (2012) and AfDB Group's COVID-19 rapid response facility (CRF), 2020.

Note:

ADB = Asian Development Bank; ADF = Asian Development Fund; AfDB = African Development Bank; Cat DDO = Catastrophe Deferred Drawdown Option; DDO = Deferred Drawdown Option; DPF = Development Policy Financing; IAMC = Independent Assessment of Macroeconomic Conditions; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IDB = Inter-American Development Bank; IAMC = Independent Assessment of Macroeconomic Conditions; IMF = International Monetary Fund; MDBs = multilateral development banks; OC = Ordinary Capital; PBL = Policy-Based Loan; PFM = public financial management; WB = World Bank.

a. The ADB is currently piloting some changes to its policy for the 2022–2024 period. These include a change in the ceiling for PBLs as well as some changes in their processes and documentation. The changes of the pilot are indicated in the text when applicable. See ADB (2022b).

b. The DDO allows countries to disburse the loan within a period (usually three years) from the time of approval and subject to the fulfillment of the policy actions included in the policy matrix. The Cat DDO modality allows the disbursement to be conditional on the occurrence of a natural disaster.

c. See SEC, Board Approval Procedures of Bank Instruments.

d. The Board will consider PBL proposals that meet the following criteria on a no-objection basis: (1) the loan amount does not exceed \$50 million; and (2) the operation does not (a) require any major exception to an ADB policy, as determined by Management; (b) have the potential for significant adverse environmental, economic, and/or social impacts, particularly on vulnerable groups that may be unable to absorb such impacts; (c) involve the use of a novel financing arrangement; and (d) involve significant financial assistance relative to the size of the developing member country (DMC) concerned, as determined by Management.

e. PBLs were originally disbursed against a list of eligible imports. This condition was later waived. However, the Bank kept the right to audit the disbursements (GN-2001-1, 1998, par.5).

## Appendix 6. Comparison of Emergency Instrument across MDBs

Dimension	IDB	ADB	WB	AfDB
<b>Instrument</b>	Special Development Lending (SDL).	Special PBL (SPBL) and Countercyclical Support Facility (CSF).	Special Development Policy Financing (DPF).	Crisis Response Budget Support (CRBS) and Import Support (IS).
<b>Purpose</b>	The SDL is a budget support lending instrument aimed at contributing to address the effects of a macroeconomic crisis on a country's economic and social progress.	<p>The SPBL is designed to address external and internal payments crises by providing large-scale support as part of an international rescue effort, led by the International Monetary Fund (IMF) and supported by other international financial institutions (IFIs), including the World Bank.</p> <p>The CSF provides budget support to developing member countries (DMCs) undertaking fiscal stimulus for growth, as well as to manage the adverse impact of the crisis on the poor and vulnerable following an exogenous shock in the form of countercyclical development expenditures.</p>	Support IBRD-eligible member countries that are approaching, or are in, a crisis with substantial structural and social dimensions, and that have urgent and extraordinary financing needs.	The CRBS is a fast-disbursing loan to mitigate the impacts of a crisis and to protect the poor and vulnerable. The crisis may be political, economic, or humanitarian. An IS loan provides balance-of-payments support and is used only in exceptional cases as part of a coordinated donor action led by the IMF.
<b>Dimensioning</b>	A maximum limit of \$500 million, or 2% of a country's GDP, whichever is less, is proposed per country and per event. In addition to this, it allows redirecting approved loans.	<p>For SPBLs, the justification for the ADB's loan amount should demonstrate an acceptable level of financial burden sharing across the IFIs relevant to the total rescue package being provided.</p> <p>For the CSF, a country limit per crisis event for all DMCs based on thresholds equal to 0.5% of the country's three-year rolling average nominal GDP, with a maximum amount of \$1.5 billion. Where concessional financing is used, ceilings for funding sources of up to a maximum amount of \$100 million in ADF grants and \$250 million in concessional Ordinary Capital Resources (OCR) lending (COL) are</p>	Subject to the availability and risk-bearing capacity of IBRD.	Subject to the availability and risk-bearing capacity of the AfDB.

Dimension	IDB	ADB	WB	AfDB
		applied. DMCs with an access limit of less than \$20 million to access up to \$20 million, subject to debt sustainability, for DMCs eligible for COL and regular OCR.		
<b>Eligibility</b>	All countries.	For SPBLs, OCR-eligible countries and graduated countries,  For the CSF, all DMCs and graduated countries.	IBRD countries.	AfDB countries.
<b>IMF program requirement</b>	A disbursing IMF program is required.	For SPBLs, an IMF program is required.  For the CSF, if the IMF is not directly involved in crisis response, the ADB will ensure that the country has had constructive consultations with the IMF, such as recently completed or ongoing Article IV consultations.	A disbursing IMF program is required.	For IS, as a part of an IMF-led program.  For the CRBS, no specific requirements.
<b>Pricing policy</b>	At a premium and shorter maturity.	For SPBLs: Determined by crisis situation, country-specific consideration, and the ADB's risk-bearing capacity.  For the CSF: For a regular OCR-funded facility, the interest rate is set at a spread of 75 basis points over the SOFR and a rebate/surcharge reflecting the cost of funds, with the CSF's aggregate financing managed with due consideration for the ADB's risk-bearing capacity.	Should reflect the special nature and high risk.	Not available
<b>Approval procedures</b>	Simplified approval procedure.	Fast-track business process.		The AfDB will streamline its processes to fast-track the preparation and disbursement on PBOs under CRBS operations.
<b>Reference</b>	AB-3134 (SDL Policy).	OM Section D4	DPF Policy.	PBO Policy (2012).

Dimension	IDB	ADB	WB	AfDB
		ADB. 2022. Enhancing Contingent Disaster Financing and the Countercyclical Support Facility. Manila.		

Note: ADB = Asian Development Bank; ADF = Asian Development Fund; AfDB = African Development Bank; COL = concessional OCR lending; CRBS = Crisis Response Budget Support; CSF = Countercyclical Support Facility; IBRD = International Bank for Reconstruction and Development; IDB = Inter-American Development Bank; IMF = International Monetary Fund; IS = Import Support; OCR = Ordinary Capital Resources; PBO = Program-Based Operations; SDL = Special Development Lending; SOFR = Secured Overnight Financing Rate; SPBL = Special Policy-Based Loan; WB = World Bank.



## Appendix 7. Comparison of Disaster Risk Management Instruments at MDBs

Dimension	IDB	ADB	WB
<b>Instrument</b>	IRF (Immediate Response Facility). CCF (Conditional Credit Line for Natural Disasters).	EAL (Emergency Assistance Loan)	Investment Project Financing
<b>Scope</b>	<p>Resources of the IRF are restricted to financing the costs of repairing property damage, which may be necessary to restore basic services to the population immediately after a disaster occurs. It excludes humanitarian aid, pandemics, and financial emergencies.</p> <p>The CCF does not defined a scope ex ante. It disburses against the declaration of emergency or the parametric trigger, depending on the modality. It may finance expenditures that are directly or indirectly related to the natural disaster or public health emergency; have verifiable documented and clearly registered acquisitions and payments; and have been adequately dimensioned and priced.</p>	<p>The EAL emphasizes the rapid approval of loans to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies. It is an instrument for emergency support approved in the aftermath of disasters triggered by natural hazards, health emergencies, food insecurity, technological and industrial accidents, and post-conflict situations. It aims to support efforts by developing member countries (DMCs) to build back better and enhance resilience to emergencies.</p> <p>The focus of the EAL is on immediate short-term requirements that can be completed within a fixed maximum implementation period. This includes early recovery activities, such as rehabilitating critical infrastructure and meeting basic needs, as identified by a post-disaster needs assessment.</p>	No specific restriction for the use of resources. The special case is activated in case of emergency.
<b>Procurement</b>	The IDB uses national emergency procurement rules for both the IRF and CCF. There is a list of eligible expenses.	Standard ADB procedures—including on procurement, financial management, and disbursement—apply to the EALs. The ADB procurement policies allow flexibility in the design and implementation of a project's procurement arrangements to expedite the procurement process in emergency situations.	The fiduciary requirements that are applicable during the project preparation stage may be deferred to the project implementation stage.
<b>Preparation</b>	Both the IRF and CCF follow standard preparation processes. However, the original IRF had a streamlined procedure described in document GN-2038-2 (1998) that has greatly simplified the approval process. Since then, the Bank has been reorganized and these operations have mostly lost their processing advantage.	The ADB has streamlined preparation, requiring rapid response to ensure timely delivery of assistance. EAL processing should be expedited and be commensurate with the emergency nature of the assistance.	The WB has streamlined the preparation process.
<b>Amount limits</b>	IRF loans are limited to \$20 million. The CCF has limits per modality. Under Modality	There is no maximum, although the policy notes that loans should be smaller than normal development	The WB has no specific limits.

Dimension	IDB	ADB	WB
	I (parametric trigger), countries can request up to \$300 million (or 2% of GDP). Under Modality II (non-parametric), countries can request up to \$100 million (or 1% of GDP).	loans, consistent with their focus on immediate short-term requirements (such as rehabilitating critical infrastructure and meeting basic needs as identified by means of a damage and needs assessment).	
<b>Implementation time</b>	The IRF does not have a specific implementation time.  The CCF has a limit of nine months after the disbursement to justify eligible expenses.	The EAL maximum implementation periods will be limited to four years from the approval of the loan or five years from loan approval for EALs supporting post-conflict emergencies. Extensions beyond the maximum period will generally not be considered.	
<b>Approval</b>	The IRF is approved by delegation of authority.  The CCF is approved like a standard Sovereign Guaranteed Loan.	The Board approves the loan, but the circulation period is reduced to one week.	The policy does not specify any approval procedure
<b>Safeguards</b>	The Environmental and Social Policy Framework (ESPF) does not apply to either the IRF or the CCF (GN-2965-23, para. 2.3, footnote 17).	In case the completion of the standard environmental and social impact assessment and mitigation documents is not possible before approval by the ADB's Board of Directors, relevant safeguards frameworks will be prepared, following the ADB's Safeguard Policy.  After Board approval, the standard environmental and social impact assessment and mitigation documents will be prepared based on the time frame stipulated in the safeguard frameworks.	The WB waives the application of safeguards in preparation. <sup>a</sup>
<b>Retroactive financing</b>	No formal cap. The customary cap for Investment Loans is up to 20%, although IRF projects often go to 100%.	Up to 30%	Up to 40%
<b>Financing terms</b>	Same as regular Investment Loans.	(1) Concessional Ordinary Capital Resources. Interest rate of 1% per year throughout the term of the loan and a maturity of 40 years, including a grace period of 10 years, with repayment of the principal at 2% per year for the first 10 years after the grace period and 4% per year thereafter.  (2) Regular Ordinary Capital Resources. The same loan terms (including commitment charges, maturity premiums, interest rates, and effective contractual	

Dimension	IDB	ADB	WB
		<p>spread) as are applicable to regular investment projects, provided that a grace period of up to 8 years and a maturity of up to 32 years may, at the request of the DMC, be applied (subject to the payment of applicable maturity premiums).</p> <p>Under an EAL, ADB financing may exceed the country's cost-sharing limit because of the exceptional circumstances.</p>	
<b>Source of funds</b>	Loans can include new funding or redirect funds from existing loans.	EALs may include new funding or surplus loan proceeds from projects for their use for emergency needs.	
<b>Reference</b>	CCF (GN-2999-9) and IRF (GN-2038-14 and GN-2038-16).	OM Section D19.	IPF policy

Note: ADB = Asian Development Bank; CCF = Conditional Credit Line for Natural Disasters; DMC = developing member country; EAL = Emergency Assistance Loan; IRF = Immediate Response Facility; IDB = Inter-American Development Bank; IPF = Investment Project Financing; MDBs = multilateral development banks; WB = World Bank.

a. A deferral of environmental and social requirements is not needed for projects prepared in accordance with the Environmental and Social Policy and the Environmental and Social Standards that came into effect on October 1, 2018.

## Appendix 8. Comparison of Results-Based Instruments

Dimension	IDB	ADB	WB	AfDB
<b>Name (year introduced)</b>	LBR (Loan Based on Results) (2016); PDL (Performance Driven Loan) (2003–10)	RBL (Results-Based Loan) (2013 pilot and 2019 mainstreamed)	PforR (Program-for-Results Financing) (2012)	RBL (Results-Based Loan) (2017)
<b>Lending category</b>	The instrument falls within the investment lending category. The LBR policy waives procurement rules from traditional Investment Loans.	Own lending category.	Own lending category.	Own lending category.
<b>Disbursements</b>	Disburses against Disbursement-Linked Indicators (DLIs) at the outcome levels only, <sup>a</sup> although it can disburse against outputs if they are related to institutional capacity.	Disburses against DLIs that include outcomes, outputs, processes, institutional indicators, or financing indicators.  They may also be actions or process results that are essential for program performance (fiduciary, ESG, M&E).	Disburses against DLIs that can be outcomes, outputs, intermediate outcomes, or outputs, process indicators, or financing indicators.	Disburse against DLIs that can be outputs, financing, processes, intermediate outcomes, etc.
<b>Costing</b>	During program preparation, the estimated expenditures needed to achieve the corresponding development results will be analyzed to determine the necessary amount of financing.	Based on the underlying government program (expenditure framework).  Emphasis on the expenditure and financing framework assessment to determine efficiency, effectiveness, adequacy, and sustainability of the government program.	Based on the underlying government program (expenditure framework).  Emphasis on the expenditure framework assessment to determine adequate financing, efficiency, and effectiveness of the government program.	Based on the underlying government program (expenditure framework).
<b>Ceiling</b>	No more than 25% of Bank resources for investment lending operations in a given programming year can finance individual LBRs.	If the share of RBL commitments approaches 10% of the combined total of the Ordinary Capital Resources and ADF resource allocation (on a three-year rolling average), Management needs to consult the Board on how best to address the future demand for RBL.	No limit. Initially 5% of aggregate (ordinary plus concessional) commitments. After 2015, the limit was raised to 15% of the three-year average of total IBRD and IDA commitments. In 2019, it was removed.	

Dimension	IDB	ADB	WB	AfDB
<b>Advance financing</b>	Up to 20%.	Up to 25%.	Up to 25%.	Up to 25%.
<b>Retroactive financing</b>	Up to 15%	Up to 20% for results achieved before effectiveness of the relevant financing agreement, but no earlier than 12 months before the signing of the agreement.	Up to 25% for DLIs met between the date of the concept review and the date of the legal agreement.	Up to 25%
<b>Prior financing ceiling</b>	Advance plus retroactive financing not to exceed 30%.	Advance plus retroactive financing not to exceed 30%.	Advance plus retroactive financing not to exceed 30%.	Advance plus retroactive financing not to exceed 30%.
<b>Applicable procurement system</b>	Countries' own procurement systems. Does not allow high-value contracts (exceeding 25% of total lending).	Countries' own procurement systems. Generally, excludes activities that involve high-value contracts (estimated value exceeds specified monetary amounts).	Countries' own procurement systems. Normally does not allow high-value contracts (exceeding 25% of total lending).	Countries' own procurement systems. Does not allow high-value contracts (exceeding 25% of total lending). Harmonized with the World Bank.
<b>Other fiduciary (audit)</b>	LBRs are subject to other investment lending category procurement rules, including ex ante detailed estimated costing of results and ex post financial audits of expenditures, which are not required at the other MDBs.  The IDB's guidelines specifically require executing agencies to maintain supporting documentation providing evidence of the expenditures incurred to achieve the results, and to include such documentation in the annual audits.	Audit borrowers' expenditures on an annual basis based on the overall RBL program expenditure framework.	Audit borrowers' expenditures on an annual basis, but do so at the government expenditure framework level, which is a broader level.	
<b>Verification of results</b>	The loan proposal will include a clear definition of how the results will be measured and who will be conducting the independent verification. These assessments can be	A verification protocol will define how each DLI will be measured, how the verification will be done, and who will be responsible for verifying the achievements. Typically, this	The team will review the DLI verification protocol, which needs to be credible.	The task team must ensure that each DLI has a credible, independent, verification protocol and set out how it will be measured; whether it is discrete (all or nothing) or

Dimension	IDB	ADB	WB	AfDB
	conducted either by individual experts or firms with recognized technical expertise and hired in accordance with terms of reference agreed by the borrower and the Bank before the first disbursement. Government entities that have the mandate of conducting independent verification of results are also eligible if defined and specified in the loan proposal.	will require independent verification. The ADB may conduct spot checks to ensure the soundness of the verification system.		scalable; how the verification will be done; and who will be responsible for verifying its achievement. The verification of DLIs should be independent of government influences. It can be carried out in various forms and by various parties (for example, independent government agencies, semiautonomous entities, statistical or audit entities, and third-party entities). The operational guidelines also provide a template for the verification protocol.
<b>ESG exclusions</b>	High-risk projects in terms of environmental and social safeguards (ESG impact Category A) are excluded. Impact Category A corresponds to operations that can potentially cause significant negative environmental or social impacts or have profound implications affecting natural resources.	No restriction at the project level. All activities are eligible under RBL programs unless they are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people.	No restriction at the project level. Activities that are judged to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people are not eligible for PforR financing and are excluded from the PforR program.	RBF Policy will not support components of government programs that are classified as Category 1 (operations with significant climate, environment, and social impact)
<b>Reference</b>	GN-2869-10.	OM section D18.	PforR Policy and Directive.	RBL Policy (2017) and Operational Guidelines.

Note: ADB = Asian Development Bank; AfDB = African Development Bank; DLI = Disbursement-Linked Indicator; ESG = environmental, social, and governance; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IDB = Inter-American Development Bank; LBR = Loan Based on Results; MDBs = multilateral development banks; M&E = monitoring and evaluation; PforR = Program-for-Results; RBL = Results-Based Loan; WB = World Bank.

a. The LBR involves two levels of indicators: (1) long-term results; and (2) intermediate results (short/medium term). The triggers for disbursements can be a subset of both. Disbursing against achieved results might take longer, adding financial costs to the country (commitment fees).

## Appendix 9. Comparison of Operational Aspects of the Sovereign Guarantee Instrument

Operational aspects	IDB	WB	ADB	AfDB
<b>Maximum guarantee period</b>	Up to 20 years for policy-based interventions and 25 years for investment operations.	Guarantee maturity periods are subject to the same maturity limits as those of IBRD loans (currently 35 years) and IDA credits (currently 40 years).	Up to 24 years for policy-based interventions and 32 years for project-based operations.	Up to 25 years for middle-income countries (AfDB window) and 40 years for low-income countries (ADF window).
<b>Weighted average life (WAL) requirement</b>	Policy-based interventions up to 12.75 years.  Guarantees supporting investment projects up to 15.25 years.	20 years maximum, with an option for an exception to extend this limit when justified to the Board by a particular project or program needs.	Maximum average maturity limit of 19 years.	Not available.
<b>Maximum guarantee amount</b>	Can cover up to 100% of the project cost. However, IDB's Guarantee Policy (GN-2729-2) does not specify whether the guarantee covers only the repayment of principal. It could also cover payment of accrued interest.	Maximum guarantee amount may be higher than the guarantee face value in certain cases where accrued interest is covered in addition to the repayment of principal.	The ADB will set the guaranteed percentage at the lowest level required to mobilize financing. 100% only in exceptional cases (except for Guaranteed Letters of Credit).  Different policies apply to Partial Credit Guarantees (PCGs) issued on bonds.	The least amount required to mobilize the financing. Cannot be 100% except for under the trade finance program (private sector).
<b>Acceleration</b>	Guarantees will not cover debt acceleration, meaning that disbursements would only follow the original repayment schedule of the underlying obligation.	At discretion of the Guarantor, project-based guarantees may be accelerable.	Not specified in their Operations Manual or website.  There is an example of a PCG for a project in Azerbaijan that indicates that the PCG will not be accelerable.	Acceleration is not allowed.

Operational aspects	IDB	WB	ADB	AfDB
<b>Standby fee</b> <b>Charging start date</b>	The effective date is the date the guarantee coverage becomes effective, in accordance with the conditions precedent thereto, as set forth in the guarantee contract.	Very detailed. Standby fee from the signing of the guarantee + 60 days starts to accrue until the Bank has financial exposure. It is payable just before the Bank has financial exposure, and therefore the guarantee fee becomes effective.	From the effective date the guarantee coverage is effective.	From the date of effectiveness until the guarantee has a veritable risk exposure on the underlying project/borrower/debt.

Note: ADB = Asian Development Bank; AfDB = African Development Bank; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IDB = Inter-American Development Bank; PCG = Partial Credit Guarantee; WB = World Bank.



## Appendix 10. Comparison of Incentives of the Sovereign Guarantee Instrument

Incentives	IDB	WB	ADB	AfDB
<b>Amount charged against country allocation</b>	Income neutrality principle. Both loan and guarantee approvals are currently counted against such annual country approval amount on a one-to-one basis.	<p>IDA. Only 25% of the guarantee face value is booked against the country.</p> <p>IBRD. If exposure is below Single Borrower Limits (SBL), guarantees may be booked at a 1-to-4 basis against country exposure. The remaining 75% of the exposure is booked against a capital set-aside put in place to incentivize the use of guarantees.</p> <p>If the total Bank exposure against the country reaches the SBL, new guarantee operations are booked on a one-to-one basis.</p>	Flexibility to allocate regular Ordinary Capital for Sovereign Guarantee operations on top of the regular country allocation. The additional allocation will create an incentive to develop projects and help country programming.	<p>AfDB: Both loan and guarantee approvals are currently counted against such annual country approval amounts on a one-to-one basis.</p> <p>ADF: Only 25% of guarantee face value is booked against the country.</p>
<b>Capital exposure</b>		Bank's practice is to hold 50% of total expected government exposure of approved guarantees in cash or cash equivalents.		
<b>Existence of a specialized unit</b>	Not officially centralized. Expertise lies inside Connectivity, Markets and Finance Division (IFD/CMF).	<p>Under the Infrastructure Vice President Unit (VPU), Sovereign Guarantees are structured at the Infrastructure Finance, PPPs &amp; Guarantees (IPG) Group.</p> <p>Guarantees that cover other sectors are prepared by the WB's Treasury or other Vice-Presidencies.</p>	Guaranteed and Syndications Unit specialized in mobilizing commercial cofinancing for both sovereign and non-sovereign operations using guarantees, loan syndications, and risk transfer products.	Expertise lies within Client Solutions Division under the Finance Vice Presidency. Not a dedicated unit. Not a transactions unit (unable to process guarantee deals); only provides advisory support to operations.

Note: ADB = Asian Development Bank; ADF = Asian Development Fund; AfDB = African Development Bank; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IDB = Inter-American Development Bank; PPPs = public-private partnerships; SBL = Single Borrower Limit; WB = World Bank.

## REFERENCES

- ADB (Asian Development Bank). 2013. "Piloting Results-Based Lending for Programs." Asian Development Bank, Manila.  
<https://www.adb.org/sites/default/files/institutional-document/33597/results-based-financing-r-paper.pdf>
- ADB (Asian Development Bank). 2019a. "Mainstreaming the Results-Based Lending for Programs." Asian Development Bank, Manila.  
<https://www.adb.org/sites/default/files/institutional-document/526346/mainstreaming-rbl-programs.pdf>
- ADB (Asian Development Bank). 2019b. "Review of the 2004 Disaster and Emergency Assistance Policy." Asian Development Bank, Manila.  
<https://www.adb.org/sites/default/files/institutional-document/548736/review-adb-disaster-assistance-policy.pdf>
- ADB (Asian Development Bank). 2022a. "Enhancing the Asian Development Bank's Multitranche Financing Facility." Asian Development Bank, Manila.  
<https://www.adb.org/sites/default/files/institutional-document/768716/enhancing-adb-multitranche-financing-facility.pdf>
- ADB (Asian Development Bank). 2022b. "Strategic Management of Policy-Based Lending, 2022–2024." Asian Development Bank, Manila.  
<https://www.adb.org/sites/default/files/institutional-document/800521/strategic-management-policy-based-lending-2022-2024.pdf>
- Avellán, Leopoldo M., Vitor G. Cavalcanti, Giulia Lotti, and Shakirah Cossens. 2018. "What Predicts Problems in Project Execution? Evidence from Progress Monitoring Reports." Inter-American Development Bank, Washington, DC.  
<https://publications.iadb.org/publications/english/viewer/2018DEC12-What-Predicts-Problems-in-Project-Execution.pdf>
- Avellán, Leopoldo, Zulima Calderon and Giulia Lotti. 2021. "Why do some Development Projects Disburse Funds Faster than Others." Inter-American Development Bank, Washington, DC.  
<https://publications.iadb.org/publications/english/viewer/Why-do-some-Development-Projects-Disburse-Funds-Faster-than-Others.pdf>
- Brown, Adrienne, Mick Foster, Andy Norton, and Felix Fozzard. 2001. "The Status of Sector Wide Approaches." Overseas Development Institute, London.  
<http://cdn-odi-production.s3.amazonaws.com/media/documents/2071.pdf>
- Bulow, Jeremy, and Kenneth Rogoff. 2005. "Grants versus Loans for Development Banks." *American Economic Review, Papers and Proceedings* 95 (2).  
<https://www.aeaweb.org/articles?id=10.1257/000282805774669727>
- Carlino, Hernán, Maria Netto, Esteban Suarez, and Alexander Vasa. 2017. "La contribución de la banca pública de desarrollo a los Objetivos de Desarrollo Sostenible en los países de América Latina y el Caribe." Inter-American Development Bank, Washington, DC.

<https://publications.iadb.org/publications/spanish/viewer/La-contribuci%C3%B3n-de-la-banca-p%C3%BAblica-de-desarrollo-a-los-Objetivos-de-Desarrollo-Sostenible-en-los-pa%C3%ADses-de-Am%C3%A9rica-Latina-y-el-Caribe.pdf>

Clemens, Michael A., and Michael Kremer. 2016. "The New Role for the World Bank." *Journal of Economic Perspectives* 30 (1, Winter): 53–76.

<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.30.1.53>

Clements, Benedict, Sanjeev Gupta, Alexander Pivovarsky, and Erwin R. Tiongson. 2004. "Foreign Aid: Grants versus Loans." *Finance & Development* (September): 46–49.

<https://www.imf.org/external/pubs/ft/fandd/2004/09/pdf/clements.pdf>

Foster, Mick, and Jennifer Leavy. 2001. "The Choice of Financial Aid Instruments." Overseas Development Institute, London.

<https://cdn.odi.org/media/documents/2065.pdf>

Harrold, Peter. 1995. "The Broad Sector Approach to Investment Lending." World Bank, Washington, DC.

<http://documents.worldbank.org/curated/en/903481468740127067/The-broad-sector-approach-to-investment-lending-sector-investment-programs>

Humphrey, Chris, and Annalisa Prizzon. 2014. "Guarantees for Development: A Review of Multilateral Development Bank Operations." Overseas Development Institute, London.

<https://cdn.odi.org/media/documents/9398.pdf>

IDB (Inter-American Development Bank). 2016. Proposal to Establish the Bank's Sovereign Guaranteed Loan Based on Results, GN-2869-1.

IDEV-AfDB (Independent Development Evaluation, African Development Bank). 2018. "Independent Evaluation of AfDB Program Based Operations (2012–2017)—Summary Report." African Development Bank, Abidjan.

<http://idev.afdb.org/sites/default/files/documents/files/PBO%20Evaluation%20Eng%20Report%20Web.pdf>

IED (Independent Evaluation Department, Asian Development Bank). 2008. "Support for Financial Intermediation in Developing Member Countries." Asian Development Bank, Manila.

<https://www.adb.org/sites/default/files/evaluation-document/35420/files/ses-reg-2008-71-0.pdf>

IED (Independent Evaluation Department, Asian Development Bank). 2016. "The Asian Development Bank's Engagement with Middle-Income Countries." Asian Development Bank, Manila.

<https://www.adb.org/sites/default/files/evaluation-document/182893/files/in440-16.pdf>

IED (Independent Evaluation Department, Asian Development Bank). 2017. "Results-Based Lending at the Asian Development Bank: An Early Assessment." Asian Development Bank, Manila.

<https://www.adb.org/sites/default/files/evaluation-document/317151/files/ce-rbl.pdf>

- IED (Independent Evaluation Department, Asian Development Bank). 2019. "ADB's Multitranches Financing Facility, 2005–2018: Performance and Results Delivered." Asian Development Bank, Manila.  
<https://www.adb.org/sites/default/files/evaluation-document/470651/files/ce-mff.pdf>
- IEG (Independent Evaluation Group, World Bank). 2006. "World Bank Lending for Lines of Credit: An IEG Evaluation." World Bank, Washington, DC.  
<https://openknowledge.worldbank.org/bitstream/handle/10986/7109/366160PAPER0Li1BLIC10see0also031131.pdf?sequence=1&isAllowed=y>
- IEG (Independent Evaluation Group, World Bank). 2009a. "Do Health Sector-Wide Approaches Achieve Results?: Emerging Evidence and Lessons from Six Countries." World Bank, Washington, DC.  
<https://openknowledge.worldbank.org/bitstream/handle/10986/28064/595570NWP0ieg0wp401public10BOX358284B.pdf?sequence=1&isAllowed=y>
- IEG (Independent Evaluation Group, World Bank). 2009b. "The World Bank Group Guarantee Instruments 1990–2007: An Independent Evaluation." World Bank, Washington, DC.  
<https://openknowledge.worldbank.org/bitstream/handle/10986/2627/484540PUB0guar101Official0Use0Only1.pdf?sequence=1&isAllowed=y>
- IEG (Independent Evaluation Group, World Bank). 2016. "Program-for-Results: An Early-Stage Assessment of the Process and Effects of a New Lending Instrument." World Bank, Washington, DC.  
<https://documents1.worldbank.org/curated/en/390991479329982807/pdf/Program-for-Results-an-early-stage-assessment-of-the-process-and-effects-of-a-new-lending-instrument.pdf>
- IEG (Independent Evaluation Group, World Bank). 2017. "World Bank Group Engagement in Upper-Middle-Income Countries: Evidence from IEG Evaluations." World Bank, Washington, DC.  
<https://openknowledge.worldbank.org/bitstream/handle/10986/28294/119055-WP-PUBLIC.pdf?sequence=1&isAllowed=y>
- IEG (Independent Evaluation Group, World Bank). 2022. "Reducing Disaster Risks from Natural Hazards: An Evaluation of the World Bank Support, Fiscal Years 2010–20." World Bank, Washington, DC.  
<https://openknowledge.worldbank.org/handle/10986/37921>
- IEO (Independent Evaluation Office, United Nations Development Programme). 2020. "Evaluation of UNDP Development Cooperation in Middle-Income Countries." United Nations Development Programme, New York.  
<https://erc.undp.org/evaluation/documents/download/18034>
- IFAD (International Fund for Agricultural Development). 2018. "Concept Note on Results-based Lending." International Fund for Agricultural Development, Rome.  
<https://webapps.ifad.org/members/eb/125/docs/EB-2018-125-R-7-Rev-1-Add-3.pdf>
- Kapur, Devesh, John P. Lewis, and Richard Webb. 1997. "The World Bank: Its First Half Century. Vol. 1: The History." Brookings Institution, Washington, DC.

<https://documents1.worldbank.org/curated/en/313081468322727631/pdf/578750PUB0v10W10Box353775B01PUBLIC1.pdf>

McCawley, Peter. 2017. "Banking on the Future of Asia and the Pacific: 50 Years of the Asian Development Bank." Asian Development Bank, Manila.

<https://www.adb.org/sites/default/files/publication/235061/adb-history-book-second-edition.pdf>

OAS (Organization of American States). 1959. "Specialized Committee for Drafting the Instrument of Organization of an Inter-American Financial Institutions. Volumes 1 and 5." Organization of American States, Washington, DC.

ODI (Overseas Development Institute). 2018. "A Guide to Multilateral Development Banks." Overseas Development Institute, London.

<https://cdn.odi.org/media/documents/12274.pdf>

OVE (Office of Evaluation and Oversight, Inter-American Development Bank). 2013. "How Is the IDB Serving Higher-Middle-Income Countries? Borrowers' Perspective." Inter-American Development Bank, Washington, DC.

[https://publications.iadb.org/bitstream/handle/11319/5966/HMIC\\_ENGLISH.pdf?sequence=3](https://publications.iadb.org/bitstream/handle/11319/5966/HMIC_ENGLISH.pdf?sequence=3)

OVE (Office of Evaluation and Oversight, Inter-American Development Bank). 2014. "Climate Change at the IDB, Building Resilience and Reducing Emissions, Sector Study: Disaster Risk Reduction." Inter-American Development Bank, Washington, DC.

<https://publications.iadb.org/publications/english/viewer/Climate-Change-at-the-IDB-Building-Resilience-and-Reducing-Emissions.pdf>

OVE (Office of Evaluation and Oversight, Inter-American Development Bank). 2018a. "Background Note: Lending Instruments in IDB's Ninth Capital Increase: Implementation and Results." Inter-American Development Bank, Washington, DC.

<http://www.iadb.org/document.cfm?id=EZSHARE-1732162053-90>

OVE (Office of Evaluation and Oversight, Inter-American Development Bank). 2018b. "Background Note: Support to Small and Vulnerable Countries in IDB's Ninth Capital Increase: Implementation and Results." Inter-American Development Bank, Washington, DC.

<http://www.iadb.org/document.cfm?id=EZSHARE-1732162053-83>

OVE (Office of Evaluation and Oversight, Inter-American Development Bank). 2022. "Evaluation of Guarantee Instruments at the IDB Group." Inter-American Development Bank, Washington, DC.

<https://publications.iadb.org/publications/english/viewer/Corporate-Evaluation-Evaluation-of-Guarantee-Instruments-at-the-IDB-Group.pdf>

Prizzon, Annalisa, Shakira Mustapha, and Andrew Rogerson. 2016. "Graduation from ADB Regular Assistance: A Critical Analysis and Policy Options." Background paper commissioned by the Asian Development Bank and prepared by a team from the Overseas Development Institute, London.

<https://www.adb.org/sites/default/files/page/181506/ODI-Graduation%20Paper-web.pdf>

World Bank. 2012. "Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures." World Bank, Washington, DC.

<https://documents1.worldbank.org/curated/en/777241468331877549/pdf/730380BR0R20120C0disclosed010030120.pdf>

World Bank. 2016. "Project Preparation Facility: Increase in Commitment Authority and Enhanced Scope." World Bank, Washington, DC.

<https://documents1.worldbank.org/curated/en/752001485658819936/pdf/PPF-Board-PaperFinal-SECPO-edit-12302016.pdf>

World Bank. 2017. "Multiphase Programmatic Approach." World Bank, Washington, DC.

<https://documents1.worldbank.org/curated/en/203081501525641125/pdf/MPA-07192017.pdf>