Comments on "Program-Based Operations at the African Development Bank, 2005–2020: An Overview"

Comment by: Alan Gelb

The chapter provides a useful overview of the evolution of program-based operations (PBOs) at the African Development Bank (AfDB). These are described in terms of their evolving portfolio share, country distribution, variants, and focus. The chapter stimulates thinking on the evaluation of PBOs and on the institutional requirements if AfDB is to transition from a project-based bank to a policy-based bank.

1. Evolution of Program-Based Operations

While each multilateral development bank (MDB) is distinctive, many of the trends noted in the paper have broad parallels in other institutions. At their inception, structural adjustment programs, as they were then termed, usually included a strong focus on "stroke of the pen" reforms, such as trade liberalization, budget spending cuts and the privatization of state-owned enterprises. These policy packages were contentious. Many saw them as impinging on national sovereignty, a sensitive issue, especially for newly independent countries. There were also genuine differences of view on what constituted an appropriate trade policy for African developing countries, some of which were without a strong indigenous business sector, and on the role of the state in facilitating economic transformation. Nevertheless, (and despite many critical views on the "Washington Consensus"), countries that managed to stay on track with macroeconomic and structural reform programs generally fared better than those that failed to do so.[1] Similarly, analysis based on the World Bank's Country Policy and Institutional Assessment (CPIA) index suggested that countries with stronger macroeconomic and structural policies as well as more efficient resource allocations fared better than others. This suggests that many basic elements of economic management included in these early PBOs have been important, even if they were not sufficient, for a resumption of growth.

Given the increasing emphasis on public financial management (PFM) and economic governance, PBOs have shifted toward areas where there is more consensus. Experts may debate the appropriate degree of trade protection, but it is rare to find open arguments against more accountable public spending. However, this trend may not translate into easier implementation, because PFM reforms often confront strong entrenched interests and political opposition. They have a mixed record and, in some countries, governments have by-passed the reformed systems. As illustrated in the chapter, the third stage in the evolution of PBOs has been toward a greater weight of sector policy components, across quite a wide range of critical areas, although most PBOs have retained a strong focus on public financial management.

Do PBOs tend to be provided mostly to middle-income countries (MICs)? The chapter suggests this may be the case for AfDB, although the degree of concentration is not easy to assess without comparative data on the relative size of MIC economies in Africa or the cross-country distribution of the overall portfolio. Since MICs generally have stronger PFM and likely greater policy stability, PBOs might seem more suitable in such countries, especially in the form of programmatic operations or

[1] Independent Assessment of the Special Program of Assistance for Africa, as cited in: Alan H. Gelb. 2000. *Can Africa Claim the 21st Century*. Washington, DC: World Bank. p. 35. Nevertheless, it is difficult to separate out the impact of operations from their initial conditions; countries and development partners are more likely to resort to PBOs in times of crisis.

programmatic tranching. An analysis by the Inter-American Development Bank (IDB) found that World Bank PBOs were also concentrated on MICs but that its own PBOs were not, although this could be because IDB has a more homogenous client base with a larger share of MICs.[2] Offsetting this tendency, the chapter also notes the use of the crisis window to provide quick-disbursing funds during the Ebola crisis and, more recently, during the coronavirus disease (COVID-19) pandemic. These included elements of both health and economic crises, and the paper confirms the importance of having an available mechanism to provide a combination of policy, technical advice and financial support at relatively short notice to countries beset by exogenous shocks.

2. Evaluability and Results

Defining a results framework for PBOs against a clear counterfactual remains a challenge, and the chapter presents a less than conclusive picture. At the output level, it notes that PBOs tend to include a considerable number of process indicators and far fewer "landmark policy changes."[3] It would be preferable to base an output-level assessment on the landmark policy changes, rather than simply on the number of indicators achieved; the attention the chapter pays to this issue is one of its strengths. Two-thirds of the assessed operations appear to have achieved landmark policy changes and in cases where they did not particular reasons were advanced to help explain why.

As the chapter finds, the questions are then: how can impact can be assessed and how can the influence of AfDB's program on the achievement of such changes be judged? Attribution is a particularly fraught area for PBOs, especially in settings where there are multiple development partners and operations are designed to support reform measures with strong country ownership and are well-coordinated with programs of other partners. It has long been recognized that there is a twofold motivation for PBOs: to provide quick-disbursing support for the budget and to encourage policy and institutional reforms. The balance between these objectives varies, and the compatibility of these twin goals cannot be taken for granted. Thus, when financing needs are pressing, policy elements may take second place. It is also possible that the policy reforms required by the operation may be measures that the country would have undertaken anyway.[4] Similarly, with well-coordinated policy dialogue and funding from a range of development partners, it becomes harder to separate out the impact of any one partner. The problem of specifying the counterfactual also exists for projects, but is even more difficult for PBOs where there is no relationship between the budgetary costs of a reform and the size of the financing.

In these circumstances, it is probably best to recognize the problem and rest content with observing whether the operation has, in fact, been accompanied by the expected landmark policy changes, preferably ones set out in advance as part of a well-defined programmatic or tranching operation. While most AfDB PBOs fall into one of these categories, one third do not, and the share of PBOs with full programmatic tranching is modest (less than one quarter). Since loan triggers tend to become more substantive in the later years of a program, it is likely that more such operations will be truncated, with

[2] OVE Annual Report 2015. *https://publications.iadb.org/publications/english/document/OVE-Annual-Report-2015-Technical-Note-Design-and-Use-of-Policy-Based-Loans-at-the-IDB.pdf*

[3] This seems to be true for other MDBs also; for example, an assessment for the Inter-American Development Bank (IDB) concluded that only 15% of the multitude of triggers were "high-depth."

[4] IEG assessments for International Development Association (IDA) countries suggest that the added benefits of programmatic policy-based operations are higher when commitment amounts are lower as a share of government expenditures. The reason that has been advanced for this paradoxical result is that World Bank teams are less concerned about the potentially disruptive effects on client countries when they are faced with the option of responding to low reform performance by delaying or canceling operations in programmatic series. This renders the operations more credible, helping to maintain reform momentum. *https://ieg.worldbankgroup.org/sites/default/files/Data/reports/meso-devpolfinancing.pdf*

disbursement rates above zero but less than 100%. Indeed, the review for IDB found that the rate of truncation for a series of PBOs was 44% and that it tended to be higher for series with three planned operations than for those with only two.

It is therefore surprising to see disbursement ratios of 100% in all but one of the 16 in-depth assessments covered in the chapter, with the exception being 0% disbursement. The reason for this pattern is not clear, but it may be partly explained by the fact that few of these cases involved programmatic tranching (so policy actions were a condition for loan approval), or that the focus on relatively recent programs did not give enough time for multi-year programmatic tranching to play out so that reforms could be both implemented and consolidated. It would be useful to understand more about this longer-run dimension of African PBOs, especially as it relates to the important question of sustainability raised in the paper. For example, what has been the longer-run outcome of power sector reform in Angola or Tanzania, following their apparently successful operations in 2014 and 2015? Have landmark policy changes been sustained?

It is a pity that the chapter was not able to go beyond the evaluations to form such assessments, using perhaps indicators of sector policy and performance, such as Public Expenditure and Financial Accountability (PEFA) reports in operations with a strong focus on PFM or perhaps indicators from the World Bank's annual Country Policy and Institutional Assessment (CPIA). This could be a project for the future. It would also help us to understand better the tension between supposedly high political ownership on the one hand and apparently limited financial and institutional sustainability on the other.

3. Toward a Policy-Based Bank

To be effective PBO partners, funding institutions need to have the capacity to engage in policy dialogue at a high level and across critical areas, including macroeconomic management (to complement the work of the International Monetary Fund, public sector and budget management, and sector policy. The chapter paints a picture of the evolution of AfDB, from project lending to an institution balanced between projects and policy and program engagement. Acquiring and sustaining capacity requires a strong analytical focus, in particular economic and sector work, together with associated research and analytical support. This is a challenge for any institution and, as noted in the chapter, in the case of AfDB the work is still incomplete. The resource requirements of achieving this analytical basis across the full range of development sectors and policies may mean a degree of operational selectivity focused on areas of traditional strength. In any event, a substantial and continuing investment in capacity appears to be essential for AfDB to be able to fully exploit its "African voice" in policy dialogue, even though it is not necessarily the major player in the region.[5] Management's response to the evaluations appears to be generally encouraging, but the experience of other organizations confirms the challenge. There is no simple organizational fix: the World Bank initiated measures to centralize and strengthen expertise in "global practices" but this policy has been partly reversed. A policy-based bank that functions well will also need the expertise and flexibility to be able to offer complementary and timely packages of technical cooperation, a shortcoming identified in the chapter.[6]

---

[5] For observations on the relative size of the AfDB and other MDBs see: *https://www.cgdev.org/publication/dilemma-afdb-does-governance-matter-long-run-financing-mdbs*

[6] Assessments by the Inter-American Development Bank found that the average number of technical cooperation projects accompanying a reform sequence was 2.3 per series, and that these provided around $1.3 million of additional financial assistance. This was especially relevant because, while PBO resources flow to a country's Treasury, parallel technical cooperation provides direct support for the line ministries in charge of the reforms. The study found a significant positive relationship between technical cooperation support and the likelihood of completing a PBO series. *https://publications.iadb.org/publications/english/document/OVE-Annual-Report-2015-*

4. Toward a Stronger Focus on Results

If policy dialogue and reform, rather than quick-disbursing funding, is really to be the driver of non-project lending, it might be useful to consider other modalities to complement, or even replace, traditional PBOs, especially considering the shift toward a larger component of sector reforms. Results-based lending is one possibility, as in the program-for-results instrument of the World Bank. Since the creation of program-for-results lending in 2012, there has been a steady increase in its use: as of 30 September 2020, there were 113 active operations totaling $33.1 billion in commitments.[7] Like PBOs, program-for-results financing is provided to the Treasury, disbursed using country systems, and not necessarily tied to program costs. Some program-for-results operations are framed as an alternative to project loans with a high share of "output-type" disbursement-linked indicators (DLIs), but others are closer to policy-based operations, with a high proportion of institutional or "action" DLI benchmarks.[8] Tight linkage of disbursements to such indicators increases the importance of having a coherent results chain—a concern with PBOs noted in the chapter—and timely monitoring of progress. Moreover, the multi-year nature of program-for-results operations allows enough time to move beyond immediate outputs and towards measures of outcomes and impacts, allowing for a more substantive results framework than those of many PBOs. Experience with this new instrument is still limited but it could come to be a successor to sector-based PBOs.

5. Overview of Private Sector Development Components

Improving the environment for the private sector environment (PSE) has been a significant component of many PBOs, including through financial sector reforms, capital market deregulation, and measures to strengthen public private partnerships (PPPs). Even if reforms are driven by fiscal concerns, in such major sectors as transport, energy and water, the reforms may include PSE-related elements. For the World Bank, the area of investment climate and economic diversification represented between a quarter and a third of overall policy-based lending (PBL) value, with a higher tendency in MICs than in low-income countries (LICs). For IDB, the private and financial cluster (which is one of five such clusters) averaged 17% of PBL commitments over 2005–2019. For AfDB, diversification and industrialization, mainly through private sector environment reforms, were the leading PBO objectives across the "High 5's" strategic issues identified in its strategies and action plans. Of the 16 operations selected for in-depth assessments, nine were classified as PSE. The budget support operations of the European Union tend to be more focused on governance and service delivery, but they also include areas such as domestic resource mobilization and trade; reforms in such areas, as well as the macro and fiscal impact of additional financing, can also affect the PSE and business confidence. The assessments do not separate out the performance of PSE–focused PBL operations from others.

While there is some evidence that better scores on the World Bank Doing Business ranking may increase foreign direct investment (FDI) flows,[9] there are large gaps between *de jure* (yet actionable) measures and the *de facto* business climate as expressed by firms in enterprise surveys. Another uncertainty relates to weighting: the performance indicators of a PBO might not address the most critical factors constraining business, including the government's credibility and commitment to the

---

Technical-Note-Design-and-Use-of-Policy-Based-Loans-at-the-IDB.pdf An IEG assessment for the World Bank confirms the importance of timely provision of technical cooperation operations *https://ieg.worldbankgroup.org/sites/default/files/Data/reports/meso-devpolfinancing.pdf*

[7] Program-for-Results Financing. *https://www.worldbank.org/en/programs/program-for-results-financing*

[8] For an analysis of the first 35 operations with classification of disbursement-linked indicators (DLIs) into categories, see *https://www.cgdev.org/sites/default/files/program-results-first-35-operations-working-paper430.pdf*

[9] *https://www.researchgate.net/publication/241767916_Foreign_Direct_Investment_and_The_Ease_of_Doing_Business*

private sector. This may be an issue for a government that agrees to reforms as a condition of quick-disbursing funding rather than in response to a strong national business constituency.

Some insight can be gleaned from the evaluations of important operations referred to in the chapter. Responding to a fiscal crisis caused by plummeting diamond revenues, the Botswana Economic Diversification Support Loan[10] was the largest operation identified in the AfDB chapter. It targeted multiple Doing Business indicators, as well as financial sector development. The program completion report (PCR) rated the policies it supported as relevant and the outputs satisfactory, but the outcomes were rated unsatisfactory. Measurable progress toward economic diversification could not reasonably be realized within the 2-year duration of the project. A comparison from the Caribbean may be relevant here. The Jamaica Economic Stabilization and Foundations for Growth development policy loan (DPL) was approved by the World Bank in 2013. A project performance assessment report (PPAR), completed in 2019[11] found that the project had allowed an unrealistically short time for the implementation of PSE measures, particularly when they involved legal reforms. But looking back 6 years after approval of the loan, it found substantial achievement of objectives. Reforms had been sustained and, especially considering the potential for sovereign default at the time the loan was approved, it had made an effective contribution. Debt ratios had fallen, investment climate indexes had improved, and levels of FDI had risen. However, the PPAR also noted that World Bank oversight had extended well beyond the implementation period of the operation because of the link with a subsequent DPL series. The Jamaica example, makes it clear that PSE and related operations need to be approached with a longer-term horizon. Reforms may take time, especially when legislation is required, while the lag in the private sector response to even successful reforms increases the necessary time horizon as outputs shade into outcomes.

10 AfDB. 2009. Appraisal Report: Economic Diversification Support Loan: Botswana. Abidjan: AfDB. *https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Botswana_-_Economic_Diversification_Support_Loan_-_Appraisal_Report.pdf*

11 World Bank. 2019. *Project Performance Assessment Report: Jamaica. Economic Stabilization and Foundations for Growth Development Policy Loan.* Washington, DC: World Bank. *https://ieg.worldbank.org/sites/default/files/Data/reports/ppar_jamaica_dpl.pdf*