

Session 3

ADB Policy and Experience on Policy-Based Lending

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Introductory Course on Economic Analysis of
Policy-Based Lending Operations
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ADB

Plan of the Presentation

- Evolution of program lending policy
- Trends in program lending
- Key features (sector wise/DMC wise)
- Program lending success rates
- Rationale: Key drivers of change
- Paris Declaration on Aid Effectiveness
- Scope of current review-key issues

Evolution of Program Lending Policy

- Introduced **1978**-BOP support (focus-imports for economic growth)
- **1983**: policy reform objectives added, but focus still on imports
- **1987**: (ADB developmental role) - fundamental shift-to sector policy reforms & institutional strengthening. BOP requirement abolished
- **1996**: Sector Development Program Loan-targeted sector support
- **1999**: Cluster program & special program loan.

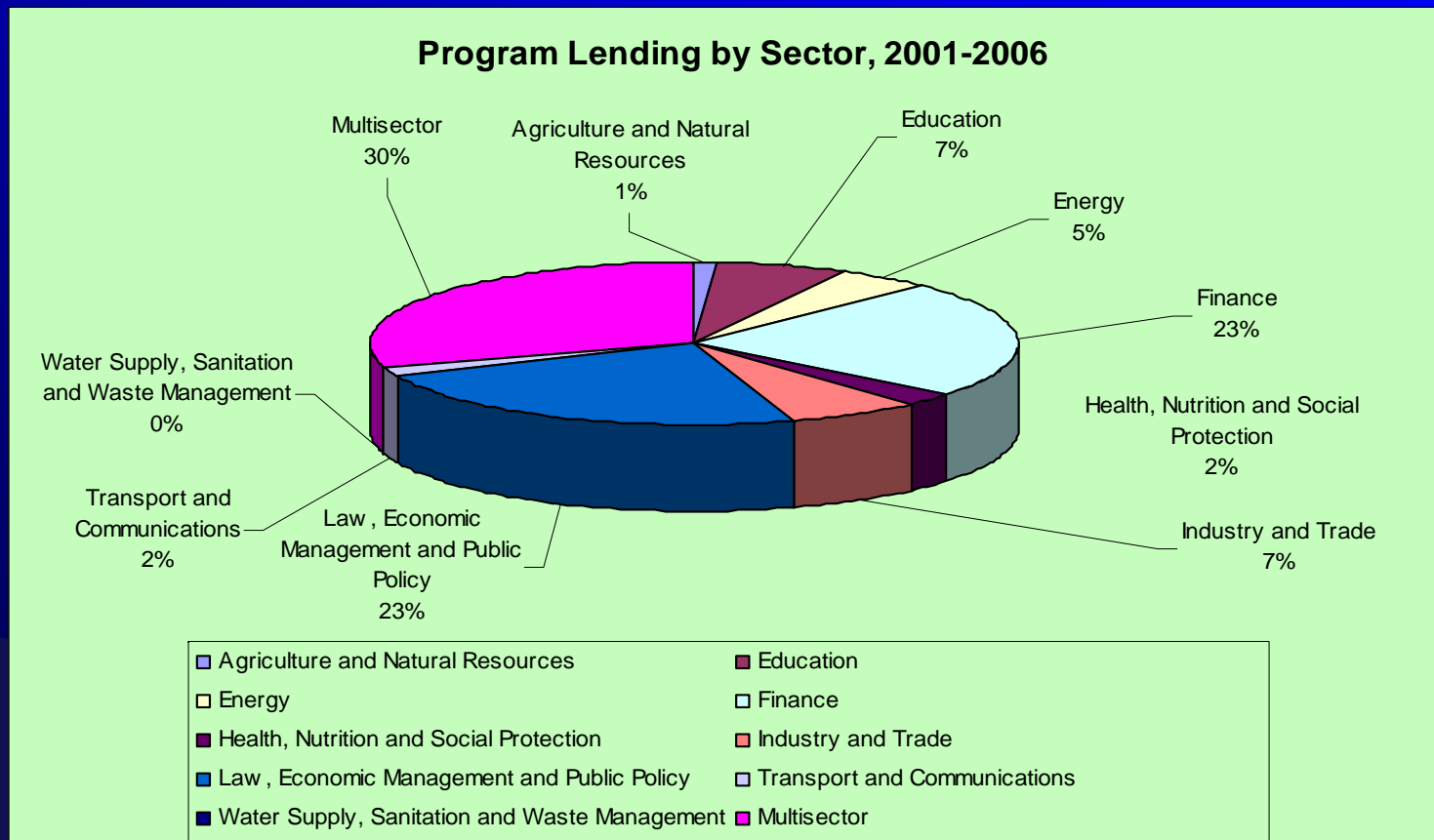
(Started with ADB wide policy ceiling-5%; country ceiling 10% in 1978; and over years changed; currently ADB ceiling (both OCR+ADF) -20%, and sub-ceiling ADF ceiling 22.5% ; no country ceilings).

Trends in Program Lending

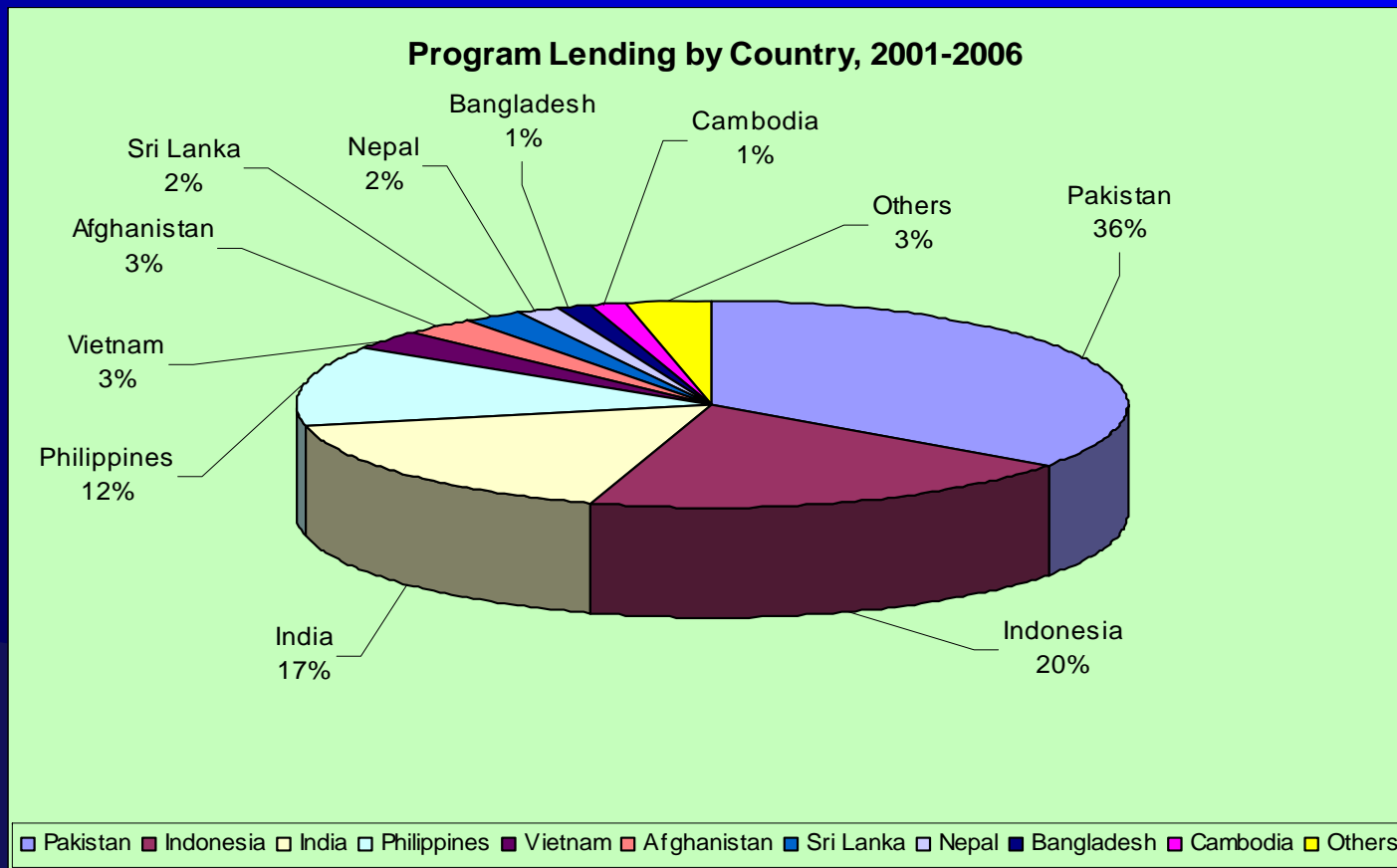
Important features (comparing 1996-2006 to 1978-95)

- Large increase in use of program loans (client demand)
- Sectoral shift from "conventional sector"
(Agri > 50%) support to more broad based reforms
(finance, enabling environment, multisectoral) support,
excluding Asian Financial Crisis years
- Increased concentration in few DMCs

Key Features 1: Sector-Wise Distribution of Program Lending 2001-06



Key Features 2: Country-Wise Distribution of Program Lending 2001-06



Program Lending Success Rates

OED Ratings and recommendations

OED reports:

- PPERs ratings 1987-1995 approvals--PLs neither particularly successful nor unsuccessful.
- PPER ratings for PLs after 1996 suggest: larger % successful.

OED Recommendations

- PL-highly relevant for DMCs.
- Government ownership & capacity crucial.
- Need for comprehensive sector analysis prior to design & implem.
- Keep each operation simple & manageable, and focus on results
- Modality needs greater flexibility in implementation, greater dialogue, capacity development, political economy focus.
- Allow ADB Management to approve limited forms of changes in scope and implementation arrangements for PLs.

RATIONALE FOR POLICY REVIEW

Number of factors, categorized into:

- External Drivers of Change
- Internal Drivers of Change

RATIONALE FOR POLICY REVIEW

EXTERNAL DRIVERS OF CHANGE

- Paris Declaration on Aid Effectiveness
- Changes in development partners' approaches
- Changing nature of reforms in DMCs and client needs
- Reputational risk for ADB with development partners and DMCs

RATIONALE FOR POLICY REVIEW

INTERNAL DRIVERS OF CHANGE

- Last Policy review > 8 yrs back (1999)
- Issues raised by the Board members
- Lessons from implementation and practice
- CD Framework adopted in Jan 2007

Paris Declaration on Aid Effectiveness

Based on 5 principles:

- Country ownership
- Alignment
- Harmonization (PBA)
- Management for development results
- Mutual Accountability

Scope of Current Review: Key Issues

- Scope-SWAP, PBA, programmatic-single tranche approaches
- Financial framework issues (factors determining loan amount-adjustment cost rationale, use of funds, pooling of funds)
- Due diligence issues
- Design and monitoring of PBL