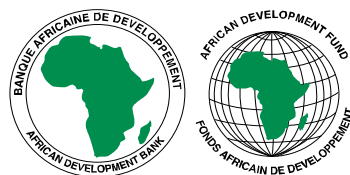


AFRICAN DEVELOPEMENT BANK GROUP



**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

**Evaluation of Policy Based operations in the African Development
Bank, 1999-2009
Institutional and Policy Review**

High Level Evaluations Division (OPEV.2)

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Executive Summary

The Institutional and Policy Review (IPR) examines how the African Development Bank's corporate strategy and specific policies and guidelines on Policy Based Operations (PBOs) have evolved and the extent to which these provide a clear and coherent framework for the design and delivery of PBOs. It also considers the evolution of the Bank's organisational structure, systems and staffing arrangements for delivering PBL over the evaluation period (1999-2009).

Bank experience with PBOs before 1999

The African Development Bank's initial experience with policy based operations during the 1980s was based on the structural adjustment agenda that was being led by the IMF and the World Bank, in response to the deep macroeconomic problems that Africa was facing. This approach underlay 1988 guidelines prepared in 1988 for Structural and Sector Adjustment Lending. Policy-based loans under these guidelines were designed to provide quick-disbursing resources, often over a period of about three years, involving successive disbursements predicated upon the progressive implementation by the Borrower of the agreed policy and institutional reform measures. Between 1986 and 1998, the Bank engaged in 71 SALs and 29 SECALs. PBL approvals using ADB resources amounted to UA 2.7 billion and UA 1.1 billion using ADF resources.

Evaluation of this experience noted that the Bank had limited human and financial resources to engage in adjustment operations, and was heavily reliant on the World Bank for analysis and the setting of conditions. First tranche conditions had generally been easy to fulfil but conditions for subsequent tranches were much more problematic. Design weaknesses identified included over-optimism on the time frame for major reforms, lack of programme ownership, and excessively complicated and numerous reform objectives. Implementation weaknesses included lack of compliance with legal covenants by the borrowers, especially in terms of financial and audit requirements, and lack of programme implementation support to follow-up appraisal and mid-term missions meant that recommendations or agreements were not followed by actions.

International and regional context

During the period covered by this evaluation there were important developments in the international aid architecture, and in Africa's economic performance, which have determined the context in which PBOs have been used by the Bank. Significant developments were the emergence of an international consensus around the Millennium Development Goals (MDGs), the development of Poverty Reduction Strategies (PRSs) as an overarching framework for aligning development assistance on national objectives, and the developing international consensus on the aid effectiveness agenda that was embodied in the Paris Declaration in 2005. Africa's economic performance in aggregate been strong compared to earlier periods reflecting in particular strong demand for natural resource exports, and investment aimed at exploiting these resources including from China. However, there has also been increasing international concern about state failure, and the problems of countries emerging from conflict.

The commodities price boom in the mid-2000s generated large increases in foreign exchange earnings for many African countries but also adversely affected many of the poor who were especially vulnerable to escalating prices for food and fuel. The international financial crisis from 2008 adversely affected both the demand for African exports, and the prospects for African access to international capital, though the direct effect on Africa was smaller than initially feared, particularly because key export commodity prices tended to remain quite high. However, the severe balance of payments problems that many African countries encountered through 2009 led to a sharp increase in demand for finance for balance of payments support.

Bank strategic and organisational response

The Bank's 1999 Vision Statement set out overall objectives for the Bank focused on agriculture and rural development, human resources and the private sector. The Bank has sought to implement the Vision through the 2003-2007 Strategic Plan, and the 2008-2012 Medium Term Strategy (MTS). The MTS represented a shift in the operational focus of the Bank towards in particular infrastructure, governance, and private sector operations as prerequisites for broader development goals (for instance in agriculture or health). The MTS also placed a greater emphasis on partnership arrangements and on the aid effectiveness agenda. Over the evaluation period there has been a significant increase in the level of resources available to the Bank, particularly through ADF replenishment.

Significant organisational reforms were implemented in 2006 in response to recognition of weaknesses in the Bank's structure and business processes which were identified as including an insufficient field presence, weak country focus and client orientation, weaknesses in delivery across the project cycle, and an insufficient focus on results. The organisational reforms included the establishment of the Operations Complexes, and other changes to align Bank structure with strategic priorities, and a process of decentralisation including the opening of Field Offices, although subsequent evaluation has identified significant problems in the implementation of decentralisation.

An important feature of Bank strategy has been the increasing emphasis on Governance, reflected in particular in the establishment in 2006 of the Governance, Economic and Financial Management Department (OSGE) which has taken responsibility for the design of the large majority of Bank PBOs (which were previously led by Country Economists), and the adoption of the Governance Strategic Directions and Action Plan (GAP) in 2008. A further important initiative has been the establishment of the Procurement and Fiduciary Services Department (ORPF), in particular the Fiduciary Service Division which focuses on assessment the country financial management systems.

The Bank has also developed policies and approaches to address

- The aid effectiveness agenda (including strengthened results reporting and an increased focus on the use of country systems;
- Engagement in post-conflict and fragile states including through the establishment of the Fragile States Facility (FSF); and
- International economic instability, through the impact first of rising food and fuel prices on African importers, and then of the financial crisis.

New instruments and policies for PBOs and for particular funding sources have been developed through the evaluation period to enable the Bank to tailor its engagements more effectively to the needs of different groups of its RMCs.

Policies and procedures for PBOs

The Bank possesses four quick-disbursing instruments:

- Policy Based Lending (guidance from 1988): the original instrument used for structural and sectoral adjustment operations and conceived as providing multi-tranche finance for medium term policy reforms.
- Development Budget Support Lending (DBSL) (guidance from 2004): this is envisaged as the instrument to support implementation of a poverty reduction strategy through the national budget. Resources are envisaged as being transferred directly to the national budget and as being managed through national systems. Use of national system is conditional on a favourable fiduciary risk assessment and the implementation of mitigating measures to address any shortcomings found. Sector Development Budget Support Lending is identical to DBSL except that conditions are focused on a particular sector.
- Policy Based Lending for Governance (PBLG) (guidance from 2004): this is an instrument conceived as supporting packages of governance reforms, through (multiple) single tranche operations aimed at addressing specific governance constraints. The Bank does not appear to have carried out any operations specifically conceived as PBLG.
- Emergency Liquidity Facility (ELF): this instrument was conceived as helping to address the immediate impact of the financial crisis on access to liquidity (though it is not clear how many of the subsequent operations to help address the impact of the financial crisis have made use of this facility rather than of existing instruments).

The rules governing the application of these four instruments vary in principle between ADB and ADF countries, with the use of the ADF being subject to additional requirements and constraints including the allocation between countries on the basis of performance criteria, and an overall ceiling of 25% of ADF resources being allocated to PBL (under ADF-XI), as well as the differences in rules of origin that now apply between ADF and ADB countries. In addition, some acceleration in procedures has been allowed to enable a quicker response to be made by the Bank to address urgent financing requirements, while fiduciary requirements for DBSL have been relaxed for countries qualifying for supplementary grant support under Window I of the FSF.

The Bank's PBOs over the main part of the evaluation period (since 2001) have mainly been in the form of DBSL, with a small number of SDBSLs, and adjustment operations particularly in response to the international financial crisis.

While a distinction is still being made in Bank practice between budget support and balance of payments support, the practical difference between PBL (in the sense of adjustment lending under the 1988 guidelines) and DBSL may be limited given the fungibility of financial resources. Both types of operation have the effect of increasing the amount of foreign exchange available to the Central Bank, and of making available to government counterpart funds for the budget.

Trends in the Bank's PBO portfolio

Following a spike in 2001 there was some increase in PBO activity in the middle of the evaluation period, reflecting in particular the establishment of the DBSL instrument and increasing resources under ADF. However, the large boost to the use of quick disbursing instruments was provided by the economic instability at the end of the evaluation period which appears to have significantly increased demand for the Bank's products, as Africa faced first the effects of rapidly rising food and fuel prices (mainly affecting ADF countries), followed by the effects of the international financial crisis (which particularly increased demand from ADB countries) in both reducing sources of available finance and adversely affecting export demand.

The key features over the period have been the following:

- Until 2009, there were on average fewer than one and a half ADB PBOs approved each year, though the operations were relatively large, averaging almost UA 180 million each.
- A third of the total ADB PBOs over the period were approved in 2009, accounting for 49% of the total ADB PBOs approved over the period by value. One operation (Botswana Economic Diversification Support loan) dominated this with a value of just over UA 1 billion.
- ADF PBOs have been much smaller than ADB PBOs, with ADF loans averaging about UA 26 million, and ADF grants averaging UA 21 million.
- ADF loan PBOs have shown no marked trend over the evaluation period, except for a spike during 2008 which appears to reflect an increase in demand in response to the food and fuel crisis. ADF grants only became significant from 2004 (and under ADF-X and ADF-XI).

Multisectoral operations (which includes since 2006 those prepared and managed by OSGE) have dominated, especially in relation to the use of the ADF, although this reflects the lack until recently of a "governance sector" category in the Bank's information systems. Only eight out of 102 ADF operations have been classified as sectoral, with almost half of the amount of sectoral operations by value being accounted for by one operation (Nigeria Economic and Power Sector Reform, 2009). Otherwise there have been three agricultural sector operations (two in Lesotho in 1999, and Tanzania 2007), two social sector (education) operations (Rwanda 2006 and Tanzania 2007), and one finance sector operation (Mauritania, 2001). By contrast, sectoral operations have accounted for nine out of 21 ADB PBOs, and for 42% by value. The most active sector has been Finance, with operations in Tunisia (2001, 2005), Egypt (2006) and Morocco (2009). All the other ADB PBOs have been in Morocco, in the communications, health (two operations), water and transport sectors.

Overall, Morocco has been the largest user of PBOs both in terms of the number of operations and the total amount lent. The top five users of PBOs by value are all ADB countries (Morocco, Botswana, Tunisia, Mauritius and Egypt). Over the evaluation period, PBOs have accounted for 31.3% of ADB operations, and 21.8% of ADF operations. The following categories of countries can be distinguished among ADB borrowers in terms of the share of PBOs. The first group includes Botswana, Mauritius and Seychelles who have not historically been major clients of ADB but who took out large PBLs as part of their response to the international financial crisis. In the second are Morocco and Tunisia, who have made substantial use of PBL over much of the evaluation period. Among the other countries there has been little use of PBL, with just a single large operation in Egypt and one small operation in Gambia. Within the group of ADF countries, the extent of variation in the share of PBOs has been much less, with over half (20/36) of (active) ADF countries having PBOs

accounting for more than 20% of their total operations, with eight countries receiving between 10 and 20%, and eight less than 5%.

Lessons from Bank reviews and evaluation information

The review of evaluation material (including Project Completion Reports and reviews of the PBO portfolio) suggests that there is a clear (underlying or implicit) model for what counts as good practice in the design and implementation of PBOs in the Bank. This model includes the following three main elements:

- A relatively small number of conditions which are clearly defined, and based on a realistic assessment of borrower capacity, with complementary support provided to ensure conditions can be fulfilled and a participatory approach to strengthen ownership of the programme.
- The allocation of sufficient resources and skills to design and supervision. It appears that supervision has improved over the evaluation period and that the capacity of the Bank to act independently of other development partners (particularly the World Bank) has improved.
- Clarity in the relationship between the objectives of the programme (which should be measurable) and the specific activities that are undertaken, with risk analysis focused on the critical actions and relationships that will determine whether objectives are achieved.

The country case studies will examine the extent to which practice has improved and how far this model is in fact being implemented. The Bank appears though to have consistently encountered challenges in the following areas over the evaluation period:

- While single tranches have allowed more predictable disbursement (with additional tranches being subject to delay as clients have encountered difficulties in meeting later tranche conditions), multiple tranche operations have an advantage in that it is possible to programme resources over a longer time period than is possible for single tranche operations, and in having lower preparation costs and time requirements for a multiple tranche operation compared to a sequence of single tranche operations.
- Demand for PBOs (as budget support) does not appear to have increased over most of the evaluation period, until the crises of 2008 and 2009 increased demand substantially particularly for ADB loans.

Issues emerging

The following are the major issues identified from the review:

Lack of consistent and unified guidance on PBOs

The Bank's policies and guidance for PBOs are set out in a number of different documents of differing status, which are not readily available in a single place. There is a lack of consistency in terminology and some lack of clarity about the relationship between the different instruments, and what instrument is appropriate in different circumstances. This appears to be reflected in some degree of uncertainty and confusion among Bank staff about aspects of PBO policy and practice. An overarching and comprehensive policy and

supporting guidance on PBOs that unifies and replaces the existing plethora of documentation would contribute to improving understanding.

Lack of clarity about how results are to be achieved and the intervention logic governing PBOs

Related to the weakness of guidance, there appears to be some lack of clarity about how the results sought from PBOs are to be achieved and the precise way in which the different elements of PBOs (the money provided, engagement in policy dialogue, use of country systems, the setting of conditions, and complementary measures taken) are supposed to contribute to achievement of these results.

Lack of information on PBOs

There is a lack of complete, consistent and readily available information on PBOs in the Bank. While complete project information is supposed to be recorded in the Bank's management information system on SAP (and complete project documentation should be available through DARMS), considerable difficulty was encountered in developing a complete listing of PBOs over the evaluation period, and analysis of this information was hampered by a coding system on SAP that did not clearly identify which operation was using which instrument, and the apparent incompleteness of documentation available in both SAP and DARMS. Because of the weakness of the information available for SAP, it is understood that alternative lists of PBOs are maintained, for instance for monitoring PBOs under ADF to ensure that policies (for instance the ceiling of 25% of ADF XI resources allocated to PBOs) are implemented.

Uncertainty about audit and fiduciary risk requirements where there is reliance on country systems

The lack of complete and explicit guidance on all aspects of PBOs has contributed to uncertainty and concern about whether the Bank's audit and fiduciary risk assessment policies in relation to PBOs are adequate and properly applied. The case study on the Egypt Financial Sector Reform Programme illustrates the problems that resulted from a lack of clarity about the appropriate audit requirements for that operation. There are also concerns about the appropriateness of the Bank's results framework for PBOs. The point was made a number of times by interviewees that the Bank remains fundamentally a "project Bank" whose policies and processes remain principally geared towards investment projects, rather than programmatic forms of support where fiduciary risk assessment and management depends on government systems.

Insufficient guidance from CSPs on the role of PBOs

While Country Strategy Papers (CSPs) are supposed to provide guidance on the choice of instruments (including assessing fiduciary concerns) there is a general concern that in practice most CSPs do not provide sufficient guidance on the role and place of PBOs within the Bank's overall country strategy, and in particular do not provide sufficient guidance on the appropriate share of PBOs as against investment projects.

Complex and time-consuming project procedures

The Bank's project procedures (which also do not appear to be fully documented and available in a consolidated form for instance as an operations manual) have been designed principally for the needs of investment projects, and the procedures have not been significantly adapted for PBOs, except in where procedures have been shortened to improve emergency response. In general, the requirements for peer review, translation, and different levels of approval impose constraints on how quickly operations can be prepared, and the full set of procedures that must be gone through (including preparation of a full Project

Completion Report), even in cases where a budget support operation may be a direct follow on to a series of annual operations. Once a Project Concept Note (PCN) has been prepared (which may in itself require several months of elapsed time) a minimum of 24 days is required for the necessary approvals. Then, once a Project Appraisal Report (PAR) has been prepared (which may again require several months), a minimum of 107 days is required to complete the process of approval of the PAR and to reach effectiveness for the operation, even if no further negotiation is required with the client during this process. Management of each step takes up a considerable amount of the time of Task Managers in a context where the staffing resources available are limited.

Role of OSGE and implications for a multisectoral approach

The large majority of PBOs have since 2006 been designed and managed by OSGE whose mandate covers the strengthening of national systems for managing public resources, particularly oversight institutions and accountability systems (financial management), and promoting a sound business environment that encourages private investment to support pro-poor growth (economic management). OSGE is a sectoral department under the Vice-Presidency for Sector Operations (OSVP – Operations II). Responsibilities for PBO policy and for the development of appropriate policies for addressing fiduciary risk are located respectively in the Department for Operational Resources and Policies (ORPC), and the Department for Procurement & Fiduciary Services (ORPF) which are located, along with the Bank's nine Regional Departments within the Vice Presidency for Country & Regional Programs & Policy (ORVP – Operations I). These departments have been felt to lack the capacity (at least until recently) to take a lead role with the apparent result that OSGE has had to develop its own approaches and practices. There is also concern in the Bank that OSGE's dominant role in taking PBOs to appraisal may mean that there are insufficient internal checks and balances.

Although many PBOs appear to be classified within SAP as "multisectoral", OSGE which is preparing and managing the bulk of these operations is a "sectoral" department within the Bank. This potentially raises an issue about how far operations designed and managed in this way can adopt a genuinely multisectoral approach in relation to how their objectives are defined (i.e. budget support for a government's poverty reduction strategy as a whole), as opposed to a narrower "sectoral" focus for instance on public finance management. Furthermore, part of the rationale for engagement in budget support is to provide a greater opportunity to engage in policy dialogue. There are concerns that in general the Bank lacks the capacity to do this (in particularly it often lacks strong in-country capacity).

While the strong focus on PFM reform may be justified in terms of its systemic significance, the extent to which the Bank's provision of budget support in itself (particularly in a context where budget support is already being provided by other donors) contributes to achieving a strengthening in the public finance system would need to be demonstrated. The main impact of the provision on budget support is on the ability of the client government to fund its public expenditure plans, and one of the main evaluation criteria for the effectiveness of budget support needs, at least in principle, to be an assessment of how the provision of budget support affects public expenditure, and what results are achieved with the public expenditure that is undertaken. A further point is that OSGE's (limited) staff resources are still heavily concentrated in headquarters so that OSGE has limited capacity to engage directly in public finance reform processes.

Influence of ADF cycles and rules

There are several issues about the rules of operation of the ADF that create difficulties for its effective use to fund PBOs particularly for predictable multiyear programmes of budget support. The first is that policies towards PBOs have varied across ADF replenishments and there is uncertainty about the level of resources and the precise rules that will apply for the next three year ADF cycle. The second is that the annual application of the ADF allocation formula can lead to significant changes between years within an ADF cycle in the level of ADF resources that are available to a country, because of changes in debt status or indicators of portfolio performance (within the case study countries, this had a particular impact on Burkina Faso). This practice also militates against effective multi-annual planning of budget support and inter-annual resource predictability. One apparent result of this is that within country programmes for ADF countries, the amount of budget support that is provided annually may be determined by the residual between the (annually changing) total allocation and the amount that is committed to sectoral projects, rather than being determined by an assessment of the appropriate total amount of budget support that is desirable to achieve defined objectives. Also, the design processes for ADF PBOs tend to have to start early in the financial (and hence calendar) year when resource parameters are known, with the result (given the lengthy procedures described below) that ADF operations can rarely become effective before the middle of the year. This can create problems in aligning appropriately with national budget cycles or with the timing of joint review processes and leads to some inflexibility in the planned timing of disbursements.

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Abbreviations

ADB	African Development Bank
ACBF	Africa Capacity Building Foundation
ADF	African Development Fund
AFCR	African Food Crisis Response
ARPM	Africa Peer Review Mechanism
AU	African Union
BoP	Balance of Payments
BSL	Budget Support Loan
CFAA	Country Financial Accountability Assessment
CGP	Country Governance Profile
CPA	Country Performance Assessment
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Rating
CSP	Country Strategy Paper
DARMS	Documents and Records Management System
DBSL	Development Budget Support Loan
DERBM	Development Effectiveness and Results-Based Management
EC	European Commission
ELF	Emergency Liquidity Facility
ESW	Economic and Sector Work
FO	Field Office
FSF	Fragile States Facility
GAP	Governance Action Plan
HDI	Human Development Index
HIPC	Highly Indebted Poor Country

HR	Human Resources
IM	Initiating Memorandum
IMF	International Monetary Fund
IPR	Institutional and Policy Review
ISP	Institutional Support Project
JAS	Joint Assistance Strategy
MDG	Millennium Development Goal
MDTF	Multi Donor Trust Fund
MIC	Middle Income Country
MTS	Medium Term Strategy
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
ORQR	Department of Quality Assurance and Results
OSGE	Governance, Economic and Financial Management Department
PBA	Performance Based Allocation
PBL	Policy Based Lending
PBLG	Policy Based Lending on Governance
PBO	Policy Based Operation
PCCF	Post-Conflict Country Facility
PCN	Project Concept Note
PCNA	Post-Conflict Needs Assessment
PCR	Project Completion Report
PER	Public Expenditure Review
PFM	Public Finance Management
PRSP	Poverty Reduction Strategy Paper
RMC	Regional Member Country
SAL	Structural Adjustment Loan

SDBSL	Sector Development Budget Support
SECAL	Sectoral Adjustment Loan
SIP	Sector Investment Programme
SPA	Special Programme of Assistance to Africa
SWAp	Sector Wide Approach
TFI	Trade Finance Initiative
UA	Unit of Account
UNDP-RBA	United Nations Development Programme - Regional Bureau for Africa
UNECA	United Nations Economic Commission for Africa

1 Introduction

The terms of reference for this evaluation define the scope of the Institutional and Policy Review (IPR) as follows:

“This [the IPR] will examine how the corporate strategy and specific policies and guidelines on PBL¹ [Policy Based Lending] have evolved in the Bank and the extent to which these provide a clear and coherent framework for the design and delivery of PBL. The study will also consider how Bank policy on PBL has been translated into decision making about the choice of aid instruments within country programmes; and the evolution of the Bank’s organisational structure, systems and staffing arrangements for delivering PBL over 1999-2009.”

The IPR has been prepared in parallel with a review of literature on the relationship between aid and policy, and of the evidence on the effectiveness of, and good practice in the design and management of, policy-based instruments. This has included comparative reviews of practice in the World Bank, Asian Development Bank, European Commission and selected bilateral donor agencies. The evaluation has also involved six country case studies (which will address in more detail the issue of how Bank policy on policy based operations (PBOs) has been operationalised and has affected the choice of aid instruments in country programmes), which were selected from among those countries in which the Bank has a sustained track record of the use of PBOs over the evaluation period and to cover the range of different country contexts in which the Bank has been using policy based instruments. The countries covered by case studies are Burkina Faso, Ethiopia, Morocco, Rwanda, Sierra Leone and Tanzania. The issue about how Bank policy has been translated into the choice of aid instruments in country programmes is considered in the country case studies, rather than in the IPR.

The evaluation also includes² four case studies of specific operations that were selected to be complementary to the country case studies, and also to cover recent large operations that have accounted for a significant proportion of the Bank’s policy based commitments over the evaluation period:

- Botswana Economic Diversification Support Loan (approved 2nd June 2009).
- Nigeria Economic and Power Sector Reform Programme (approved 1st October 2009).
- Egypt Financial Sector Reform Programme (approved 26th July 2006).

¹ While the terms of reference for this evaluation use the term “Policy Based Lending”, the evaluation team in general is using the term “Policy Based Operations” reflecting the fact that some policy based operations are ADF grants. A potential cause of confusion, as noted in Section 4 below, is that the guidance on Policy Based Lending produced in 1988 (ADB/ADF 1988) refers specifically to adjustment operations, while in subsequent practice the use of the term PBL has been broadened within the Bank to encompass several other instruments, including Development Budget Support Lending.

² It was originally envisaged that these four operations would form part of the IPR and would be used to illustrate specific features of the Bank’s project cycle. However, while these four operations are highly significant in terms of size and strategic importance for the Bank they are not typical of the bulk of policy based operations and so do not provide very good general examples of the Bank’s processes. It is therefore now proposed that these four project case studies will feed directly into the Evaluation Report rather than forming part of the IPR.

- Democratic Republic of Congo Emergency Programme to Mitigate the Impact of the Financial Crisis (approved 1st May 2009).

The remainder of this paper is therefore structured as follows. Section 2 provides a summary of the Bank's policies on, and experience with, PBOs during the period before that covered by this evaluation. Section 3 highlights key factors and trends in the international aid, and the African, contexts over the evaluation period, and the strategies and organisational responses that the Bank has adopted to position itself to deal with emerging challenges and opportunities. This section also reviews the development of Bank policies and initiatives in areas of particular significance for PBOs, specifically on governance, decentralisation, results measurement, the aid effectiveness agenda, and engagement in post-conflict and fragile situations. Section 4 presents the main elements of the policy framework that has governed the Bank's PBOs over the evaluation period. Section 5 presents a summary of information on the Bank's PBO portfolio over the evaluation period, and summarises the available evaluation and review evidence on the performance of the portfolio. Section 6 discusses the main issues arising from the review, including those that have arisen from interviews with Bank staff about the policy and institutional framework, which will be examined further through the country case studies and the additional case studies of specific significant operations. Annex A provides a timeline summarising major relevant events over the evaluation period. Annex B provides organisational charts of the Bank. Annex C provides fuller details of the analysis undertaken of Project Completion Reports (PCRs) for Bank PBOs.

2 Summary of the Bank Experience with PBOs to 1999

2.1 The origins of policy based operations in the Bank

The African Development Bank's initial experience with policy based operations during the 1980s was based on the structural adjustment agenda that was being led by the IMF and the World Bank, in response to the deep macroeconomic problems that Africa was facing, in a context where most African countries operated regimes of exchange and price controls and had been pursuing largely state-led development strategies. The Bank was responding to the demand from Regional Member Countries (RMCs) for balance of payments support as stabilization and structural reforms were implemented. In 1984 the Bank's Board of Directors approved the involvement of the Bank with non-project lending to regional member countries, based on guidelines including close alignment with the World Bank. In 1986, the ADB Group undertook to strengthen its involvement in economic policy dialogue with RMCs, and from 1987 the Bank participated in the Special Programme of Assistance to Africa (SPA) which emphasised the need for simplifying aid management in Africa, the importance of overall public expenditure management, and the need for aid to support national public expenditure priorities.

These early initiatives were consolidated in the "Policy Based Lending Guidelines and Procedures" that were approved by the Board in 1988 (ADB/ADF 1988). The purpose of PBL was "to assist regional member countries (RMCs) in their effort to restructure their economies and to restore growth with equity and creditworthiness". The Guidelines identified two main types of instruments for PBLs:

- Structural adjustment loans (SALs), aimed at improving the efficiency throughout the economy. They focused on macroeconomic issues (e.g. changes in pricing and trade policies, restructuring of public expenditure and investment, rationalization of the public enterprises sector, ...) as well as institutional reforms economy-wide and in key sectors;
- Sectoral adjustment loans (SECALs), which supported sector programmes of policy and institutional change, with a view to increased resource mobilization and efficient resources allocation. The reforms undertaken included changes in sectoral policies, restructuring of capacity, strengthening of sectoral institutions and establishment of an appropriate framework for sectoral investments.

In the 1988 guidelines, policy-based loans were designed to provide quick-disbursing resources, often over a period of about 3 years, involving successive disbursements predicated upon the progressive implementation by the Borrower of the agreed policy and institutional reform measures. Although the bank adopted multiple tranching for PBLs, often countries were unable to meet second and third tranche conditions. This meant that outstanding tranche releases remained high and waivers were granted. Between 1986 and 1998, the Bank engaged in 71 SALs and 29 SECALs. PBL approvals using ADB resources amounted to UA 2.7 billion and UA 1.1 billion using ADF resources.

2.2 Lessons from early experience

The Bank Group evaluated its policy-based lending between 1986 and 1997 (OPEV, 1997). The evaluation noted (p. i) that "the Bank came to the adjustment process with limited human and financial resources" and that the Bank had generally used loan conditions similar to those the World Bank or a selection of conditions from a Policy Framework Paper guiding the overall adjustment effort (to whose preparation the Bank had made no contribution). The

evaluation noted that first tranche conditions had generally been easy to fulfil (reflecting the urgent need for resources from the borrowing government) but that conditions for subsequent tranches were much more problematic. Overall, the evaluation noted the mixed record of the adjustment efforts that the Bank had been involved in supporting but that adjustment had had positive results when policies were sustained and that generally the environment for the private sector had improved in Africa. The main problems identified by the evaluation in the design and the implementation of Bank-supported adjustment programmes were the following:

Design:

- A major criticism was the large number of policy reforms to be undertaken with little attention paid to the administrative constraints in the recipient countries.
- Little attention was paid to the interaction between competing and conflicting objectives of policies and policy instruments.
- Lack of programme ownership by the recipient government was identified as the single most important challenge.
- Poor supply response meant the poorest households were largely unaffected by PBLs.
- The ADB's resources allocated to PBLs were not sufficient to play a significant role in the design and implementation of these instruments compared to the World Bank and IMF.
- The ADB lacked adequate facilities to provide the support to undertake impact assessment work, such as surveys, programme design, and to set up think-tanks.
- The programmes were too optimistic on the time frame required to bring about fundamental change, which made them unrealistic when capacity constraints were not addressed and the level of commitment by the political class was weak.

Implementation:

- Lack of compliance with legal covenants by the borrowers, especially in terms of financial and audit requirements translated into large delays on disbursements.
- Lack of programme implementation support to follow-up appraisal and mid-term missions meant that recommendations or agreements were not followed by actions. The Bank's efforts to support programme implementation were found to have been limited to a mid-term review mission which was in fact mainly supervision to release the second tranche.

The main recommendations from the evaluation were that the Bank should redesign its next phase of adjustment programmes to focus on longer-term development issues, rather than crisis response, and that the Bank should be more selective in the choice of countries the Bank seeks to assist with this type of lending programme, and the choice of areas of focus for conditions.

The Bank's experience with supporting adjustment over this period was also reviewed in a study on the 'Critical Factors in three successful structural adjustment programmes: A case study of Egypt, Ethiopia and Mozambique' undertaken in 2001 but reviewing the totality of Bank engagement with adjustment programmes in the case study countries (ADB/ADF 2001). This study concluded that adjustment support could be successful (as in the case of the three countries selected) and that this relative success depended on "programme design, timing and relevance, external funding, ownership of the programmes and the supply response of the economies" (p. 17). The paper re-emphasised the importance of selectivity by the Bank, and of a focus on the critical success factors.

A subsequent wider review of the Bank's support for structural adjustment programmes from the 1980s to the first half of the 2000s (OPEV, 2007) concluded that:

- Earlier programmes were unsuccessful but the more recent ones are faring better.
- The programmes have often been too complex given the capacity of national governments.
- Programmes have often been implemented without sufficient ownership by the national governments.
- There was generally a very low level of social consultation in programme design processes.
- Greater consultation and flexibility is needed in the programme design process.
- Programmes need to be understood and accepted by the general population.
- The effects of the programmes on supporting the growth of the private sector have been limited.
- There has been unsatisfactory performance in the privatization elements of the programmes.
- Where assessed, the social impact of the programmes was often negative.
- The programmes have had an important capacity-building effect on policy-making.
- The programmes have had very weak monitoring and evaluation systems.
- Loan conditionality in later programmes has been less of a cause for delays in programmes.
- Programmes should focus on fewer reform measures and phase them over a longer period of time.

3 Bank Strategy, Policies and Organisational Reforms 1999-2009

3.1 International aid architecture and the African context

By the end of the 1990s (and the start of the period covered by this evaluation), the development agenda for Africa had moved beyond a focus on short-term stabilization and adjustment. Pervasive controls on prices and foreign exchange had largely been removed and there had been some improvements in economic performance, although key institutions remained very weak (affecting the quality of the enabling environment for the private sector), and in some countries had been further undermined by repeated adjustment failures, while a number of countries emerging from conflict and economic collapse had enjoyed sustained growth for more than a decade. In addition, there had been important international developments in the architecture of aid.

In September 1999, the World Bank and IMF proposed that all Bank and Fund concessional lending should be provided in support of national Poverty Reduction Strategy Papers, whose preparation was envisaged initially as related to qualification for receiving debt relief under the HIPC initiative. The adoption of the UN Millennium Declaration in 2000, and the formulation of the Millennium Development Goals (MDGs) from these in 2001, provided an agreed international framework of targets for poverty reduction which implied a multidimensional concept of poverty. The 2002 Monterrey International Conference on Financing for Development set out an agreed international framework for international aid and aid targets to assist achievement of the MDGs. During the latter half of the 1990s, there was also an increasing focus on trying to improve the effectiveness and management of aid through greater harmonisation between donors and alignment on government systems, which called into question the standalone project model of development finance, as tending to undermine rather than strengthen government ownership and management capacity. The model of the Sector Wide Approach (SWAp) involving the coordination of aid around support to an agreed sector strategy, ideally supported by common funding mechanisms (such as basket funding arrangements) developed as a way of seeking to improve the effectiveness of aid.

Over the period covered by this evaluation, the following significant trends can be identified that have structured the environment in which the ADB has been operating, and in which PBOs have been provided:

- The “aid effectiveness agenda” in support of the agreed international targets for poverty reduction was consolidated and taken forward to the level of achieving international agreement on key principles and a framework for monitoring of key indicators of performance that was embodied in the Paris Declaration on Aid Effectiveness in 2005, followed by the Accra Agenda for Action in 2008. This framework favoured Programme Based Approaches as a preferred means by which aid should be provided in many contexts, with general budget support seen as the strongest expression of a Programme Based Approach, and Sector-Wide Approaches (SWAps) as a means for applying Programme Based Approaches at the sector level. At the same time, the number and variety of countries and agencies providing aid increased, particularly through the increased prominence of China and other middle income countries as donors and promoters of South-South collaboration, and the emergence of the Global Funds and large private foundations as providers of aid.

- While at the start of the evaluation period there tended to be a strong focus from donors (and in the first generation of PRSPs) on improving social services and the regulatory environment for the private sector as a means for poverty reduction, over the decade the policy emphasis shifted more towards infrastructure investment as a prerequisite for growth. This was reflected in subsequent generations of PRSPs, which were generally more effectively integrated with national development planning systems and which enjoyed stronger national ownership and political commitment than the first generation.
- While the economic performance of many developing countries was strong over the evaluation period (including in Africa where much of the growth was led by high demand for African natural resources and resource-based products), there was increasing international concern about state failure and the problems of countries emerging from conflict or facing severe problems of governance or ongoing conflict. It was generally recognised that in such contexts different aid modalities were required, with a strong emphasis on supporting rapid post-conflict recovery and preventing relapse back into conflict.
- Moves towards strengthened regional cooperation in Africa, through NEPAD, the African Union, and the African Peer Review Mechanism.
- The high level of demand for Africa's natural resources led to an increasing interest in foreign direct investment in Africa, including from China as an increasingly important player in the region. The commodities price boom in the mid-2000s generated large increases in foreign exchange earnings for many African countries but also adversely affected many of the poor who were especially vulnerable to escalating prices for food and fuel. The international financial crisis from 2008 adversely affected both the demand for African exports, and the prospects for African access to international capital, though the direct affect on Africa was smaller than initially feared, particularly because key export commodity prices tended to remain quite high. However, the severe balance of payments problems that many African countries encountered through 2009 led to a sharp increase in demand for finance for balance of payments support.

3.2 The role and mandate of the African Development Bank and African Development Fund

The African Development Bank Group (comprising the African Development Bank, African Development Fund (ADF), and Nigerian Trust Fund) has been seeking to position itself as Africa's leading Development finance institution. Its overarching objective is "to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction." The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs; and providing policy advice and technical assistance to support development efforts. The Bank Group finances AfDB operations from the Bank's capital, and ADF concessional operations from three yearly replenishments.

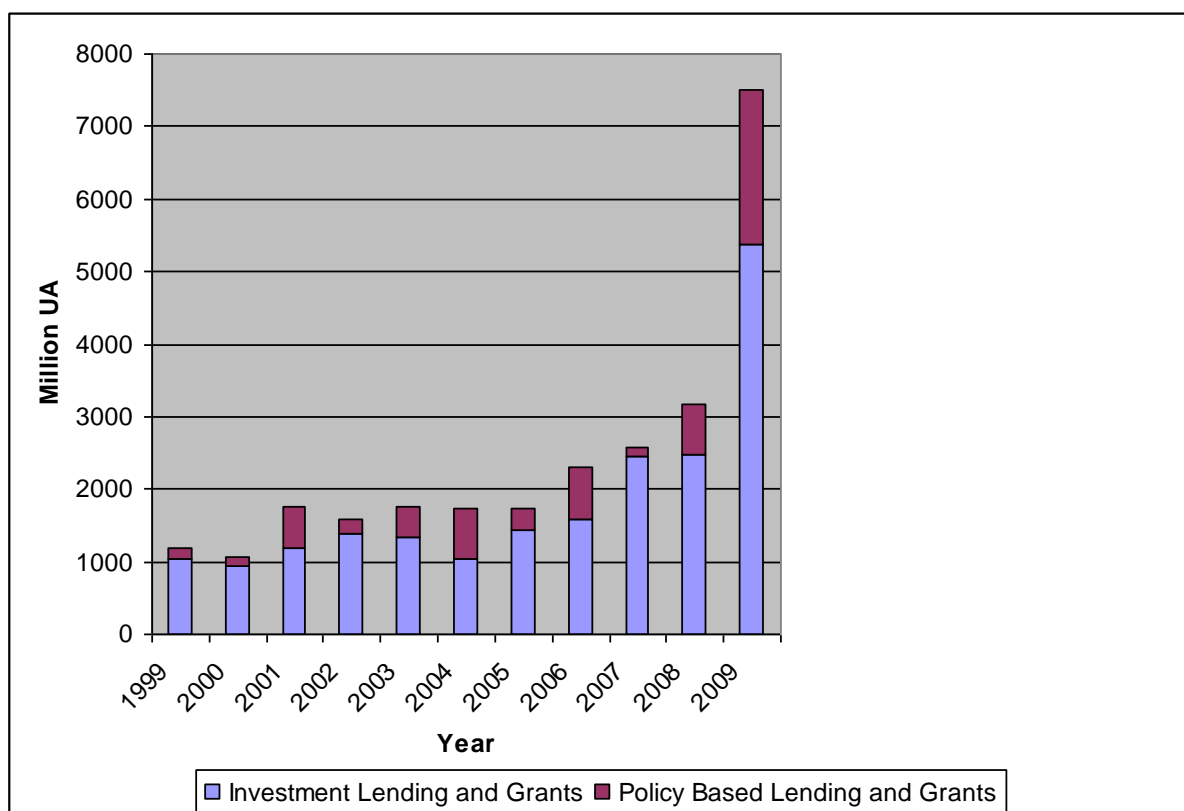
The Bank's supreme body is its Board of Governors who are usually finance or economy ministers of member countries. The Board of Governors issues general directives on Bank Group policies. The Board of Directors is elected by the Board of Governors, with 12 executive directors from regional member countries, and six from non-regional members. The ADF has its own Board of Governors (with each state participant in the ADF represented by one governor, while the Governors of the AfDB are ex-officio Governors of the Fund). The ADF Board of Directors has twelve executive directors six of whom are appointed by state

participants, and six designated by the AfDB from among regional executive directors of the Bank.

The respective Boards of Directors are responsible for approval of Bank Group policies and guidelines, and for the approval of all Bank and Fund operations. Any requests for waivers of loan conditions also need to be approved by the Board of Directors for either an AfDB or ADF operation.

Over the period of the evaluation, the Bank has maintained its AAA rating and seen a significant expansion of its activities, with the Bank's total lending increasing significantly over the period as shown in Figure 3.1 below, with a particularly sharp increase in operations in 2009 as there was a strong demand for the Bank's products in response to the international financial crisis.

Figure 3.1 Total African Development Bank Group Loans and Grants



Source: Annex D, and Section 5

3.3 Overview of the Bank's strategic and organisational responses

The ADB has responded to the challenges of a changing international and regional environment through adopting important strategic and organisational changes during the

evaluation period. At the strategic level, this involved the development of a vision statement in 1999, which provided a framework for the Bank's 2003-2007 Strategic Plan and a set of organisational reforms implemented in 2006. Lessons from this experience informed the 2008-2012 Medium-Term Strategy.

Vision of the African Development Bank 1999

The Bank's Vision Statement (1999), which was elaborated following a broadly consultative process, specified economic growth and poverty reduction as the Bank's overarching goals and identified agriculture and rural development, human resources development, and private sector development as sectoral priorities at the national level. At the regional level, the Vision focused on economic cooperation and regional integration. In addition, the Vision emphasised the centrality of good governance, gender equality, and environmental management as critical for sustaining the development process and for enhancing the impact of all Bank Group operations.

2003-2007 Strategic Plan

The Bank's 2003-2007 Strategic Plan (ADBG, 2002) was envisaged as operationalising the Vision Statement. It defined sectoral priorities for resource allocation for the Bank as:

“agriculture and sustainable rural development, with greater emphasis being given to water supply in vulnerable rural and peri-urban areas, and to human capital formation through primary education and basic health services. Selective support will also be given to the development of essential infrastructure, where this is a vital component of rural development, or a priority factor of economic integration.”

Good governance was identified as one of a set of cross-cutting themes that would also receive significant support. The Strategic Plan emphasised the need to improve quality of Bank projects at entry, as well as supervision and monitoring, and the improvement of incentives and structures for effective implementation. A strong element of this was the strengthening of field presence:

“The Bank will resolutely pursue the policy of gradual deconcentration and decentralization of its activities in its regional member countries. This gradual shift in its activities will be accompanied by real efforts to adapt the new structure of the organization, effective in January 2002, by prioritizing the improvement and simplification of coordination procedures, and better delegation of authority. To that end, the planned opening of new national and regional offices will be a key objective of the 2003-2007 Strategic Plan.”

The 2003-2007 Strategic Plan saw PBOs as having a role in support of these sectoral priorities:

“In the case of multisector policy-based operations in support of macroeconomic policy reform, the Bank will play an increasingly active role in preparatory studies and policy dialogue, focusing on the priority sectors and themes set out above and in which it has, or will have developed clear capabilities over the Plan period. Particularly important in this respect will be the assistance given to RMCs to help them develop Poverty Reduction Strategies Papers (PRSPs) in close coordination with the BWIs. The Bank will be proactive in supporting these efforts, particularly in those sectors and thematic

areas likely to make the biggest impact on poverty reduction in RMCs. The Bank Group will consider introducing the Budget Support Loan (BSL) as a new instrument to finance the debt portion of the multi-year expenditure framework of MICs.” (paragraph 3.5.5)

Budget support was also seen as a potential instrument for supporting engagement in sector-wide approaches:

“The Bank will increase the proportion of its assistance provided through participation in multi donor supported, sector-wide approaches (SWAPs), particularly in the agriculture and social sectors. In appropriate cases, such SWAPS will include participation in sector investment and budget support programs. The greater volume of grant resources available will be used to support the design and implementation of SWAPs by helping ADF eligible countries build their capacity to manage, monitor and evaluate public expenditures, strengthen internal regulation and generally promote transparency and good governance.” (paragraph 4.2.6)

However, beyond these references, PBOs received no further attention in the 2003-2007 Strategic Plan.

2006 Organisational reforms

The 2008-12 Medium Term Strategy (MTS) (ADBG, 2008) reviewed the performance of the Bank in implementing the Strategic Plan, while also noting that while there had been rapid economic progress in Africa, the needs of clients were becoming more diverse and the context of engagement more complex (for instance through the increasing number of donors and investors). The review of performance concluded that

“execution of the strategic plan was impeded by shortcomings in the Bank’s structure and business processes. These included an insufficient field presence, country focus and client orientation; inadequate focus on delivery across the project cycle and clear results; capacity limitations, including for front line operational work; and, limited knowledge generation and dissemination.” (paragraph 2.11)

In order to address these problems the MTS noted that:

“Senior Management proposed, and in April 2006 the Board approved, major changes to the Bank’s organizational structure, as well as reforms in human resource management, business processes, and the budget framework and administration. Three parallel Operations Complexes were created to enhance country focus, deepen sector expertise and improve project implementation: a Country and Regional Programs and Policy Complex to develop country strategies and work programs; and two Sector Operations Complexes to consolidate internal technical capacity and build greater professional depth in selected areas. Supporting organizational changes to better align the Bank’s structure with its strategic priorities include the establishment of NEPAD, Regional Integration and Trade Department, and a Governance Department.” (paragraph 2.12)

These organisational reforms were underpinned by the need to

- Consolidate the Bank’s achievement and reposition it for greater effectiveness and efficiently
- Meet the evolving development challenges of RMCs

- Provide leadership in areas where the Bank has developed, or can develop, a comparative advantage, and in those mandated by RMCs, the NEPAD, and the international community.

Four priority areas were identified as key drivers of change:

- **Human Resources:** A new HR Strategy was approved by the Board of Directors which included new mechanisms for more rigorous HR management and more accurate need analysis; improved staff recruitment to attract and retain top candidates; managing staff for results; and a more objective staff performance system. A key development was the introduction of a dual career path with a separate stream for technical experts to run alongside the existing managerial stream.
- **Business Processes:** More effective operational business processes were introduced to improve client responsiveness. A streamlined review and approval process was adopted and country teams were strengthened to act as focal points in the design, review, and coordination of the Bank's operations. The Bank delegated appropriate and specific authority in operational decision-making to achieve greater empowerment of staff with robust fiduciary safeguards and accountability.
- **Budget Reforms:** Problems identified were: (i) a lack of integration with respect to Operations Portfolio Management Systems and the budget module; (ii) Low budget discipline compared to sister institutions; (iii) Little emphasis on budgetary resource management in performance evaluation reforms. Budget process enhancements were developed aimed at (i) ensuring strict alignment between resource allocation and institutional priorities; (ii) introducing flexibility in the management of the budget; and (iii) establishing a new accountability and performance framework which links work program deliverables to Key Performance Indicators. The reforms were approved by the board in June 2007.
- **Decentralisation:** The decentralisation strategy aimed to open 25 field offices by end-2006. This increased the Bank's visibility and improved interaction and sustained dialogue with national authorities and other development partners. A new country-specific Customized Staffing Matrix was introduced to better address country needs and portfolio supervision and management.

The new structure entered into force in July 2006. The new structure was guided by the objectives of enhancing country focus, improving project implementation and deepening sector expertise.

Medium-Term Strategy 2008-12

The overall assessment of the performance of the Bank against the objectives of the 2003-2007 Strategic Plan, as set out in the MTS 2008-12, was that:

“While the underlying intent of the 2003-2007 Strategic Plan was sound, both its articulation and its execution were insufficiently focussed. In retrospect and in its application the Plan was not adequately selective. It included too many different sectors for individual countries, leading in some cases to a lack of alignment with core national-level priorities and insufficient concentration of the Bank's own skills and capacities. Portfolio quality improvement was not sufficient; portfolio management requires substantial strengthening at both country and sector levels; disbursement rates still lag behind programmed levels and those of comparator organizations; and,

non-financial transactions costs are still too high. Knowledge generation and advice has developed more slowly than expected.” (ADBG, 2008, paragraph 2.19)

The 2008-12 MTS proposed a shift in the operational focus of the Bank towards a selective emphasis on infrastructure, governance, private sector operations, higher education and technology and vocational training, which were seen as contributing to broader development goals, for instance in agriculture and health, and in country terms a greater focus on both fragile states and on MICs, as well as a deepening of organizational reforms including decentralization. The approach also emphasised the need for more consistent work in partnership with others and the need to “improve harmonisation, alignment and the use of country systems, as agreed in the Accra Agenda for Action.” (p.9)

The approach to be followed for governance was expressed as follows:

“The Bank will deepen its operational work to strengthen governance in key areas linked directly to its core operational priorities. It will focus on strengthening transparency and accountability in the management of public resources, at the country, sector and regional levels, with special attention to fragile states and natural resources management. The choice and mix of instruments will be tailored to country circumstances, combining budget support, institution strengthening projects, non-lending operations, and analytical and advisory work.” (paragraph 4.4)

Both organizational and process changes were envisaged with a focus on improving quality at entry, involving the integration of Quality Assurance, Results Reporting and Safeguards Compliance into the new Department of Quality Assurance and Results (ORQR), and through Country team and peer review of operational proposals, and increased upstream quality assurance.

3.4 African Development Fund

The African Development Fund provides resources for concessional lending and grants to qualifying RMCs, with available funds allocated between countries on the basis of a formula related positively to need, to the strength of governance and the quality of policy and institutions, and to the performance of the Bank portfolio in the country.³ The ADF

³ The ADF allocation process under ADF-XI was as follows: “Performance-based allocation (PBA) is the core mechanism for allocating the Fund’s scarce concessional resources to eligible RMCs. This ensures that proportionally more resources go to those recipients best positioned to utilize them more effectively, and rewards countries for strong institutions and policies and effective implementation of ADF projects and programs. Nonetheless, the level of development - and thus need – is factored in the distribution formula, so that countries who are poorer or have larger populations also receive more. In the resource allocation system, performance is measured by the Country Performance Assessment (CPA), while need is measured by per capita income (an index of a country’s poverty level) and population size. The CPA is a weighted average of the Country Policy and Institutional Assessment (CPIA) at 26 percent, the Country Portfolio Performance Rating (CPPR) at 16 percent, and the Governance Rating at 58 percent. In addition, the system provides all countries with a basic minimum allocation of UA5 million. Also, eligible post-conflict countries receive supplementary financing from the Fragile States Facility in support of their recovery and in recognition of their status of exceptional need. The level of countries’ risk of debt distress is also taken into account: once the indicative size of the allocation has been determined, the form of the funds (loans or grants) is decided. Countries with a low risk of debt distress receive their allocation in the form of loans, countries with a high risk receive grants, and countries with a moderate risk receive a mix of loans and

replenishment process has taken place every three years, and this and the comprehensive mid-term reviews of the ADF have provided an opportunity for donors (through the ADF Deputies appointed by donor country governors of the Fund) to review aspects of the Bank's performance and organisation that impact on the effectiveness with which ADF resources are used, and to support mutually agreed priorities.

Under ADF-IX (2002-4) a replenishment of UA 2.37 billion was agreed, with policy objectives of (ADF, 2002):

- Achieving greater selectivity and focus in Fund operations with a greater allocation of resources to priority areas.
- Enhance the Fund's development effectiveness through a greater focus on results.
- Improve the link between lending and performance including a stronger link between PRSPs, country performance assessments and country strategy papers.
- Improved coordination with other development partners and improved stakeholder participation.

The sectoral focus endorsed that in the Bank's Vision Statement on agriculture and rural development, education and health, governance and public sector management, the private sector, and regional integration. It envisaged a "limited" engagement of the Fund in post-conflict countries.

Over the remainder of the evaluation period, particularly through ADF-X (2005-7) and ADF-XI (2008-10), there has been a substantial increase in the level of resources available for the ADF, and a switch to providing a greater grant component. The ADF process has been used to support the priorities identified in the Bank's strategies, and to encourage the implementation of the Bank's organisational reform agenda aimed at improving the quality of its operations and engagement in RMCs.

Key features of the replenishment of ADF-X (ADF, 2005) were an increase from 21% under ADF-IX to 44% in the level of resources to be provided on grant terms, with two-thirds of the eligible countries (26 countries) receiving ADF assistance in the form of grants only, while for three other countries the allocation of grants was increased to 45 percent. Resources were also increased for regional integration and for rural water supply and sanitation, and support for the Bank's post-conflict initiative included an initial allocation of UA 100 million, with a commitment to increase this amount as required. Donors supported the Bank's organisational reforms under the 2003-2007 Strategic Plan, and the MTR process for ADF-X particularly emphasised improving supervision, including the cancellation of dormant and poorly performing projects.

For the ADF-XI period, ADF Deputies agreed on a record level of UA 5.76 billion (US\$ 8.9 billion) representing a 52% increase over the replenishment for ADF-X (UA 3.79 billion), in support of the Bank's identified priorities of infrastructure, governance, fragile states (with US\$950 million in support of the FSF) and regional integration (ADF, 2008). Under ADF-XI, a cap on the total amount of ADF resources to be used for PBOs of 25% was established.

grants. Countries are notified of their indicative allocation for the three-year period of each ADF, and the allocation is re-calculated each year."

3.5 Governance

The emphasis on strengthening governance has been taken forward through ‘Governance Strategic Directions and Action Plan GAP 2008-2012’ which was presented to the Bank’s Board in April 2008 (ADB/ADF, 2008a). The strategic directions and Action Plan were intended to provide a rationale for greater strategic selectivity and focus in the Bank’s governance work.

Key operational implications included the following:

- Institutional Support Projects (ISPs), policy-based lending (DBSLs) and upstream analytical work (Economic and Sector Work – ESW) would be further aligned to ensure greater synergies at the country level. Future Bank ISPs will focus on institutional development and capacity building in public financial management and accountability, in particular in external auditing and public procurement.
- The Bank’s capacities in economic and financial governance would be managed through the establishment of a cross-departmental network of governance experts.
- Delineating the roles and responsibilities of the Bank’s departments to deliver economic and financial governance activities in RMCs.

The strategy also proposed the development of a range of instruments for economic and financial governance operations. A key step in 2006 affecting the design and management of PBOs in the Bank was the establishment of the Governance, Economic and Financial Management department (OSGE), under the “VP Operations II: Sector Operations” which has taken responsibility for the design of the large majority of Bank PBOs, where previously multisectoral PBOs were designed and led by Country Economists. The GAP stated that the 2006 restructuring of the Bank and the establishment of OSGE brought greater coherence and consistency in the use of instruments. The department is composed of two divisions:

- i. Governance Division, with responsibility for the preparation of country governance profiles (CGPs), governance policy-based operations and support to the African Peer Review Mechanism (APRM) in collaboration with the NEPAD department.
- ii. Economic and Financial Management Division, with the responsibility for all economic policy-based operations such as stabilisation and adjustment programs, poverty-reduction support loans, and budget support operations as well as PERs in all RMCs. The main deliverables of the division are policy-based operations, public expenditure reviews and financial sector reform programs.

The Bank’s instruments for achieving its governance objectives were identified as including:

- **Policy dialogue:** The Bank’s activities in governance would be guided by a careful assessment of country needs, governance risks and potential for success. Field officers were to play a pivotal role in the Bank’s dialogue at country level.
- **Operational support:** This includes ISPs, DBSLs, ESW and Balance of Payment Support (BOP). These would be aligned to country priorities and sector focus. The Bank would use budget support as its instrument of choice to encourage institutional reform and deepen policy dialogue on governance, but only when conditions were appropriate and fiduciary conditions were met. OSGE’s contribution to Bank budget support operations would concentrate on implementing governance policy-based operations. These included budget support operations whose main purpose was to improve economic and financial governance and the governance components of multi-sector

budget support operations. It was envisaged that the relevant Bank departments would handle multi-sector budget support operations, based on the main objectives such operations seek to achieve.

- **Knowledge development:** The Bank had a key role to play in crystallizing and advocating for an African perspective on governance and would support analytical activities such as governance assessments, PFM reviews and public procurement reviews.
- **Enhanced partnership:** The Bank would focus on selected strategic partnerships engaging in donor harmonization with key strategic partners including World Bank, IMF, EC and UN. The Bank would also work with key institutions such as AU, NEPAD-APRM, UNECA, ACBF, and UNDP-RBA.

A key change that has resulted from the establishment of OSGE is that OSGE has had primary responsibility for the design and management of most PBOs in the Bank, other than those led by other sectoral departments. Previously, multisectoral PBOs (either as adjustment operations or using DBSL) were designed and managed by Country Economists, located in Regional Departments.

A further important initiative has been the establishment of the Procurement and Fiduciary Services Department (ORPF), in particular the Fiduciary Service Division which focuses on assessment the country financial management systems.

3.6 Decentralisation

The 'Proposed Strategy for the Decentralisation of the Activities of the African Development Bank Group' was approved by the Bank's Board in September 2004. The key objectives of the Decentralisation Strategy were to be closer to the client base and to participate more effectively in the countries' development efforts. This was implemented through building on existing project-based field presence. The 2006 'Enhanced Decentralisation Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach' (ADB/ADF, 2006d) was presented by Management to the Board and discussed, but not formally approved. Despite the absence of formal Board approval, the 'whole Bank approach' to decentralisation became the operating norm (i.e. delegation of authority within a country focused approach).

The strategic priority underlying the Bank's move towards decentralisation over the evaluation period has been to establish a wider and more effective country presence, with due attention to the quality, effectiveness, and cost-efficiency of country offices. The main pillars of the strategy were stated to be:

- Greater empowerment of, and delegation of, authority to field offices
- Optimization of field office staffing levels and skills mix
- Effective field office contribution to portfolio management and project implementation
- Strong monitoring and auditing mechanisms to ensure the integrity of procedures and processes.

The strategy also envisaged fiduciary safeguards to mitigate risks associated with increased delegation of authority. The reforms presented in 2006 in "Enhancing the effectiveness of the bank" summarized the decentralisation lessons learned and new structure as follows:

Table 3.1 Decentralisation lessons learnt and the new structure

Lessons learned	Proposals
Decentralisation requires empowerment of field offices to improve portfolio management, dialogue, coordination and responsiveness	Greater role and authority for field office staff in portfolio management and dialogue
Staffing must be adapted to country strategies and portfolio activities	Optimisation of staffing based on country priorities, size and nature of portfolio
Roles and responsibilities between field offices and headquarters must be well defined	Redefined, straightforward roles under new structure with responsibilities of regional departments gradually moving to field offices
Existing processes and procedures need revision to facilitate greater effectiveness, speed and client responsiveness	Higher thresholds under procurement and disbursement policies for field offices to enable faster responses
Reporting lines and communication must be straightforward	Field office reporting directly to one regional director

An evaluation of the Bank’s implementation of decentralisation in 2009 (ADB/ADF, 2009c) noted that the process was behind schedule in terms, in particular, of the number of sector specialists in the field and the level of delegated authority so that the Bank was not on course to meet the target set out in the MTS of having 45% of its staff in the field. The evaluation concluded that the objectives of the Decentralisation Strategy were being partially achieved:

- “There is clear evidence of change in some important activity areas associated with improving portfolio management through field presence. But this is not yet strong enough nor sufficiently widespread to deliver quality assured project processes.
- There has been no significant change in the nature of the dialogue between the ADB and the RMC. The proximity of FOs has brought a change in the frequency and responsiveness of dialogue, which are two important elements in the long term process of building trust. But the dialogue has yet to mature into a more challenging form which could have a more appreciable effect on improving development outcomes.
- Decentralisation is improving the visibility of the ADB within the national setting and within the donor coordination landscape. The ADB’s effort to establish FOs has been generally well appreciated by external stakeholders and there are strong centres of enthusiasm for decentralisation - and further decentralisation – both within the ADB, and amongst its clients and partners.
- There has been a minimal effect in terms of the ADB strengthening its ties with regional economic entities and its links with the private sector and civil society.
- Decentralisation is proving to be a positive factor in the growth of the lending volume of the ADB, particularly in those countries eligible for ADB funding. The evidence is not sufficiently strong to establish causality and increases are likely to be the result of a combination of factors.
- Decentralisation within the ADB is not yet mature enough to provide evidence of any benefits at scale. There is some way to go in establishing the decentralised systems and capacities which are a necessary prerequisite for delivery of benefits expected in the longer term. However, there is evidence of some clear immediate advantages to having

some form of field presence in RMCs and improvements in terms of a higher performing portfolio offer the promise of stronger development results in future. This mirrors the findings of other agencies. But further efforts are required to ensure that, in due course, FOs are fully geared for their expected role, taking advantage of economies of scale; and that there is sufficient flexibility to respond to diverse conditions.”

The evaluation concluded that the greatest benefits to decentralisation were likely to accrue in fragile contexts, and that these should be given priority in the implementation of the strategy.

3.7 Aid Effectiveness

The Bank participated in the development of the international aid effectiveness agenda developed in the international meetings in Monterrey (2002), Rome (2003) and Marrakesh (2004) and was a signatory of the Paris Declaration in 2005. In April 2006, the Bank produced ‘The revised Bank Group Action Plan on harmonization, alignment, and managing for results’ (ADB/ADF, 2006b). This paper identified the following challenges for the Bank in implementing the Paris Declaration:

- Communicating the Bank’s commitment to promote and deepen the HA and MfR agenda with a strong message from the Board and Senior Management of the Bank to its staff, partner institutions and RMCs.
- Strengthening the Development Effectiveness and Results-Based Management (DERBM) Group within the Bank to assume a coordination role.
- Addressing organizational issues, especially those of staffing.
- Expediting decentralization.
- Greater flexibility and simplification of bank policies, procedures and practices.
- Allocating adequate resources.
- Resolve the problem of the ADF ‘rule of origin’ on the eligibility criteria for the procurement of goods and services which had been a constraint on the use of national systems.⁴

⁴ A review of the ADF Rule of Origin question in 2007 (ADF, 2007) noted that:

“Article 15(4) of the Agreement Establishing the African Development Fund restricted procurement in Fund operations to goods, works and services from member countries of the African Development Bank (the “Bank”), State participants of the African Development Fund (the “Fund”) or non-member States providing resources to the Fund.

It is noteworthy that unlike the Bank Agreement, the Fund Agreement does not contain a provision allowing the Board of Directors to permit procurement outside of the Bank or Fund membership on a case by case basis. Accordingly and given the constitutional nature of the rule, no waiver of the rule of origin or exception thereto may be granted or authorised by the Board of Directors.

In a legal note issued in 2005, the General Counsel of the Bank opined that the restrictions/limitations contained in Article 15(4)(a) of the Fund Agreement do apply to Sector Wide Approaches (SWAPs), defined broadly as projects or programmes that cover entire sectors and sectoral projects involving co-mingling of funds among multiple donors. Thus the Fund must require that certain arrangements are put in place to ensure compliance with Article 15(4)(a), such as ring-fencing or segregating the Fund’s resources or providing parallel financing to augment the resources of other donors, and insisting on the application of the procurement rules to such ring fenced or parallel financing. The

An August 2006 study (ADB/ADF, 2006d) reviewed the process of harmonisation and the development of Joint Assistance Strategies (JAS), based on experience in five RMCs (Ethiopia, Mozambique, Tanzania, Uganda and Zambia). It made the following recommendations for the Bank's more effective engagement in these initiatives:

- Harmonisation and JAS processes needed to be supported from an early stage with the allocation of sufficient staff and financial resources as well as support and guidance from HQ.
- Active pursuit of decentralisation by transferring resources and human capacity from HQs with more delegation of authority to country offices so as to equip the Bank to play a role of Lead Partner.
- More clarity on the Division of Labour issue, with the Bank needing to better define and articulate its position as lead or silent donor in JAS countries, as it is likely to face phasing out of non-priority sectors.
- Support for reform initiatives aimed at enhancing national procurement and financial systems and be prepared to restructure its own system, as JAS substitute the traditional Bank CSP in selected countries.

The Bank's scope for increasing the use of country systems was examined in a paper approved by the Board in July 2008, on the 'Bank Group Approach Towards Enhancing the Use of Country Systems' (ADB/ADF, 2008d). The paper proposed two types of area where increased use of country systems was seen as offering promise:

- Areas where the full use of country systems would require a more cautious approach and the Bank's efforts will focus on strengthening country systems first:
 - Environment and social safeguards measures – the Bank will continue with the current assessment exercise of country systems which is being carried out in collaboration with the World Bank
 - Procurement – The Bank proposed to pilot the use of country procurement systems in about two to three RMCs and focusing on defining standards for country systems, developing a methodology for assessing country systems against the agreed standards, strengthening country systems to bring them up to the standards, and strengthening Bank Group's capacity to assess and use country systems.
- Areas where country systems are the preferred mechanism provided they have been assessed and found to be equivalent to the Bank Group's standards:
 - Financial management
 - Project and programs implementation arrangements
 - Monitoring and evaluation arrangements

A review of Bank progress in implementing the Paris Declaration and Accra Agenda for Action in October 2009 (ADF, 2009) noted that the Bank was above average for donors in the predictability of its aid, and the reporting of aid on budgets, but that the Bank performed less well than other donors in four areas:

General Counsel on the other hand opined that the rule of origin does not apply to budget support operations because such operations by their nature are participations by the Fund in financing the budget of an eligible RMC and thus such financing does not raise issues of direct procurement.”

- Providing technical assistance aligned with client country needs and is coordinated with the work of other development agencies.
- Coordinating its missions and country analytic work with the work of other development agencies.
- Integrating its parallel project implementation units within client countries' institutional and administrative structures, and
- Using partner countries' procurement and public financial management systems.

The review noted that the Bank was not on course to meet its 2010 Paris Declaration targets, but that the Bank was taking several initiatives to focus incentives and management attention on improved performance in these areas.

Over the period covered by the evaluation, there has also been an increasing emphasis in the Bank on moving towards a comprehensive results reporting framework, in line with the Paris Declaration's emphasis on managing for results and the use of common results frameworks. A Results Measurement Framework was presented to the Board in November 2002, which identified three levels of measures were identified to capture country progress and institutional contributions to country progress:

- First level: Project, program and grant documents
- Second level: Institutional level – it measures the assistance provided to governments as expressed in CSPs
- Third level: Country outcomes level – progress towards MDGs and related indicators.

Further progress was made in 2003-5 in developing a results measurement framework for ADF. The 2010 paper (ADB/ASDF, 2010) that sets out a bankwide single results framework noted that the PCR was the main instrument for reporting on results, and that there had been a marked improvement in clearing the backlog of PCRs and increasing the speed with which they were completed when new guidelines and a new results-oriented framework for PCRs were introduced in 2008, so that 100% compliance with guidelines on timely completion was achieved by the first quarter of 2010. The revised framework identified four levels of reporting to assess the results of the Bank's operations:

- Level 1: What development progress is Africa making?
- Level 2: What is the ADB's contribution to Africa?
- Level 3: Does the ADB manage its operations effectively?
- Level 4: Does the ADB manage itself efficiently?

3.8 Engagement in Post-Conflict and Fragile States

In 2004 the Board approved the creation of a Post-Conflict Country Facility (PCCF) to provide support for clearing the arrears of countries emerging from conflict. In March 2008, the Board approved the Bank Group's Strategy for Enhanced Engagement in Fragile States, and in July 2008 the Board approved the Operational Guidelines of Fragile States Facility (FSF), (ADB/ADF, 2008b). This included the transfer of arrears clearance activities of the PCCF to the FSF. The FSF was set up as an operationally autonomous special purpose entity within the Bank Group to be administered separately from other legal entities comprising the Bank Group. The objective of the FSF was defined as "to provide a broader

and integrated framework through which the Bank can more effectively assist eligible fragile states⁵, especially those emerging from conflict or crisis, to consolidate peace, stabilize their economies and lay the foundation for sustainable poverty-reduction and long-term economic growth”

- The FSF is structured into three grant support windows: 1) Supplemental Support Window (to supplement the PBA-determined country allocations to eligible post-crisis/transitional countries), 2) Arrears Clearance Window (to allow countries to normalise their relations with the Bank Group) and 3) Targeted Support Window (to provide supplementary resources for technical assistance and knowledge management that cannot otherwise be provided through the Bank Group’s existing instruments).
- FSF operations can be implemented using the Bank’s quick disbursing instruments (under Window 1), including the Development Budget Support Lending (DBSL), so long as beneficiaries meet the criteria under the DBSL Guidelines. Acknowledging that certain of the fragile states may not be able to meet the prerequisites set out in those guidelines (such as economic and political stability), certain of the prerequisites for budget support loans and assumptions contained in the DBSL Guidelines would not be applicable for budget support financing under the FSF (Annex 7).
- The paper also sets the procedures and arrangements to use MDTFs as financing instruments.

The Fragile States Unit has been established to coordinate the implementation of the Bank’s strategy for fragile states and to administer the FSF, while the Operations Committee serves as the Management Committee for overseeing the operationalisation of the FSF. The FSF was funded from resources available under ADF-XI, and a carry over from the PCCF, while remaining open to the receipt of additional voluntary contributions.

3.9 Response to international economic instability

The impact of high international food prices on food importing African countries in 2008, followed by the international financial crisis with its effects on demand for exports and availability of finance, prompted the establishment of specific facilities by the Bank. ‘The African food crisis response’ (AFCR) developed in July 2008 (ADB/ADF, 2008c) is the Bank’s framework for accelerated support to RMCs affected by increased food prices, with short (periods of 6 months to a year) and medium to long term measures (over 3 years and beyond) to the value of UA 472 million and UA 1.4 billion respectively. One of the short-term measures is the use of budget support instruments to provide for quick disbursement of resources to RMCs (UA 304 million) which is discussed in more detail in Section 4.6 below.

⁵ Eligibility for support under the FSF is determined by a two stage assessment. The first stage assesses whether the country meets key conditions for consolidating peace and security (including an internationally recognised peace or post-crisis agreement, and the formation of a functional governmental authority broadly acceptable to stakeholders and the international community) and the extent of the development impact of conflict or crisis. This is measured by a real GDP contraction of 10% or more over a period of more than 15 years, distance from achieving the MDGs, and ranking in the bottom quartile of the Human Development Index (HDI). The second stage criteria are an assessment of commitment to pursuing sound programmes to strengthen macroeconomic conditions and improve transparency and accountability of debt and financial management practices (ADB/ADG, 2008b, p.3).

In March 2009, the Bank developed the 'Bank Response to the Economic Impact of the Financial Crisis' (ADB/ADF, 2009a). This document proposed four complementary initiatives:

- An Emergency Liquidity Facility (ELF) to provide in exceptional cases financial support to the Bank's eligible clients and waiving the requirements for the assistance to be linked to the CSP (this is discussed in more detail in Section 4.6 below).
- A Trade Finance Initiative (TFI) consisting of a Line of Credit of a maximum amount of USD 500 million over a pilot period of one year and a 'multi-purpose' line of credit product which also allows its use to be for long-term project and corporate finance operations.
- A framework for accelerated resources transfer to ADF countries.
- Enhanced policy advisory support.

3.10 Overview and implications for PBOs

This chapter has provided a summary of the main features of the international and regional context within which the Bank has operated over the evaluation period, how the Bank has responded strategically and organisationally to the challenges that have emerged, both in aggregate and in relation to particular themes and areas of engagement.

The evaluation period has been one in which the Bank's operations have expanded significantly (particularly through ADF), and where a more ambitious and coherent strategic focus has developed than was the case in earlier periods where the Bank's role was more focused on individual projects. This has been reflected in both the strategies that have been formulated and implemented during the evaluation period, and in the organisational and management reforms which have emphasised a greater focus on results, and on the link between the Bank's strategic objectives and its activities and results. There has been a consistent emphasis on seeking to improve the quality of the Bank's portfolio, through improved reporting, supervision, organisational reforms including decentralisation as well as seeking to improve harmonisation and alignment of the Bank's operations. There has been important progress in strengthening systems and carrying through organisational reforms, though these have sometimes taken longer than was envisaged (so that the Bank does not appear to be on course to achieve its decentralisation objective of having 45% of staff in Field Offices by 2012), and it was only during 2010 that full compliance with guidance on producing timely PCRs has been achieved, so that the contribution of these initiatives to improving Bank performance may only now be emerging.

In terms of the Bank's priorities for engagement, there has been a move away from the initial sectoral emphasis on agriculture and rural development and on social sector investment towards a focus on infrastructure as addressing a key bottleneck on achieving growth and poverty reduction objectives, including those related to rural development. In parallel, there has been an increasing emphasis on "governance", and in particular on public finance reform, as contributing to improving the overall effectiveness of public expenditure and aid, with a potential positive impact across a range of sectors contributing to poverty reduction and economic growth. The Bank Group's approach has also become more targeted and selective towards the needs of different groups of countries, with the development of policies and instruments to enable the Bank to engage more effectively in post-conflict and fragile contexts, and to address the consequences for African countries of the international economic instability towards the end of the evaluation period.

In relation to the role implied for the Bank's policy based operations, and the operational environment in which they have been implemented, the following observations can be made:

- The increased emphasis on harmonisation and alignment and the international aid effectiveness agenda, on governance (focusing on public finance reform), and on a more strategic approach at the country level (with programmes driven by country strategies) have all implied a greater potential role for PBOs (and specifically for direct budget support) in taking forward the Bank's objectives.
- Organisational reforms, including the progress towards decentralisation, the establishment of OSGE, and a range of initiatives seeking to strengthen quality and results focus, have had the potential at least to help with improving the effectiveness of the Bank's PBOs compared to the experience before the evaluation period that is reviewed in Section 2.
- New instruments and policies for PBOs, and particular funding sources, have been developed to enable the Bank to tailor its engagements more effectively to the needs of different groups of RMCs, including post-conflict and fragile states, and countries affected by international economic instability.

Section 4 examines in more detail the policies and guidance on the use of PBOs as it has developed over the evaluation period.

4 Policy Based Operations: Bank Policies and Procedures

4.1 Overview of Bank policies on PBOs

The Bank has defined policy based lending as “quick-disbursing loans with the primary objective of supporting policy reform programmes” and as encompassing:

- Development Budget Support Lending (DBSL), also referred to as General Budget Support, i.e. funding provide for the government budget using government systems, with little or no earmarking, and
- Balance of Payment Support (i.e., foreign exchange transfers to a central bank, in support of policy reform, and with limited accounting requirements) (ADB, 2008:3)

However, the Bank does not have a single comprehensive and authoritative policy or guidance document on PBOs, but rather a series of independent policies that define aspects of PBO instruments and how they can be used.⁶ The most important documents appear to be the following:

- “Policy-based Lending Operations – Supplementary Guidelines and Procedures” agreed by the Board in 1988 (ADB/ADF, 1988).
- Operational guidelines for Development Budget Support Lending (DBSL) which were produced in 2004, the DBSL instrument having been first used in 2001 (ADB/ADF, 2004c).
- In 2004, the bank also approved the guidelines for the Bank’s participation in SWAps and guidelines for Policy Based Lending on Governance (PBLG) (ADB/ADF, 2004a).
- In 2008 and 2009, the Bank approved the use of PBL operations to respond to the African food crisis and also to the impact of the international financial crisis, including the establishment of a new quick-disbursing instrument, the Emergency Liquidity Facility (ELF).
- In July 2008, the Bank approved the guidelines to operate the Fragile States Facility (FSF) which included conditions under which budget support could be provided through the FSF in circumstances in which DBSL could not be provided using ADF resources.

The lack of consolidated guidance that clarifies the relationship between the different policies and guidance appears to have led to some confusion, and particularly to inconsistency in terminology. For instance, the PBL Retrospective of 2008 (ADB/ADF, 2008e) quoted above draws a distinction between DBSL and Balance of Payments support as two forms of PBL, while the DBSL Guidelines of 2004 restrict the term PBL to balance of payments support (as defined under the 1988 Guidelines), distinguishing between PBL, DBSL, and participation in Sector Wide Approaches, with PBL and DBSL identified as distinct lending instruments, and SWAps as processes supported by both lending and non-lending instruments. In general there appears to have been a modification of terminology of Bank practice to treat DBSL as a form of PBL, though this does not appear consistent with the terminology of instruments implied in the Bank’s original policy and guidance documents.

⁶ This appears to reflect a systematic weakness within the Bank in relation to the consolidation and full documentation of procedures which is reflected in the lack of a comprehensive operations manual.

4.2 PBL: structural and sectoral adjustment

The management practices and decision-making processes on policy-based lending operations are described in the original guidelines from 1988, “Policy-based Lending Operations – Supplementary Guidelines and Procedures” (ADB/ADF, 1988) which were prepared to accompany the Bank’s original policy on policy-based lending. These guidelines defined two “related main lending instruments”: first, structural adjustment loans focusing on macroeconomic issues and institutional reforms economy-wide and in key sectors, and second, sectoral adjustment loans which support sectoral programmes of policy and institutional change. Policy based loans were stated to be designed (p.2) to:

“provide quick-disbursing resources, often over a period of about 3 years. They involve successive disbursements predicated upon the progressive implementation by the Borrower of the agreed policy and institutional reform measures. Disbursements are made in two or more tranches, whose release is linked to fulfilment of loan conditionalities. In the early phases of the adjustment process, the loan proceeds are used to finance general imports subject to a negative list of prohibited imports. However with the deepening of the adjustment process from overall macroeconomic issues to sectoral issues, the loan proceeds may also be used to finance a broader range of expenditures including equipment, services or a time-slice of the sectoral investment programme. Such investment-oriented sectoral adjustment loans would likely disburse over a slightly longer period, up to 5 years.”

The 1988 guidelines state that the decision to undertake a policy-based operation rests with the concerned Regional Vice President, within the framework of a detailed analysis of the Bank Group’s country strategy objectives and priorities, and the most appropriate balance of the different lending instruments which would ensure their implementation. The operations are formulated by the Country Programme Departments, and sectoral adjustment operations by the concerned Projects Department in association with Country Programmes Departments. In both cases, however, the primary responsibility for technical supervision and quality control rests with the Country Programmes Directors, with the Regional Chief Economists playing the role of principal adviser. They are responsible for obtaining and integrating the views and advice of the relevant Bank units and outside parties involved in the proposed policy-based operation. The guidelines set out a detailed process for preparation and appraisal, noting that the preparation mission would usually be undertaken jointly with the World Bank, and that the main purpose of the appraisal mission will be to assist the government to prepare a Letter of Development or Sectoral Policy to set out the programme objectives, measures and indicators. (ADB/ADF, 1988: 1-3)

4.3 Development Budget Support Lending

It does not appear that any further policy documents on PBL were produced until after the Bank had begun the practice of Development Budget Support Lending (DBSL) in 2001. The first DBSL operations took place in that year in Benin, Burkina Faso and Uganda. The reform agenda for these operations focused on:

- Improving the macroeconomic framework and promoting social and human development
- Enhancing harmonization and alignment of donor practices

- Creating synergy among development partners' programs
- Establishing efficient PFM systems
- Building the institutional and management capacities of the Finance, Planning and line ministries.

In April 2004, the board approved the 'Guidelines on Development Budget Support Lending (DBSL)' (ADB/ADF, 2004c). DBSL was conceived as an instrument to support the implementation of PRSPs and national development plans aimed at achieving the MDGs. The approach adopted by the Bank was described (p. 2) as "pragmatic adaptation of traditional balance of payments PBL to an *ex ante* performance-based multi-year DBSL that assures regular inflow and availability of resources to facilitate the implementation of PRSPs and NDPs." The general purpose of this instrument was to provide resources to the general budget of countries with appropriate policy frameworks and fiduciary controls. The Guidelines noted that they had been prepared in line with the directives of the ADF-IX deputies to develop an instrument for this purpose, and that the Bank's "Proposal for Enhancing the Bank Operations in Middle-Income Countries" approved in 2003, provided a framework for providing DBSL for qualifying ADB countries.

The Guidelines identified the following factors as needing to be assessed and considered in making a decision about the provision of DBSL (p. 2):

- The existence of a country-owned development agenda, a PRSP or national development programme, endorsed by the donor community.
- Country Strategy Paper-based analysis pointing to the existence of a viable and transparent budgetary process and the need for budget support to assist the government development program.
- A satisfactory⁷ CPIA rating during the preceding year.
- Status of government-led aid coordination process, including the degree of donors buy-in.
- The degree of harmonization of donors procedures, including procurement systems.
- Where institutional capacity has been assessed as weak or inadequate, the existence of a credible institutional capacity building program, which could be supported by the DBSL.

The Guidelines stress the importance of (World Bank-led) assessment processes as key elements of the fiduciary review required for a DBSL operation, specifically Public Expenditure Reviews (PEs), Country Financial Accountability Assessment (CFAA), and the Country Procurement Assessment Review (CPAR).

The Guidelines also set out guidance on aspects of the design of DBSL operations:

- Conditionality – The guidelines state that "they are not conditions but rather milestones towards the realization of progress, quantitative as well as qualitative indicators" and these are elaborated collectively among donors and the RMC. They note that experience suggests it is desirable to have a limited number of clearly focused conditions that contribute directly to the attainment of objectives of the PRSP or NDP.
- Tranching – DBSL was envisaged as usually being disbursed in a single tranche, but that multiple tranches could be considered, with funds being disbursed to the Government accounts at the Treasury or the Central Bank.

⁷ The specific level of the CPIA that is regarded as "satisfactory" is not defined in the DBSL guidelines.

- Number of operations – A sequence of DBSL operations can be envisaged, depending on the country policy environment, progress at institutional capacity level and the rhythm of implementation of reforms and actions, but without an open-ended commitment.
- Participation – It was envisaged that participatory approaches (involving potential beneficiaries, civil society and Government) would be carried out either through the PRSP process or within the preparation of the DBSL operation.
- Monitoring and Evaluation – Monitoring is envisaged as taking place primarily through the Annual Performance Review of the Poverty Reduction Strategy, taking place with other donors, with the Bank potentially considering delegating day-to-day management of its interest to the lead donor in the budget support process.

4.4 Sector Wide Approaches and Sector Budget Support

Sector-wide approaches

In 2004, the Board also approved the ‘Revised Guidelines for Bank Group Operations Using Sector-Wide Approaches (SWAs)’ (ADB/ADF, 2004b). These guidelines identified three areas of possible Bank Group engagement in SWAs: Multi-donor Sector Investment Programs (SIPs), Sector Policy reform programs, and specific sector project investments. The Guidelines noted (pp 4-5) that:

“It is however, important to note that SWAs are neither lending instruments nor end products. Instead, they constitute a process through which national policies and strategies are translated into sector investment and expenditure programs based on a country’s long-term development plan. SWAs emphasize joint reviews of performance against objectives and actual expenditure plans, with adjustments made as necessary in a flexible framework. They imply the use of comprehensive approaches to sector development using a wide range of appropriate lending and non-lending instruments.”

In relation to the Bank’s engagement in SWAs, it was envisaged that investment projects, TA grants and sector adjustment lending instruments could in principle be used to support a SWAp, but it was noted (p. 11) that:

“Experience shows that the “rules of origin” are a major obstacle to the harmonisation of donor procurement procedures for goods and works. This is a fact but it cannot be ignored because it is one the tenets of the Bank Group’s fundamental legal requirements. Because they restrict the purchase of goods and services to a limited number of countries, these rules sometimes run counter to the general principles and objectives underpinning the sectoral approach... It is anticipated that the ongoing harmonization of MDBs procedures, will reduce this bottleneck to effective SWAp operation. In some instances where a common donors procedure is indispensable, a waiver of existing Bank rules or procedures may be necessary in some specific areas of SWAp activities, which shall be determined on a case by case basis.

The relationship envisaged between PBL (structural and sectoral adjustment), DBSL and SWAs was set out in Table 4.1 (Annex II of the DBSL Guidelines) and the Bank’s experience in using these instruments was reviewed in a Memorandum to the Board in 2006 entitled ‘Bank Group use of DBSL and SWAs: Issues and Challenges’ (ADB/ADF, 2006a). The paper noted that (p. 1):

“in recent years, following the emergence of country systems, many donors commenced channelling resources to RMCs using development budget-support instruments that rely on recipient countries’ systems, including the budgetary, accounting and procurement processes. The Bank participates in Budget Support Operations (BSOs) through a variety of modalities, the most common being the traditional PBL, DBSL, and SWAp.”

The paper noted that preconditions for the Bank’s involvement in a PBL in a country included:

- A sound macroeconomic environment (generally an on-track IMF Poverty and Reduction Growth Facility is accepted as evidence of this).
- Sound public finance management systems, including the implementation of an annual audit of accounts in accordance with the Bank Group’s audit procedures.
- Compliance with the Bank Group’s Rules for Procurement of Goods and Services, implying in particular that RMCs must comply with the provisions of Article 15(4) of the ADF agreement with respect to origin of goods and services (the “Rule of Origin”), that ADF funds “shall be used only for procurement in the territories of State participants or members, of goods produced in and services supplied from, the territories of State participants or members.”⁸

A sound macroeconomic environment and established credible public finance management and procurement systems were also identified as necessary for both the use of DBSL and participation in SWAps. The review noted the key operational challenges for the Bank in using these instruments as being (i) the need for an enhanced country presence; (ii) the need to promote effective public finance management; and (iii) the need to enhance donor coordination and harmonization and to avoid policy reversal and aid volatility.

⁸ An annex to the Memorandum presented a legal opinion that Article 15(4) did not apply to DBSL “because by their nature budget support loans are participations by the ADF in financing the budget of an eligible RMC. Such financing does not raise issues of direct procurement, as the resources are not expected to be used to procure goods and services. There is no direct causal link between the loan by the ADF and the eventual use of the budgetary resources (or appropriations) for procurement.” The opinion was that the Rule of Origin prevented the Bank’s participation in operations involving the “co-mingling of funds among multiple donors” and required the use of some form of ring-fencing of ADF resources provided to such arrangements.

Table 4.1 Comparison between PBL, DBSL, and SWAp

AID FORM	TYPE	FOCUS	EARMARKING	DISBURSEMENT / ACCOUNTABILITY
<u>Policy Based Loan</u>	Lending Instrument	Supporting reforms at macro or sectoral level. Macro & Financial framework, development policy letter, matrix of reforms	Balance of payments support. Counterpart funds available to the government. No earmarking.	Special account and external audit.
<u>Development Budget Support Loan</u>	Lending Instrument	Supporting Government Poverty reduction efforts through PRSP implementation. PRSP/NDP, Policies and action plans. Fiduciary review, MTEF. Institutional capacity	Budget Support. No earmarking.	Government systems and auditing procedures
<u>Sector Wide Approach</u>	Collaborative Process supported by Bank group lending and non-lending instruments	Supporting implementation of sector policy framework. Collaborative process. Sector framework. Fiduciary arrangements. Institutional capacity	Pooling of funds in support of a sector. Ring fencing.	Government systems, special account, auditing procedures and Donors pooling mechanisms.

Source: (ADB/ADF, 2004c, Annex II)

The paper made three recommendations to ensure effective Bank Group participation in DBSL and SWAp:

- Amendment of the procurement provision in Article 15(4)(a) of the Agreement Establishing the ADF to permit effective Fund involvement in SWAp. This was proposed for the agenda of the Deputies during the Mid-term Review of the ADF-X.⁹

⁹ No amendment to the Rule of Origin took place at this time, and the issue was raised again in a discussion paper for ADF-XI replenishment in 2007, with the Bank Group management again recommending universal procurement without restriction. An amendment to this effect finally came

- Enhance the Bank’s field presence, which required reviewing both staffing levels and the mix of skills available.
- Provide increased support to PFM capacity building in RMCs to strengthen the country’s fiduciary system in parallel to moving to ‘untied’ aid assistance.

Sector budget support operations

A Legal Note in 2007 (ADB, 2007) updating the opinion about the application of Rule of Origin to DBSL and SWAs “noted the evolution of a third and related operation, specifically a sector development budget support operation.” These were based on the same principles as DBSL but envisaged sector-focused financing, with budget requirements restricted to that specific sector. The note defined Sector Development Budget Support Loans (SDBSLs) as follows:

“SDBSLs are based on the same fiduciary framework and eligibility requirements for a DBSL, as provided in the Bank Group Guidelines for DBSLs. In addition, a sector program is used as the basis for focusing the financing to meet the budget requirements for a specific sector, and ensuring the achievement of the sector goals. Similar to a DBSL transaction, the resources will be disbursed into the government’s account or a special account from which it would be transferred to the government’s account. Disbursements also will be subject to the presentation of the annual budget and work plan and satisfactory performance with respect to program implementation. The indicators and conditions for these operations also would not be procurement related but results oriented.”

The Legal Note confirmed that SDBSLs, like DBSLs, do not involve direct procurement activities and hence the Rule of Origin restriction does not apply.

4.5 Policy-Based Lending on Governance

In 2004, the Bank published ‘Guidelines for Policy-Based Lending on Governance’ (PBLG), (ADB/ADF, 2004a) in response to an ADF-IX Deputies’ Report of 2002 that required the Bank to take a lead role in the design and implementation of PBLs on governance. This also reflected a trend for governance (and regional integration) issues to receive more attention in PBLs in the period since 1999, in line with the Bank’s Vision Statement. In June 2001, the Board approved under ADF-IX Guidelines the financing of stand alone PBLs targeting governance and regional integration for which the IMF had deemed the macroeconomic framework satisfactory. The first one was for Zambia focusing on Fiscal Transparency and Accountability in June 2001.

The Guidelines for PBLG state (p.1) that:

“The evolution of aid instruments from projects, to PBLs, and the expansion of PBLs to governance (i.e. PBLG) represents recognition of the need to broaden the impact of

into force on 31st March 2009, though it was noted that ADB rules of procurement have not been amended (ADF, 2009).

adjustment and economic growth to the private sector and civil society in general, and to the poorer segments of society in particular”

It was also envisaged that the introduction of PBLG would address the problems of corruption and lack of transparency and accountability that were held (p. 4) to have “suppressed private/citizen enterprise” with the result that it would raise “the vibrancy of private citizen for-profit and non-profit activity, leading to more, better distributed GDP growth and greater poverty reduction.” It was also anticipated that “more attention to governance leads to the emergence and growth in private sector professional associations including legal, free media, watch-dog, and think tanks.”

The Guidelines reviewed the Bank’s engagement to date in support to strengthening governance through investment and capacity building operations, including through policy dialogue around the CSP. Lessons identified from experience suggested (p.8) that “existing Bank initiatives, focused primarily on reforming public sectors, have not effectively encourages widespread, formal private sector and civil society participation.” The innovative feature of PBLG was identified as “the use of changed incentives to attract more widespread and willing involvement in RMC governance and economic development.”

Among the reasons advanced for the PBLG approach was the “African character of the Bank”. The Guidelines stated (p. 3) that:

“Being an African institution, with most staff from the continent, the greatest strength for the Bank is diplomacy. Staff are likely to excel in dealing with governments and citizens as they are at home. They also have excellent knowledge of aid processes and development requirements. At present the momentum for governance initiatives is somewhat ad hoc and rudderless. Given the likely beneficial impact of PBLG, the sooner the Bank moves ahead with PBLG, the better, both for the Bank’s RMCs and for aid effectiveness.”

The major areas of reform identified as being addressed by PBLG were: accountability, transparency, corruption, legal and judicial reforms, and participation. A wide range of possible areas of intervention using PBLG were identified. For instance, in relation to transparency, the Guidelines asserted (p. 9) that:

“Major best practice PBL initiatives to increase transparency include:

- Enact freedom of information law through a full and substantive consultative process with the public and the civil society so that a truly democratic information sharing dispensation would emerge.
- Publicize and implement a detailed, time-bound program for reducing secrecy in the public sector.
- Increase staff and expenditure for enlarged/new programs for making information (accounts, statistics, annual reports etc) publicly available quickly.
- Deregulate to allow emergence of free press and other information-related enterprises (information brokers, think tanks etc).

- Agree to “compete” with other countries regarding the extent and speed of provision of information that improves the domestic business culture.”

PBLG was not viewed as a new instrument but rather as one that complemented the existing forms of support by providing “a more holistic and specific guidance in the Bank’s interventions”.

The guidelines listed the following prerequisites for taking forward PBLG:

- Ownership: The programme must be demand driven.
- Viable macro framework setting: Macroeconomic and financial stabilisation programmes must be in place.
- Sound analytical work: Some of the background documents to ensure a holistic approach in PBLG include the Poverty Reduction Strategy Paper (PRSP), the Country Governance Profile (CGP), the Country Financial Accountability Assessment (CFAA), the Country Procurement Assessment Review (CPAR), and the Public Expenditure Review (PER). Another source of background information for PBLG is the APRM report for those countries that have participated in the review process.
- Harmonization: An effective PBLG initiative must be grounded in a vibrant partnership setting between the donors and the RMC and amongst the donors themselves.
- Favourable conditions in the country: The RMC must request for the programme and the PBL effectiveness be assessed. The RMC’s receptiveness or demand must be tested through its acceptance and participation of the Bank’s Country Governance Profile (CGP) process.
- Programme monitoring: In the design of PBLG there would be constant monitoring of progress in the implementation of the reforms.

The CGP (as the part of the CSP dealing with governance issues) was envisaged as being prepared following discussions with the government, the private sector, the civil society, and all stakeholders, and as identifying the major governance issues in the country and possible areas of interventions. It was envisaged that the “dialogue mission” on the CGP would constitute the preparatory stage of a PBLG, from which a letter of policy reforms would be prepared by government, which would form the basis for a subsequent appraisal mission.

The Issues Paper for the appraisal mission would identify outstanding issues, determine the skills-mix for the mission, and the time-table for processing the document. The work of the appraisal team, to be led by the Task Manager in the Operations complex, would be coordinated with other donors. The document would be negotiated with the government before it is presented to the Boards of Directors for approval. In terms of design, it was anticipated that the design and preparation of PBLG tranching and disbursement patterns would reflect the Bank’s move toward single tranche releases for PBLs. This was envisaged as implying there will be more numerous, smaller PBLGs, specifically targeted to narrowly defined governance problems, although two tranche operations were also envisaged to facilitate monitoring of progress. It was also envisaged that the design phase of PBLG initiatives should include a study to assess the institutional capacity to implement the programme in the public and in private sectors as well as the civil society. The government must prepare a capacity building programme which should be submitted to the Bank before the PBLG can become effective.

The Guidelines on PBLG set out a very ambitious agenda for the potential use of PBOs to address a complex range of governance issues, while failing to provide either a clear rationale or an evidence base for the assertion that this form of instrument is particularly appropriate for addressing governance problems. However, it does not appear in practice that any operations specifically conceived as “PBLG” have ever been undertaken by the Bank. Rather, specific governance issues (with a strong focus on public finance reform) have been instead been included among conditions for DBSL operations.

4.6 PBOs and the food price and financial crises

In response to impact of the rapid increase in world food prices on RMC food importers during 2008, the Bank aimed to accelerate on-going budget support operations (in Ethiopia, Cameroon, Rwanda) and to support implementation in Burkina Faso of the National Emergency Program for Strengthening Agricultural Production, with quick disbursement to be ensured by setting conditions for first disbursement that would be met before loan signature. A similar additional operation allowing for rapid first disbursement was envisaged for Ethiopia (to mitigate the impact of high oil and food prices). New operations in Liberia, Cote d'Ivoire, Mali, Central African Republic, Burundi and Senegal were also identified as having a role in helping to address high food prices. In this case, no new instrument was proposed, but Management requested the Board of Directors to approve a reduction of the review period for documents for consideration by the Board from 21 days to one week to enable a more rapid response.

The subsequent financial crisis, that impacted both on the demand for RMC exports and the availability of private finance, prompted the establishment in April 2009 of a new quick-disbursing instrument, the Emergency Liquidity Facility (ELF), as well as a continuation of the reduced review period provision introduced in 2008 in order to speed up budget support operations. The rationale for the ELF (ADB/ADF, 2009a) was the need for (p. 2):

“innovative instruments which would allow it [the ADB] to meet RMCs’ diverse and evolving requests for support under extraordinary crisis situations. This new facility will address urgent liquidity requirements of ADB clients facing financial difficulties as a result of the withdrawal of international investors, cancellations of credit lines to Financial Institutions, closure of debt and equity markets. Hence, the ELF will provide ADB with the flexibility to respond to exceptional circumstances that demand large-scale crisis support while minimizing the potential impact on normal Bank operations. Ideally, this instrument will bridge funding gaps until normal funding conditions are restored.”

It was noted that other MDBs had already established similar facilities during earlier crises.

The three broad guiding principles of the ELF were: (i) stringent eligibility criteria; (ii) multipurpose facility (with a wide range of potential beneficiaries including through onlending to the banking sector or other financial institutions); and (iii) fast and flexible product.

Eligibility was envisaged as not necessarily restricted to existing sovereign and non-sovereign clients in ADB countries and non-sovereign clients in ADF countries but also potentially extending to non-Bank clients receiving assistance from other IFIs with similar due diligence requirements, but not to sovereign clients in ADF countries (in line with Bank credit policy). The pricing policy was set at a premium to pre-crisis terms to encourage targeted use of the facility with a final maturity of up to five years and a grace period of up to three

years. Approval by the Board was fast-tracked, with the borrower able to draw down by tranches (on approval of the President and recommendation of the Operations Committee). The crisis nature of the instrument also meant that the requirement for assistance to be linked to the CSP was waived.

4.7 PBOs in Post-Conflict and Fragile States

In 2004, the Board approved the creation of a Post-Conflict Country Facility (PCCF) to provide support for clearing the arrears of countries emerging from conflict. In 2008, the strategy on fragile states recommended the transfer of arrears clearance activities of the PCCF to the Fragile States Facility (FSF).

The Bank approved the Operational Guidelines of Fragile States Facility (FSF) in July 2008 (ADB/ADF, 2008b). This paper set out the operational guidelines of the FSF established following the approval in March 2008 of the Bank Group's Strategy for the Enhanced Engagement in Fragile States. A key recommendation was the transfer of the activities of the PCCF to the FSF. The paper presented the objectives, structure and funding of the FSF and the paper also sets the procedures and arrangements to use MDTFs as financing instruments. The FSF is structured into three grant support windows:

- First, the Supplementary Support Window (which increases the resources available to a country over what is allocated using the ADF performance criteria);
- Second, the Arrears Clearance Window; and
- Third, the Targeted Support Window.

FSF operations can be implemented using the Bank's quick disbursing instruments, including the Development Budget Support Lending (DBSL), so long as beneficiaries meet the criteria under the DBSL Guidelines. The FSF operational guidelines note that:

"The prerequisites for Bank Group funding of DBSLs to RMCs include economic and political stability and strong government commitment, a satisfactory CPIA rating during the preceding year evidencing demonstrable government commitment to reforms as well as a viable macroeconomic and financial medium term framework and fiduciary review. In addition, the DBSL Guidelines provides that DBSLs are not feasible in recent post conflict countries. Evidently, certain of the fragile states may not be able to meet the prerequisites set out in the DBSL Guidelines. Accordingly, in order to achieve the objectives of the assistance to fragile states under the FSF, which includes the provision of prompt, predictable, multi-year financing through budget support, certain of the prerequisites for budget support loans and assumptions contained in the DBSL Guidelines would not be applicable for budget support financing under the FSF. Management will, however, need to provide, as part of the FSF Guidelines, the requirements for eligibility for budget support financing under the FSF."

The specific criteria applying for the use of the FSF for DBSL are set out in Box 4.1.

Box 4.1 DBSL under the Fragile States Facility

The prerequisites for DBSL operations, provided in the DBSL Guidelines (ADB/BD/WP/2003/145/Rev .2 – ADF/BD/WP/2003/182/Rev.2) may be waived in the case of fragile states, except for the following:

- The country must have met the two-stage criteria for eligibility into the Fragile State Facility;
- There must be a National Programming Document e.g., National Development Plan, Post-conflict Needs Assessment (PCNA), Interim Poverty Reduction Strategy etc;
- There must be consensus between the government and donors on development priorities to be supported by the DBSL; and
- The country must be in the process of implementing a credible institutional capacity building program.

Safeguards which need to be incorporated into the DBSL-operations in fragile states include the following:

- Justification of the DBSL operation must be provided in the programming document (CB, CSP or CSP Updates/Reviews) as well as the appraisal report for the DBSL operation, and should include the safeguards to mitigate the risks of fragility;
- Audit of the DBSL operation will not be conducted by a government audit agency, but by a firm of auditors, with audits conducted at least every year during the implementation of the DBSL;
- Where the institutional capacity is assessed to be weak, the Bank Group through the FSF should have recruited professional(s) that are placed in the relevant government agencies to strengthen the institutional capacity to support the DBSL operation;
- Adequate alternate arrangements in place of or to support country systems;
- The Bank will always ensure the involvement of other donors, though it may take the lead in the coordination of donor activity, and disbursements of resources; and
- Disbursements will be in tranches, although in exceptional circumstances Management may recommend a single tranche disbursement for consideration by the Boards of Directors.

Source: ADB/ADF 2008b Annex 7

4.8 Summary and issues

This review has identified four quick-disbursing instruments that the Bank possesses:

- Policy Based Lending: the original instrument used for structural and sectoral adjustment operations and conceived as providing multi-tranche finance for medium term policy reforms. PBLs are disbursed into a special account whose use is externally audited.
- Development Budget Support Lending: this is envisaged as the instrument to support implementation of a poverty reduction strategy through the national budget. Resources are envisaged as being transferred directly to the national budget and as being managed

and audited through national systems. Sector Development Budget Support Lending is identical to DBSL except that conditions are focused on a particular sector.

- Policy Based Lending for Governance: this is an instrument conceived as supporting packages of governance reforms, through (multiple) single tranche operations aimed at addressing specific governance constraints. The Bank does not appear to have carried out any operations specifically conceived as PBLG
- Emergency Liquidity Facility: this instrument was conceived as helping to address the immediate impact of the financial crisis on access to liquidity (though it is not clear how many of the subsequent operations to help address the impact of the financial crisis have made use of this facility rather than of existing instruments).

The rules governing the application of these four instruments vary in principle between ADB and ADF countries, with the use of the ADF being subject to additional requirements and constraints including the allocation between countries on the basis of performance criteria, and an overall ceiling of 25% of ADF resources being allocated to PBL (under ADF-XI)), as well as the differences in rules of origin that now apply between ADF and ADB countries. In addition, some acceleration in procedures has been allowed to enable a quicker response to be made by the Bank to address urgent financing requirements, while fiduciary requirements for DBSL have been relaxed for countries qualifying for supplementary grant support under Window I of the FSF.

While a distinction is still being made between budget support and balance of payments support (on the basis of whether funds are being paid into a special account at the recipient's Central Bank), the practical difference between PBL (in the sense of adjustment lending under the 1988 guidelines) and DBSL may be limited given the fungibility of financial resources. Both types of operation have the effect of increasing the amount of foreign exchange available to the Central Bank, and of making available to government counterpart funds for the budget. Under PBL, the use of foreign exchange funds from the Special Account may be directly audited (which could include ensuring they are not used directly to import goods on a negative list) though it does not appear to be envisaged that there is any auditing of the use made of counterpart funds, while under DBSL the use of counterpart funds is envisaged as being audited through government procedures. In practice, some operations (such as the DRC Emergency Grant in 2009) that are conceived as balance of payments support also include specific conditions relating to the use of counterpart funds (which in that case were monitored through special accounting arrangements that kept funds separate from the main Treasury account to ensure they were used for the designated purpose).

While a distinction is made between sectoral and multisectoral operations in Bank practice (as for instance in the coding of operations in the Bank's SAP management information system), this distinction does not appear to accord with the definition of instruments. Whether an operation is regarded as sectoral (either as PBL or DBSL) appears to depend on the types of condition that are applied rather than on the use of specific instrument.

5 PBOs in the Bank: 1999-2009

5.1 Trends in the Bank's PBO portfolio¹⁰

Table 5.1 shows the trend in the use of PBOs by the Bank over the evaluation period. As noted above, for comparison, the Bank approved PBOs totalling UA 3.8 billion (UA 2.7 billion ADB and UA 1.1 billion ADF) over the period 1986-98.

Table 5.1 Approvals of PBOs (UA million, by Financial Year)

Year	ADB Loans		ADF Loans		ADF Grants		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1999	1	140.8	2	15.0	1	1.3	4	157.2
2000	0	0.0	5	120.8	0	0.0	5	120.8
2001	2	316.0	11	242.6	1	0.5	14	559.2
2002	1	110.0	6	91.4	0	0.0	7	201.4
2003	1	215.0	8	206.7	0	0.0	10	421.7
2004	3	419.6	9	207.5	2	57.1	14	684.2
2005	1	101.3	4	127.0	3	73.3	8	301.6
2006	2	407.5	8	218.3	5	94.7	15	720.4
2007	1	20.0	3	74.9	2	39.5	6	134.4
2008	2	127.2	9	413.0	5	162.5	16	702.7
2009	7	1,780.7	4	119.2	13	234.2	23	2,134.2
Total	21	3,638.1	68	1,813.2	31	663.1	123	6,137.6

The figures in Table 5.1 suggest that (following a spike in 2001) there was some increase in PBO activity in the middle of the evaluation period, reflecting in particular the establishment of the DBSL instrument. However, the large boost to the use of quick disbursing instruments was provided by the economic instability at the end of the evaluation period which appears to have significantly increased demand for the Bank's products, as Africa faced first the effects of rapidly rising food and fuel prices (mainly affecting ADF countries), followed by the effects of the international financial crisis (which particularly increased demand from ADB countries) in both reducing sources of available finance and adversely affecting export demand.

The key features over the period have been the following:

- Until 2009, there were on average fewer than one and a half ADB PBOs approved each year, though the operations were relatively large, averaging almost UA 180 million each.
- A third of the total ADB PBOs over the period were approved in 2009, accounting for 49% of the total ADB PBOs approved over the period by value. One operation (Botswana Economic Diversification Support loan) dominated this with a value of just over UA 1 billion.

¹⁰ This analysis is based on the list of PBOs set out in the Inception Report for the Evaluation. This analysis will be updated based on a review of the accuracy of this list following the country case studies and other reviews.

- ADF PBOs have been much smaller than ADB PBOs, with ADF loans averaging about UA 26 million, and ADF grants averaging UA 21 million.
- ADF loan PBOs have shown no marked trend over the evaluation period, except for a spike during 2008 which appears to reflect an increase in demand in response to the food and fuel crisis. ADF grants only became significant from 2004 (and under ADF-X and ADF-XI).

Table 5.2 Sectoral Distribution of PBOs

	Number				Amount			
	ADB Loan	ADF Loan	ADF Grant	Total	ADB Loan	ADF Loan	ADF Grant	Total
Agriculture	0	2	1	3	0.0	43.5	1.3	44.8
Communications	1	0	0	1	100.0	0.0	0.0	0.0
Finance	4	1	0	5	791.5	10.0	0.0	801.5
Power	0	1	0	1	0.0	100.0	0.0	100.0
Social	2	2	0	4	180.0	35.0	0.0	215.0
Transport	1	0	0	1	240.0	0.0	0.0	240.0
Water/Sanitation	1	0	0	1	215.0	0.0	0.0	215.0
Multisector	12	63	31	106	2,111.6	1,646.6	661.8	4,420.0
Total	21	69	32	123	3,638.1	1,834.9	663.1	6,137.6

Table 5.2 shows the sectoral distribution of PBOs. Multisectoral operations (which includes since 2006 those prepared and managed by OSGE) have dominated, especially in relation to the use of the ADF. Only eight out of 102 ADF operations have been classified as sectoral, with almost half of the amount of sectoral operations by value being accounted for by one operation (Nigeria Economic and Power Sector Reform, 2009). Otherwise there have been three agricultural sector operations (two in Lesotho in 1999, and Tanzania 2007), two social sector (education) operations (Rwanda 2006 and Tanzania 2007), and one finance sector operation (Mauritania, 2001). By contrast, sectoral operations have accounted for nine out of 21 ADB PBOs, and for 42% by value. The most active sector has been Finance, with operations in Tunisia (2001, 2005), Egypt (2006) and Morocco (2009). All the other ADB PBOs have been in Morocco, in the communications, health (two operations), water and transport sectors.

Table 5.3 shows the distribution of PBOs by country and financing source. Morocco has been the largest user of PBOs both in terms of the number of operations and the total amount lent. The top five users of PBOs by value are all ADB countries (Morocco, Botswana, Tunisia, Mauritius and Egypt).

Table 5.3 PBOs by country and financing source

	ADB	ADF	ADF	Total	ADB	ADF	ADF	Total
		Loan	Grant			Loan	Grant	
Morocco	9	0	0	9	1,110.9	0.0	0.0	1,110.9
Botswana	1	0	0	1	1,001.6	0.0	0.0	1,001.6
Tunisia	4	0	0	4	625.1	0.0	0.0	625.1
Mauritius	3	0	0	3	461.6	0.0	0.0	461.6
Egypt	1	0	0	1	333.9	0.0	0.0	333.9
Ethiopia	0	3	2	5	0.0	209.7	120.0	329.7
Tanzania	0	0	6	6	0.0	0.0	300.0	300.0
Ghana	0	0	4	4	0.0	0.0	207.6	207.6
Mozambique	0	0	4	4	0.0	0.0	200.0	200.0
Burkina Faso	0	1	5	6	0.0	25.0	113.6	138.6
Madagascar	0	0	4	4	0.0	0.0	136.0	136.0
Dem Rep Congo	0	1	1	2	0.0	65.0	44.5	109.5
Mali	0	0	5	5	0.0	0.0	104.4	104.4
Multinational	0	3	0	3	0.0	103.0	0.0	103.0
Rwanda	0	2	2	4	0.0	63.3	36.9	100.2
Nigeria	0	0	1	1	0.0	0.0	100.0	100.0
Côte D'Ivoire	0	2	1	3	0.0	83.9	15.0	98.9
Gabon	1	0	0	1	74.8	0.0	0.0	74.8
Senegal	0	0	3	3	0.0	0.0	74.0	74.0
Zambia	0	1	4	5	0.0	0.5	62.7	63.2
Benin	0	2	3	5	0.0	16.1	44.2	60.3
Sierra Leone	0	2	2	4	0.0	20.7	27.3	48.0
Cameroon	0	0	2	2	0.0	0.0	45.5	45.5
Niger	0	0	3	3	0.0	0.0	41.1	41.1
Uganda	0	0	1	1	0.0	0.0	40.5	40.5
Malawi	0	1	2	3	0.0	10.0	26.9	36.9
Cape Verde	1	1	4	6	17.3	0.8	13.4	31.5
Kenya	0	0	1	1	0.0	0.0	28.3	28.3
Chad	0	1	1	2	0.0	17.6	8.7	26.3
Burundi	0	3	0	3	0.0	21.4	0.0	21.4
Lesotho	0	2	3	5	0.0	7.0	10.7	17.7
Centrafrique	0	2	0	2	0.0	13.0	0.0	13.0
Seychelles	1	0	0	1	13.0	0.0	0.0	13.0
Liberia	0	2	0	2	0.0	12.4	0.0	12.4
Guinea	0	0	1	1	0.0	0.0	12.3	12.3
Mauritania	0	0	1	1	0.0	0.0	10.0	10.0
Togo	0	1	0	1	0.0	10.0	0.0	10.0
Congo CG	0	0	1	1	0.0	0.0	7.0	7.0
Comoros	0	1	1	2	0.0	2.0	2.0	4.0
Gambia	0	1	0	1	0.0	3.0	0.0	3.0
Djibouti	0	0	1	1	0.0	0.0	2.4	2.4
Sao Tome	0	0	1	1	0.0	0.0	1.6	1.6
Total	21	31	69	123	3,638.1	663.1	1,834.4	6,158.8

Table 5.4 provides information about the share of PBOs in total Bank operations by country over the evaluation period, distinguishing between ADB and ADF countries. Over the evaluation period, PBOs have accounted for 31.3% of ADB operations, and 21.8% of ADF operations. The following categories of countries can be distinguished among ADB borrowers in terms of the share of PBOs. The first group includes Botswana, Mauritius and Seychelles who have not historically been major clients of ADB but who took out large PBLs as part of their response to the international financial crisis. In the second are Morocco and Tunisia, who have made substantial use of PBL over much of the evaluation period. Among the other countries there has been little use of PBL, with just a single large operation in Egypt and one small operation in Gambia. Within the group of ADF countries, the extent of variation in the share of PBOs has been much less, with over half (20/36) of (active) ADF countries having PBOs accounting for more than 20% of their total operations, with eight countries receiving between 10 and 20%, and eight less than 5%.

Table 5.4 Share of PBOs in total Bank operations, 1999-2009, by country (million UA)

Country	Category	All Bank Operations	PBOs	% PBOs
Botswana	ADB	1,186.9	1,001.6	84.4%
Mauritius	ADB	599.2	461.6	77.0%
Seychelles	ADB	21.7	13.0	59.9%
Morocco	ADB	2,427.3	1,110.9	45.8%
Tunisia	ADB	2,007.1	625.1	31.1%
Egypt	ADB	1,674.8	333.9	19.9%
Gambia	ADB	73.3	3.0	4.1%
Algeria	ADB	397.0	0.0	0.0%
Equatorial Guinea	ADB	63.5	0.0	0.0%
Namibia	ADB	113.4	0.0	0.0%
South Africa	ADB	2,666.6	0.0	0.0%
Swaziland	ADB	111.2	0.0	0.0%
Libya	ADB	0.0	0.0	..
Total ADB		11,342.0	3,549.0	31.3%
Cape Verde	ADF	69.1	31.5	45.5%
Ethiopia	ADF	793.7	318.5	40.1%
Rwanda	ADF	259.3	100.2	38.6%
Mozambique	ADF	544.0	200.0	36.8%
Tanzania	ADF	889.9	300.0	33.7%
Central African Rep.	ADF	38.8	13.0	33.5%
Madagascar	ADF	426.3	136.0	31.9%
Burkina Faso	ADF	446.4	138.6	31.0%
Sierra Leone	ADF	169.0	48.0	28.4%
Liberia	ADF	44.7	12.4	27.7%
Mali	ADF	389.5	104.4	26.8%
Burundi	ADF	81.2	21.4	26.4%
Zambia	ADF	242.3	63.2	26.1%
Ghana	ADF *	815.6	207.6	25.5%
Lesotho	ADF	73.9	17.7	24.0%
Comoros	ADF	17.4	4.0	23.0%

Country	Category	All Bank Operations	PBOs	% PBOs
Niger	ADF	192.9	41.1	21.3%
Benin	ADF	286.5	60.3	21.0%
Congo, Dem. Rep.	ADF	523.2	109.5	20.9%
Côte d'Ivoire	ADF	489.8	98.9	20.2%
Congo, Rep. of	ADF	39.0	7.0	18.0%
Togo	ADF	56.3	10.0	17.7%
Gabon	ADF	432.1	74.8	17.3%
Senegal	ADF	459.8	74.0	16.1%
Chad	ADF	167.4	26.3	15.7%
Malawi	ADF	254.0	36.9	14.5%
Cameroon	ADF	388.7	45.5	11.7%
Sao Tome and Principe	ADF	15.0	1.6	10.6%
Guinea	ADF	261.1	12.3	4.7%
Kenya	ADF	623.0	28.3	4.5%
Uganda	ADF	969.7	40.5	4.2%
Mauritania	ADF	257.0	10.0	3.9%
Djibouti	ADF	88.2	2.4	2.7%
Angola	ADF *	75.2	0.0	0.0%
Eritrea	ADF	43.2	0.0	0.0%
Guinea-Bissau	ADF	44.1	0.0	0.0%
Total ADF		10,967.4	2,395.6	21.8%
Nigeria	Blend	1,019.2	100.0	9.8%
Zimbabwe	Blend	120.2	0.0	0.0%
Total Blend		1,139.4	100.0	8.8%
Somalia	Inactive	1.0	0.0	0.0%
Sudan	Inactive	11.0	0.0	0.0%
Total Inactive		12.1	0.0	0.0%
All Countries		23,460.9	6,044.6	25.8%
Multinational		2,949.0	103.0	3.5%

Note: ADF *: Hardened terms

5.2 Reviews of Bank experience

The Bank has undertaken three main internal reviews of experience with PBOs during the evaluation period.

2003 Presentation on the Bank Group Involvement in PBL Operations

This short paper (ADB/ADF, 2003) was based on a presentation to a Board retreat and reviewed experience up to 2002 and concerns about the Bank's use of PBLs. The paper noted that the following concerns were being regularly raised by the Board:

- Inadequate involvement and intellectual input into PBL preparation, with a high level of reliance on the IMF and World Bank to provide leadership and analysis, reflecting a concern about the weakness of the Bank's analytical capacity and inappropriate skills mix.
- Lack of adequate justification for PBLs in CSPs.
- Weak coordination with the IMF and World Bank including lack of alignment in terms of field preparation, Board presentation, mid-term reviews, conditionalities and disbursement.
- Problems arising from multiple tranching and difficulties in meeting conditions for second and subsequent tranche releases requiring frequent requests for waivers.

The review identified the following challenges and opportunities for the future:

- The introduction of stand-alone governance PBLs and the development of PBLs to support regional integration.
- The scope for further sectoral PBLs particular for the financial sector, agriculture and the private sector.
- The progressive shift towards a budget support approach.
- The need to move away from a fixed ceiling (the 50% of indicative country allocation that then applied) for PBLs and to fully articulate the rationale for PBLs in the country strategy.
- Evidence of increasing demand for PBLs in ADB countries.
- A move towards single tranche operations as the main instrument with multiple tranches only to be considered in exceptional cases.

2008 PBL Retrospective Review

This study (ADB/ADF, 2008e) covered the period 1999 to 2007 with three full ADF cycles as well as lending to ADB countries. The retrospective was based on an extensive and detailed study with data from appraisals, supervisions, disbursements of resources, and evaluation of the outcomes of operations. The main findings of the study regarding the overall trends in budget support operations in the Bank Group were:

- In both, ADF and ADB, the total amount of PBL provided rose in 1999-2004 but fell during 2005-2007. The average size of PBL for ADF grew but stabilized for ADB.
- Over the period 1999-2007, the number of operations rose between 1999-2001 and 2002-2004 but fell in 2005-2007 for both the ADF and ADB.
- Although the average size of PBL increased, total PBL funding increased and then declined to RMCs. The decline in PBL funding could be explained by funding conditions for ADF that are not as generous as those of other donors, and that funding conditions for ADB are not competitive compared to other multilateral banks as well as those of private financial markets.

The following key issues were highlighted by the retrospective:

- The Bank Group was making progress in harmonizing its budget support activities with other donors, as measured by the increase in absolute terms and percentage share of co-financing.

- The average number of conditions per operation fell for ADF from 10 to 8 and for ADB from 17 to 8 between 1999 and 2007. However, the number of indicators in the performance matrix (non-binding conditions) increased from 23 to 26 in ADF countries and from 18 to 25 from 1999-2004 and declined back to 18 in 2005-2007 for ADB countries. The streamlining of conditions was noted to be a positive trend made possible by the emphasis on common Performance Assessment Frameworks (PAF).
- Finance and Governance was by far the dominant focus of the Bank Group PBLs, indicating a diminishing level of multisectoral operations as well as an apparent lack of complementarities between sectoral project interventions and the use of PBL. The principal focus was on PFM conditions while there were few conditions on other aspects of governance (such as on legal and judicial issues).
- Predictability of funding: disbursement delays had been reduced for both the ADB and the ADF since 1999-2004. However, the average disbursement delays were still considerable. More than 70% of the ADF resources had not been disbursed on time, while the percentage for ADB delays was reduced from 63% to 43% from 1999-2001 to 2002-2004. The delays mostly occurred in two-tranche operations.
- There was an observed inverse relationship between the policy and institutional performance of a country (as measured by the CPIA) and the percentage of its Bank portfolio that is provided as PBL.

2009 Draft Retrospective Review

The 2009 PBL review updated the 2008 Retrospective to include operations in 2008 and up to August 2009. The study sought to provide a systematic review of PBL operations in the Bank focusing on four main areas:

- Overall lending trends in the period 2008-2009 (approved from Jan 08 to August 09). The review noted a downward trend in ADF operations and an upward trend in ADB operations. Between 2008 and the first eight months of 2009, the number of ADF operations was halved while the number of FSF operations doubled and of ADB operations remained stable.
- Operational design of the operations: The year under review saw an increased use of multi-tranche operations, which were favoured to address the multi-year commitment demands from RMCs and to enhance predictability of the Bank's aid, although delays in second tranche disbursements were militating against predictability.
- Conditionality: The number of conditions was declining for ADF operations while slightly increasing for ADB operations. Conditions focused on policies (23%) and laws (12%) with conditions related to satisfactory assessment against the PAF only accounting for 7%.
- Level of harmonisation with other donors: While the number of co-financiers per operation doubled on average between the periods 2005-07 and 2008-09, in 2009 the number of donors was halved, as more than half of the PBOs approved in 2009 were funded by the Bank only.

The review also noted that no mechanism of graduated response (e.g. using a variable tranche payment based on performance) was included in any of the projects reviewed and that only one PBL operation (Malawi Poverty Reduction Support I, in March 2009), included a long-term commitment of the Bank across ADF cycles. It also noted that only seven project documents made mention of the previous years' CPIA scores.

5.3 Analysis of PCRs¹¹

An analysis of evaluation information included in Project Completion Reports (PCRs) was undertaken as part of this evaluation. PCRs were available for 65 PBOs approved during the evaluation period. Annex C provides full details of the rating system and how PCRs are produced and reviewed.

Summary of reasons given when rating score (for any variable) is lower than 2

Out of the 65 PBOs reviewed, sixteen had at least one of their performance scores below 2, i.e., rating unsatisfactory. The most common reasons cited for weak performance can be divided into those related to appraisal and design weaknesses, and those on implementation.

Regarding programme design, the common reasons given were that:

- The matrix of measures was too ambitious;
- The indicators chosen were inadequate;
- There was no identification and preparation mission; and
- There was inadequate tranche design.

Regarding programme implementation, the common reasons cited were:

- Delays in the implementation of measures or non-implementation;
- Failure of performance indicators to improve; and
- Inadequate programme monitoring and supervision.

Summary of lessons identified in all PCRs and PCR Evaluation Notes

Lessons that were identified in PCRs can be grouped into three main categories: lessons to take into account in programme design, lessons for programme implementation and lessons related to Bank's staffing. Most of the lessons mentioned are related to programme design. Figure 5.1 shows the frequency of each lesson identified. The issues raised in PCRs are sometimes presented as success factors and sometimes as challenges faced.

The most frequently mentioned lesson mentioned in the PCRs was the importance of coordination and harmonization among DPs and the need to use PAFs where suitable.

On programme design, the main lessons were:

- Setting targeted and concentrated priorities, avoiding establishing too many conditions;
- Complementing PBL with capacity building and institutional support measures to support the implementation of the programme;

¹¹ This section summarises the analysis more details of which are provided in Annex C.

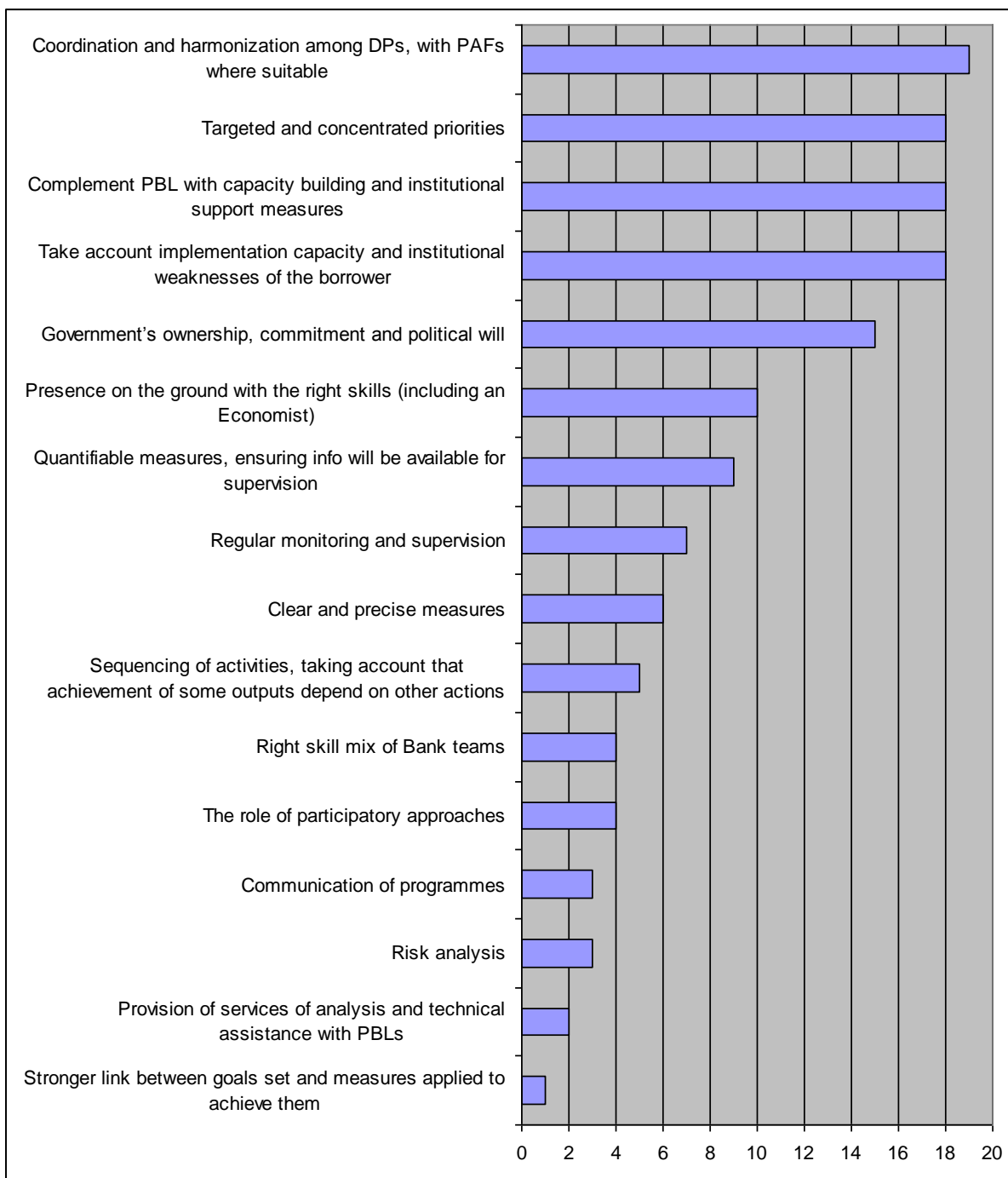
- Taking into account implementation capacity and institutional weaknesses of the borrower, ensuring targets are realistic and considering transactions costs;
- Defining quantifiable, clear and precise measures and ensuring that information will be available for supervision and that performance is evaluated against evidence;
- The need for an appropriate sequencing of activities, taking account that achievement of some outputs depends on other actions;
- The need for participatory approaches to design programmes and establish adequate indicators through policy dialogue and consensus building for some measures, e.g., corruption;
- The importance of providing analysis and technical assistance to enhance the quality of the reform programme;
- The need for effective risk analysis, including ensuring that all risks are identified (sovereign, economic, political); and
- Ensuring there is a clear logical link between goals set and measures applied to achieve them, so that each measure contributes directly towards the achievement of an objective.

On programme implementation, three critical success factors were frequently mentioned:

- Government's ownership, commitment and political will – this is important at the programme design stage, but crucial if measures are to be implemented;
- The need for regular monitoring and supervision, ensuring continuous involvement with the borrower;
- The importance of communication, e.g., to public servants if a programme involves public administration reform, between jurisdictions, or dissemination of information on technical assistance.

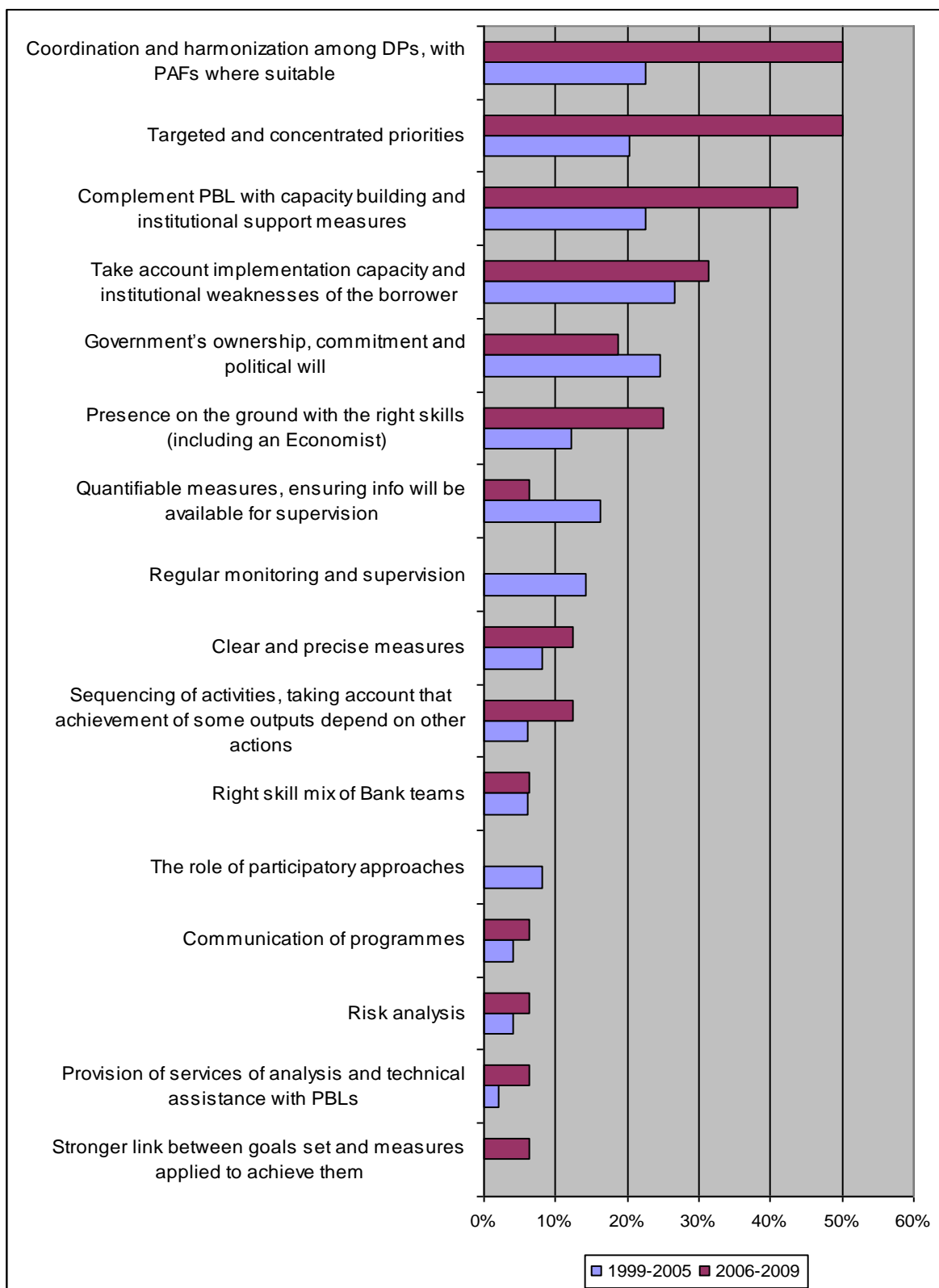
Finally, the lessons mentioned frequently related to Bank's staffing for successful implementation of PBLs were the importance of having the right skill mix in the field (including an Economist), and more generally having the right skill mix in Bank teams.

Figure 5.1 Most commonly reported lessons



Source: PCRs or PCNs of 65 PBOs.

Figure 5.2 Reported lessons for operations approved before and from 2006



Source: PCRs or PCNs of 65 PBOs.

Differences in lessons identified for operations before and since 2006

Out of the 65 PBOs reviewed for which PCR were available, sixteen started in 2006 or since, the year when OSGE was established. Comparing the frequency of answers given in the period before 2006 and from 2006, it appears that some issues were raised relatively more frequently after 2006, including coordination and harmonisation against DPs, targeted and concentrated priorities and the importance of complementing PBLs with capacity building and institutional support programmes. Issues raised more frequently for operations approved before 2006 included the need for regular monitoring and supervision and the role of participatory approaches, which were not raised in any of the sixteen PCRs for the later period. This information is presented in Figure 5.2. It is not clear to what extent this reflects a change in design, or instead a greater focus on aid effectiveness issues in the wake of the Paris Declaration.

Differences in lessons learnt between ADB and ADF funded PBLs

Out of the 65 PBOs reviewed, 9 were ADB operations while the other 57 were ADF. From the issues raised, the ones that were relatively more frequent in ADB operations were the importance of targeted and concentrated priorities and government's ownership and political will.

5.4 Summary of main lessons from experience

The review of evaluation material (including Project Completion Reports and reviews of the PBO portfolio) suggests that there is a clear (underlying or implicit) model for what counts as good practice in the design and implementation of PBOs in the Bank. This model includes the following three main elements:

- A relatively small number of conditions which are clearly defined, and based on a realistic assessment of borrower capacity, with complementary support provided to ensure conditions can be fulfilled and a participatory approach to strengthen ownership of the programme.
- The allocation of sufficient resources and skills to design and supervision. It appears that supervision has improved over the evaluation period and that the capacity of the Bank to act independently of other development partners (particularly the World Bank) has improved.
- Clarity in the relationship between the objectives of the programme (which should be measurable) and the specific activities that are undertaken, with risk analysis focused on the critical actions and relationships that will determine whether objectives are achieved.

The country case studies will examine the extent to which practice has improved and how far this model is in fact being implemented. The Bank appears though to have consistently encountered challenges in the following areas over the evaluation period:

- While single tranches have allowed more predictable disbursement (with additional tranches being subject to delay as clients have encountered difficulties in meeting later tranche conditions), multiple tranche operations have an advantage in that it is possible to programme resources over a longer time period than is possible for single tranche operations, and in having lower preparation costs and time requirements for a multiple tranche operation compared to a sequence of single tranche operations.

- Demand for PBOs (as budget support) does not appear to have increased over most of the evaluation period, until the crises of 2008 and 2009 increased demand substantially particularly for ADB loans.

6 Observations and Issues Emerging

Section 3 above has outlined the main features of the context within which the Bank has operated over the evaluation period, and its strategic and organisational responses to the challenges that it has faced, including the role that PBOs have had within the Bank's overall strategy. Section 4 provided a summary of the policy and guidance information on the use of PBOs that the Bank has promulgated and applied over the evaluation period. Section 5 summarised the findings of review and evaluation information from the Bank about its use of PBOs.

This section examines the challenges for the use of PBOs in the Bank, as they have emerged from the IPR analysis and from interviews with a large number of Bank staff including from OSGE (which now has responsibility for the design and task management of most PBOs), from regional and sectoral departments, and from other departments responsible for policy, fiduciary issues, audit, results and legal affairs.

Lack of consistent and unified guidance on PBOs

The Bank's policies and guidance for PBOs are set out in a number of different documents of differing status, which are not readily available in a single place. There is a lack of consistency in terminology and some lack of clarity about the relationship between the different instruments, and what instrument is appropriate in different circumstances. This appears to be reflected in some degree of uncertainty and confusion among Bank staff about aspects of PBO policy and practice. An overarching and comprehensive policy (and supporting guidance) on PBOs that unifies and replaces the existing plethora of documentation would contribute to improving understanding.

Lack of clarity about how results are to be achieved and the intervention logic governing PBOs

Related to the weakness of guidance, there appears to be some lack of clarity about how the results sought from PBOs are to be achieved and the precise way in which the different elements of PBOs (the money provided, engagement in policy dialogue, use of country systems, the setting of conditions, and complementary measures taken) are supposed to contribute to achievement of these results.

Lack of information on PBOs

There is a lack of complete, consistent and readily available information on PBOs in the Bank. While complete project information is supposed to be recorded in the Bank's management information system on SAP (and complete project documentation should be available through DARMS), considerable difficulty was encountered in developing a complete listing of PBOs over the evaluation period, and analysis of this information was hampered by a coding system on SAP that did not clearly identify which operation was using which instrument, and the apparent incompleteness of documentation available in both SAP and DARMS. Because of the weakness of the information available for SAP, it is understood

that alternative lists of PBOs are maintained, for instance for monitoring PBOs under ADF to ensure that policies (for instance the ceiling of 25% of ADF XI resources allocated to PBOs) are implemented.

Uncertainty about audit and fiduciary risk requirements where there is reliance on country systems

The lack of complete and explicit guidance on all aspects of PBOs has contributed to uncertainty and concern about whether the Bank's audit and fiduciary risk assessment policies in relation to PBOs are adequate and properly applied. The case study on the Egypt Financial Sector Reform Programme illustrates the problems that resulted from a lack of clarity about the appropriate audit requirements for that operation. There are also concerns about the appropriateness of the Bank's results framework for PBOs. The point was made a number of times by interviewees that the Bank remains fundamentally a "project Bank" whose policies and processes remain principally geared towards investment projects, rather than programmatic forms of support where fiduciary risk assessment and management depends on country systems.

Insufficient guidance from CSPs on the role of PBOs

While Country Strategy Papers (CSPs) are supposed to provide guidance on the choice of instruments (including assessing fiduciary concerns) there is a general concern that in practice most CSPs do not provide sufficient guidance on the role and place of PBOs within the Bank's overall country strategy, and in particular do not provide sufficient guidance on the appropriate share of PBOs as against investment projects.

Complex and time-consuming project procedures

The Bank's project procedures (which also do not appear to be fully documented and available in a consolidated form for instance as an operations manual) have been designed principally for the needs of investment projects, and the procedures have not been significantly adapted for PBOs, except in cases as described in section 4 where procedures have been shortened to improve emergency response. In general, the requirements for peer review, translation, and different levels of approval impose constraints on how quickly operations can be prepared, and the full set of procedures that must be gone through (including preparation of a full Project Completion Report), even in cases where a budget support operation may be a direct follow on to a series of annual operations. The basic set of procedures and timetable is set out in Table 6.1.

Once a Project Concept Note (PCN) has been prepared (which may in itself require several months of elapsed time) a minimum of 24 days is required for the necessary approvals. Then, once a Project Appraisal Report (PAR) has been prepared (which may again require several months), a minimum of 107 days is required to complete the process of approval of the PAR and to reach effectiveness for the operation, even if no further negotiation is required with the client during this process. Management of each step takes up a considerable amount of the time of Task Managers in a context where the staffing resources available are limited.

Table 6.1 Appraisal Projects Processing Schedule Timetable

Process	Number of days required	Cumulative number of days
Project Concept Note Approval (from completion of PCN)		
Sector Manager Clearance	5	5
Country Team Minute Submission	5	10
Sector Director Clearance	2	12
Sector Vice-Presidential Clearance	2	14
Operations Committee Clearance	10	24
Project Appraisal Report Approval (from end of Appraisal)		
Report Submission	21	21
Peer Review	7	28
Sector Manager Clearance	5	33
Country Team Meeting	7	40
Sector Director Submission to Vice President	3	43
Sector Vice President Release	2	45
Operations Committee	10	55
President (yes/no)	7	62
Negotiation	variable	
Translation	3	65
Effective: Distribution to Board	21	86
Board Approval (or Lapse Time Basis)	21	107

Role of OSGE and implications for a multisectoral approach

The large majority of PBOs have since 2006 been designed and managed by OSGE whose mandate covers the strengthening of national systems for managing public resources, particularly oversight institutions and accountability systems (financial management), and promoting a sound business environment that encourages private investment to support pro-poor growth (economic management). OSGE is a sectoral department under the Vice-Presidency for Sector Operations (OSVP – Operations II). Responsibilities for PBO policy and for the development of appropriate policies for addressing fiduciary risk are located respectively in the Department for Operational Resources and Policies (ORPC), and the Department for Procurement & Fiduciary Services (ORPF) which are located, along with the Bank’s nine Regional Departments within the Vice Presidency for Country & Regional Programs & Policy (ORVP – Operations I). These departments have been felt to lack the capacity (at least until recently) to take a lead role with the apparent result that OSGE has had to develop its own approaches and practices. There is also concern in the Bank that OSGE’s dominant role in taking PBOs to appraisal may mean that there are insufficient internal checks and balances.

Although many PBOs appear to be classified within SAP as “multisectoral”, OSGE which is preparing and managing the bulk of these operations is a “sectoral” department within the

Bank. This potentially raises an issue about how far operations designed and managed in this way can adopt a genuinely multisectoral approach in relation to how their objectives are defined (i.e. budget support for a government's poverty reduction strategy as a whole), as opposed to a narrower "sectoral" focus for instance on public finance management. Furthermore, part of the rationale for engagement in budget support is to provide a greater opportunity to engage in policy dialogue. There are concerns that in general the Bank lacks the capacity to do this (in particular it often lacks strong in-country capacity).

While the strong focus on PFM reform may be justified in terms of its systemic significance, the extent to which the Bank's provision of budget support in itself (particularly in a context where budget support is already being provided by other donors) contributes to achieving a strengthening in the public finance system would need to be demonstrated. The main impact of the provision on budget support is on the ability of the client government to fund its public expenditure plans, and one of the main evaluation criteria for the effectiveness of budget support needs, at least in principle, to be an assessment of how the provision of budget support affects public expenditure, and what results are achieved with the public expenditure that is undertaken. A further point is that OSGE's (limited) staff resources are still heavily concentrated in headquarters so that OSGE has limited capacity to engage directly in public finance reform processes.

Influence of ADF cycles and rules

There are several issues about the rules of operation of the ADF that create difficulties for its effective use to fund PBOs particularly for predictable multiyear programmes of budget support. The first is that policies towards PBOs have varied across ADF replenishments and there is uncertainty about the level of resources and the precise rules that will apply for the next three year ADF cycle which limits the ability to make longer-term ADF funding commitments.

Second, under both ADF-XI and ADF-XII there have been caps of 25 per cent imposed on the total amount of ADF resources allocated through the Performance Based Allocation process that can be used for PBOs. Since the cap applies across all ADF countries (and there is no cap at the national level) this constraint might potentially bite in an unpredictable way particularly on RMCs seeking to carry out relatively large PBOs. The cap was perceived by the authorities in Ethiopia to limit the willingness of the Bank to provide sectoral budget support. In general, the existence of the PBO cap militates against RMC choice of preferred aid modalities.

Third, the total level of grant resources available under ADF can fluctuate from year to year in relation to the level of debt distress. As a country moves from a moderate to a high risk of debt distress its ADF terms change from 50:50 loan and grant to all grant, but the total ADF allocation is also reduced because of a 20 percent discount on grants. Under ADF-XI (with three year allocations) any change in debt distress rating and thus financing mix from one year to the next would apply to the entire three-year allocation, i.e. also retroactively, thus leading in some cases to fluctuations in the financing mix and fluctuations in size due to the discount on grants.

For ADF-12, however, the Bank will calculate annual allocations, and any changes to the financing mix will only apply as of the year of the change and no longer retroactively which should make allocations more stable and predictable. In both Burkina Faso and Sierra Leone, levels of resources planned to be provided through PBOs under the assumption of a

higher overall ADF allocation were reduced (while other parts of the country programme were protected) when debt distress was assessed as having increased and total ADF resources available were reduced.

Finally, the design processes for ADF PBOs tend to have to start early in the financial (and hence calendar) year when resource parameters are known, with the result (given the lengthy procedures described below) that ADF operations can rarely become effective before the middle of the year. This can create problems in aligning appropriately with national budget cycles or with the timing of joint review processes and leads to some inflexibility in the planned timing of disbursements.

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Annex A Timeline

Time period	
1970s	<p>An economic crisis was experienced by African economies in the 70s, this was largely attributable to endogenous factors that were embodied in inappropriate policies adopted by Governments. The first generation of Policy Based Loans (PBLs) came about partly in response to this crisis (at the end of 1970s and the 80s) the loans focused on redressing short-term macro-economic imbalances.</p>
1980s	<p>ADB introduced Policy Based Loans (PBLs) in the 1980s in response to the demand by the bank's Regional Member Countries (RMCs) for support in balance of payments as they implemented stabilization and structural reforms.</p> <p>1984: The Board of Directors approved non-project lending to regional member countries and laid down the necessary guidelines such that the Fund would support institutional and policy reforms already being undertaken by borrowing countries and in close collaboration with the WB and IDA.</p> <p>1986: The ADB Group decided to strengthen its intervention in the area of economic policy and policy dialogue with member states.</p> <p>1987: Establishment of the Special Programme of Assistance to Africa (SPA).</p> <p>1988: Publication of the ADB's '<u>PBL Guidelines and Procedures</u>', which defined PBLs as instruments "to assist regional member countries (RMCs) in their effort to restructure their economies and to restore growth with equity and creditworthiness", with two main instruments: Structural adjustment loans and sectoral adjustment loans.</p>
1990s	<p>1990: Special Programme of Assistance for Africa (SPA) discussions – it was agreed that the case for earmarking of counterpart funds for specific uses should be decreased as progress is made in effective public expenditure monitoring and periodic reviews.</p> <p>From the beginning of the 1990s a second generation of PBLs began. These were focused on long-term objectives such as sustainable growth, private sector development and poverty reduction.</p> <p>1992: Special Programme of Assistance for Africa (SPA) report on PERs – this recognized that generally agreed aims of priority spending are not easily achieved.</p> <p>1993-1995: The bank financed very few projects as a result of the non-availability of African Development Fund (ADF) resources.</p> <p>From 1999, the governance component of reforms within the African Development Bank (ADB) increased, including legal and judicial reforms, audit reform, and public expenditure reforms. Also, PBLs started addressing some aspects of regional integration.</p> <p>1999: Bank's Vision Statement. This was elaborated following a broadly consultative process and it specified economic growth and poverty reduction as the Bank's overarching goals and identified agriculture and rural development, human resources development, and private sector development as sectoral priorities at the national level. At the regional level, the Vision focused on economic cooperation and regional integration. In addition, the Vision emphasised the centrality of good governance, gender equality, and environmental management as critical for sustaining the development process and for enhancing the impact of all Bank Group operations.</p>
2000	<p>From 2000 there was a new generation of PBLs which marked a policy shift towards Budget Support and SWAps</p> <p>2000: The ADB's Board Committee for Development Effectiveness (CODE) strongly endorsed the work program of the Bank's Evaluation Department, OPEV,</p>

	<p>which included a move away from project level evaluation to the evaluation of higher-level interventions.</p>
2001	<p>2001: The Bank introduced Development Budget Support Lending (DBSL) as one of its PBL instruments. The idea was that the DBSL would be used selectively to complement the Bank's existing lending instruments. The first DBSL operations were implemented that year in Benin, Burkina Faso and Uganda.</p> <p>2001: The ADB released the 'Handbook on Stakeholders Consultation and Participation in ADB Operations' which outlines the different tools and techniques for civil society participation in Bank operations including policy formulation.</p> <p>2001: The ADB adopted the evaluation standards developed by the Consortium Evaluation Groups (CEG), which includes a results-oriented, development effectiveness framework for all participating agencies.</p> <p>2001 June: OPEV led a workshop on Results-Based Management to inform and solicit viewpoints from managers and staff on the possibility of moving towards a results-based framework.</p> <p>June 2001: under ADF-IX Guidelines, the Bank will finance stand alone PBLs targeting governance and regional integration for which the IMF had deemed the macroeconomic framework satisfactory. The first one was for Zambia focusing on Fiscal Transparency and Accountability in June 2001.</p>
2002	<p>2002: A new CSP format was adopted, representing a major start in improving the CSPs submitted to the Board in general.</p> <p>2002 June: The ADB participated in the first Global Roundtable and as a result, it moved forward on setting up and implementing a Balanced Scorecard system.</p> <p>November 2002: The management presented to its Board the <u>Results Measurement Framework (RM)</u> that measures results at the intermediate and "bottom-line" levels of ADF operations. Three levels of measures were identified to capture country progress and institutional contributions to country progress.</p> <p>December 2002: The Bank established the 'Development Effectiveness and Results-Based Management' (DERBM) made up of Managers, Directors or their representatives from each of the Bank's Vice-Presidencies. The DERBM is mandated to oversee the MfR aspects of HA and MfR in terms of the design, implementation and Bank-wide adoption of policies in these areas.</p>
2003	<p>2003: The ADF Results Measurement Framework (RMF) is presented to the Board, after being prepared with the World Bank's IDA Measurement System.</p> <p>By 2003, CSPs incorporated identified areas of reforms, which would be the focus of the Bank intervention justifying PBLs.</p> <p>2003: The civil war in Cote d'Ivoire leads to the Bank relocation to Tunis.</p> <p>2003-07: The Bank's 2003-7 Strategic Plan was envisaged as operationalising the Vision Statement. It defined sectoral priorities for resource allocation for the Bank as: "agriculture and sustainable rural development, with greater emphasis being given to water supply in vulnerable rural and peri-urban areas, and to human capital formation through primary education and basic health services. Selective support will also be given to the development of essential infrastructure, where this is a vital component of rural development, or a priority factor of economic integration." Good governance was identified as one of a set of cross-cutting themes that would also receive significant support. The Strategic Plan emphasised the need to improve quality of Bank projects at entry, as well as supervision and monitoring, and the improvement of incentives and structures for effective implementation. A strong element of this was the strengthening of field presence.</p>
2004	<p>April 2004: The board approved the '<u>Guidelines on Development Budget Support Lending (DBSL)</u>'. These are the guidelines for ADB involvement in budgetary support operations. In line with the international agenda on aid effectiveness, DBSL aims to facilitate alignment and harmonization and predictability of source flows.</p>

	<p>2004: The board approved the '<u>Revised Guidelines for Bank Group Operations Using Sector-Wide Approaches (SWAps)</u>'. These are guidelines on how to engage in the provision of assistance to qualifying RMCs in alignment with sister institutions.</p> <p>2004: The Board approved the creation of a <u>Post-Conflict Country Facility (PCCF)</u> to provide support for clearing the arrears of countries emerging from conflict.</p> <p>2004: The Bank approved the guidelines for the Policy Based Lending on Governance (PBLG) these aimed to complement other policy based lending instruments. The guidelines emphasise the relevance of improving public sector accountability, increasing citizen and investor participation and public sector transparency and reducing corruption and reforming laws and judicial systems.</p> <p>2004: The 'Proposed Strategy for the Decentralisation of the Activities of the African Development Bank Group' was approved by the Bank's Board in September 2004. The key objectives of the Decentralisation Strategy were to be closer to the client base and to participate more effectively in the countries' development efforts. This was implemented through building on existing project-based field presence.</p>
<p>2005</p>	<p>2005: The ADB participated in the Paris Declaration meetings and signed up to the Paris Declaration on aid effectiveness.</p> <p>2005 May: The 'ADF-X Financing Policy Guidelines' were published these govern all project loans and grants; policy based lending operations; technical assistance operations; additional resources and any other activities of the Fund during the period 2005-2007. Among the guiding principles for the ADF-X operations, the document highlights its efforts towards the principles of the Paris Declaration and its progressive involvement in Sector Wide approaches and Development Budget Support.</p> <p>2005 October: The Bank's President launched a Task Force on Institutional reforms (TFIR) to examine how the Bank could best play an expanded role in the development of the African continent.</p> <p>2005 December: The ADF Results Measurement Framework Paper – this paper implies that progress achieved towards meeting the PRS priorities and MDGs will increasingly be attributed to collective HA/JAS process.</p>
<p>2006</p>	<p>2006 April: '<u>The revised Bank Group Action Plan on harmonization, alignment, and managing for results</u>' – This paper summarizes ongoing Bank activities to promote HA and MfR agenda and sets the Bank's future plans for deepening its work in this area.</p> <p>2006: The Bank published '<u>Bank Group use of DBSL and SWAps: Issues and Challenges</u>'. This paper reviews the Bank Groups experience and the challenges faced in the use of these instruments it makes three recommendations for the way forward:</p> <ol style="list-style-type: none"> i. Amendment of the procurement provision in Article 15(4)(a) of the Agreement Establishing the ADF to permit effective Fund's involvement in SWAps. This should be on the agenda of the Deputies during the Mid-term Review of the ADF-X ii. Enhance the Bank's Field Presence to involve effectively in BSOs and SWAps – this requires reviewing staffing levels and mix iii. Provide increased support to PFM capacity building in RMCs to strengthen the country's fiduciary system in parallel to moving to 'untied' aid assistance. <p>2006: Organisational Reforms - In April 2006, the Boards of Directors approved a proposal to strengthen the Bank Group's organisational structure under the title '<u>Enhancing the effectiveness of the bank</u>'. The reforms included changes in the organizational structure centered on the Operations Complexes and the Office of the Chief Economist, with the overarching goal of enhancing development effectiveness and delivering better results for RMCs.</p>

	<p>2006: The 2006 'Enhanced Decentralisation Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach' was presented by Management to the Board and discussed, but not formally approved. Despite the absence of formal Board approval, the 'whole Bank approach' to decentralisation became the operating norm (i.e. delegation of authority within a country focused approach).</p>
2007	
2008	<p>2008: Organisational reforms – The Bank embarked on a new phase of institutional reform to consolidate its role as Africa's premier development finance institution presented to the board in April 2008 as the '<u>Governance Strategic Directions and Action Plan GAP 2008-2012</u>'. The strategic directions and Action Plan provide a rationale for greater strategic selectivity and focus in the Bank's governance work.</p> <p>2008-2012: The 2008-12 Medium Term Strategy proposed a shift in the operational focus of the Bank towards a selective emphasis on infrastructure, governance, private sector operations, higher education and technology and vocational training, which were seen as contributing to broader development goals, for instance in agriculture and health, and in country terms a greater focus on both fragile states and on MICs, as well as a deepening of organizational reforms including decentralization. The approach also emphasised the need for more consistent work in partnership with others and the need to "improve harmonisation, alignment and the use of country systems, as agreed in the Accra Agenda for Action.</p> <p>2008 January: <u>ADF-11 Deputies Report</u> – the report states that at least 75% of funds will be allocated for specific investment projects and programs and technical assistance and no more than 25% via PBL operations.</p> <p>2008 March: approval of the Bank Group's Strategy for the Enhanced Engagement in Fragile States. This was followed in July by the approval of the <u>Operational Guidelines of the Fragile States Facility (FSF)</u>. FSF operations can be implemented using the Bank's quick disbursing instruments combating issues of slow disbursement. The ADB strategy on fragile states recommended the transfer of arrears clearance activities of the PCCF to the FSF.</p> <p>2008 May: Paper on '<u>Bank Group approach towards enhancing the use of country systems</u>' prepared, and approved by the Board in July.</p> <p>2008: PBL type instruments were used as a fast-disbursing response to the African food crisis. '<u>The African food crisis response</u>' (AFCR) was developed in July 2008 and forms a framework for AfBD accelerated support to RMCs affected by increased food prices, with short (periods of 6 months to a year) and medium to long term measures (over 3 years and beyond) to the value of UA 472 million and UA 1.4 billion respectively. One of the short-term measures is the use of a budget support instrument for quick disbursement of resources to RMCs (UA 304 million).</p>
2009	<p>In 2009 PBL type instruments were used to respond to the financial crisis in 2009. In March 2009, the Bank developed the '<u>Bank Response to the Economic Impact of the Financial Crisis</u>'.</p>

Annex B ADB Organisational Chart

Figure B.1 Overall organisational structure before 2006 reforms

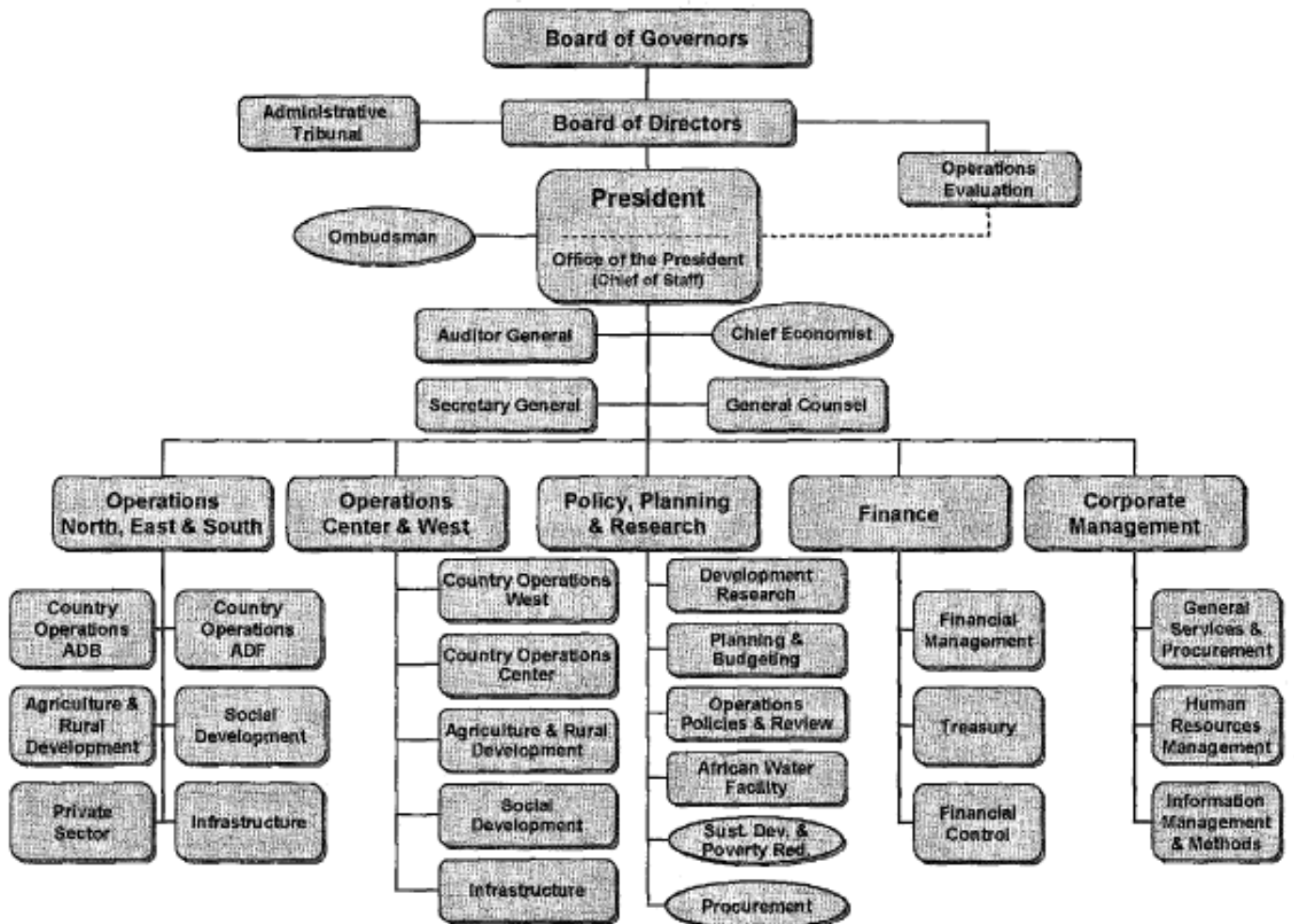


Figure B.2 Organisational structure following 2006 reforms

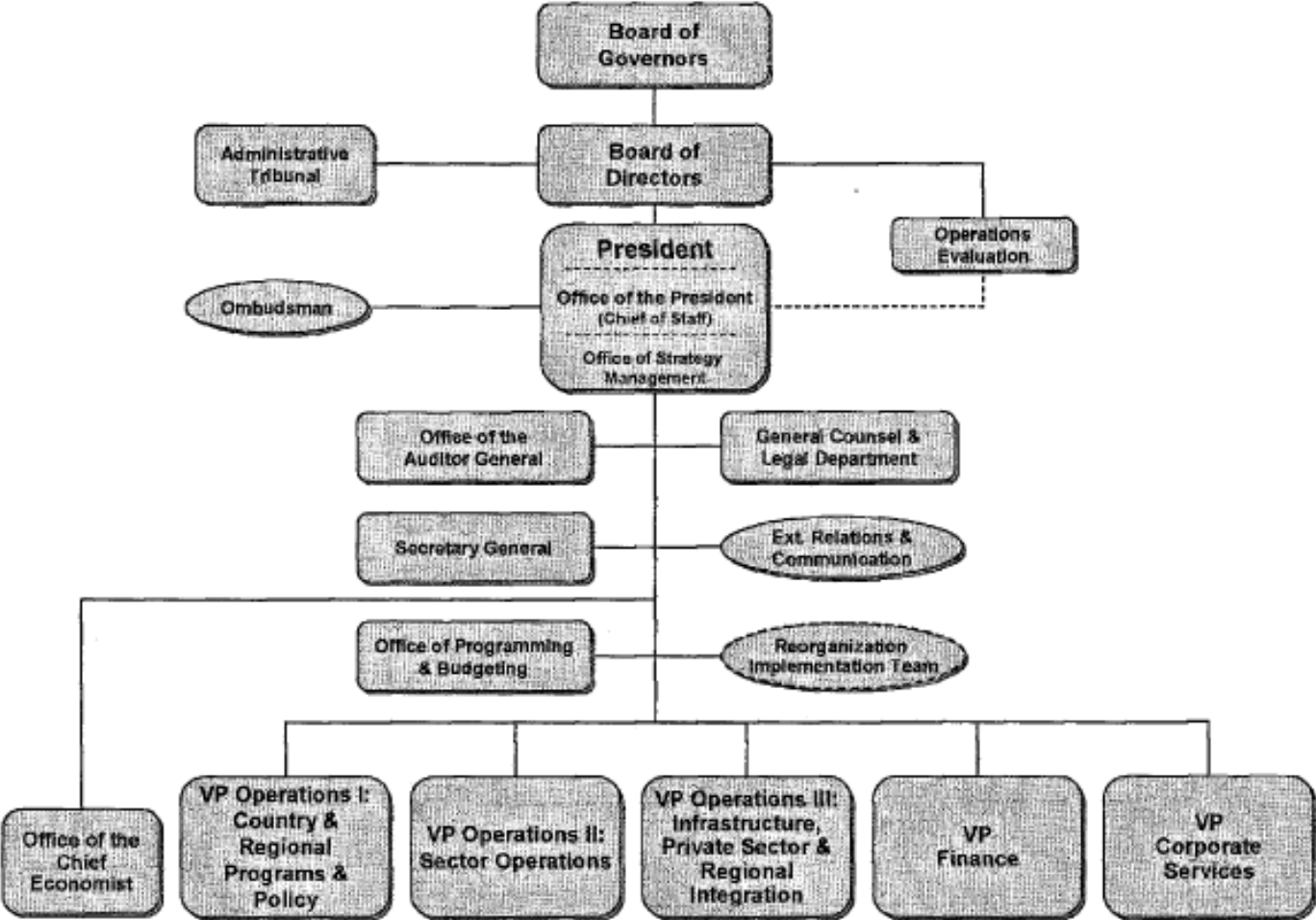


Figure B.3 ADB Organisation, 2010

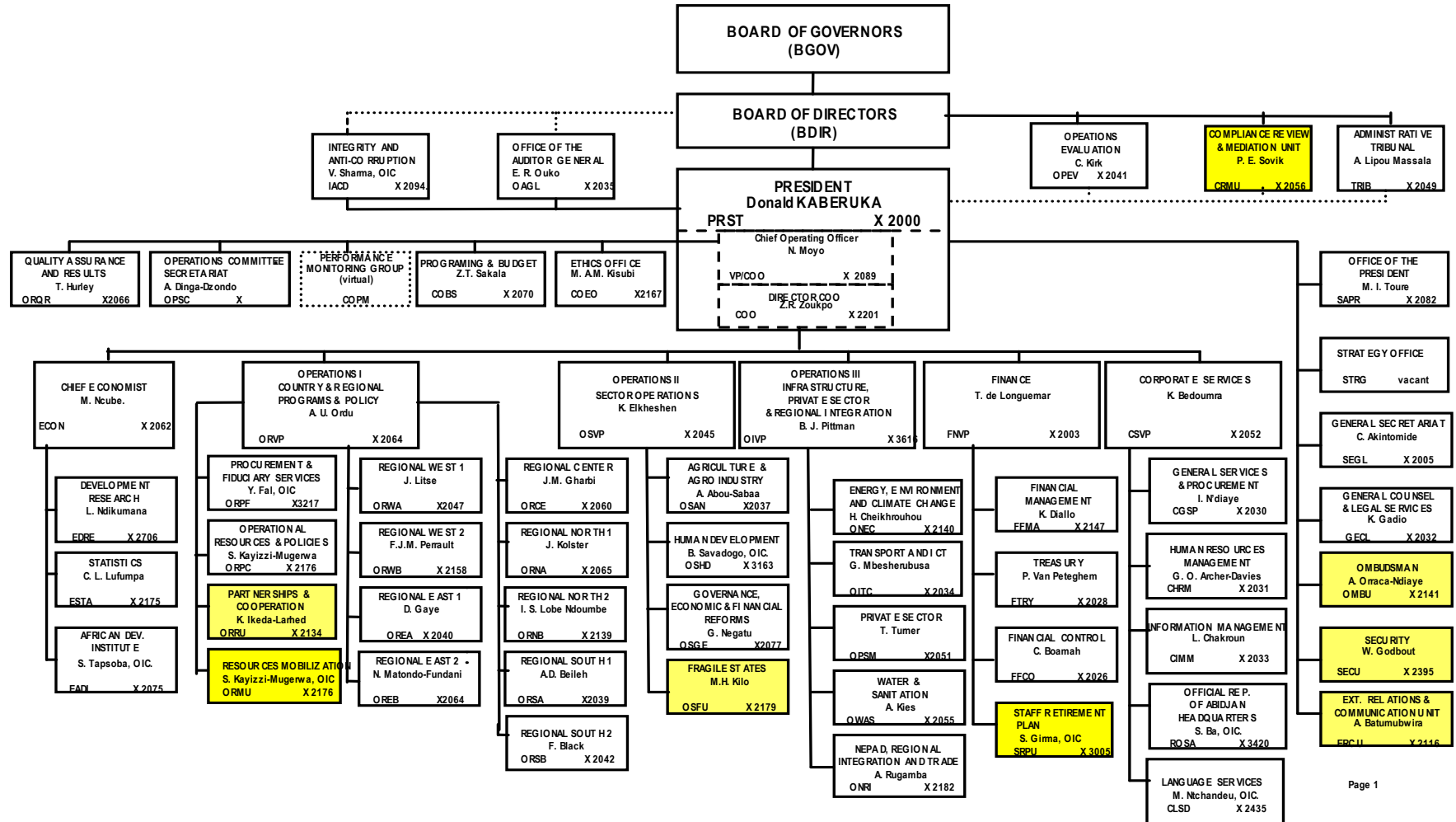


Table B.2 Number of Bank Economists in Regional Departments (4/11/10)

Region	Dpt	Leads	Economists			TOTAL	Number of countries covered by department	Number of economists per country	Number of economists per country (excl. Lead)
			HQ Economists	Intern'l FO economists	Local FO economists				
South B	ORSB	1	4	1	3	9	6	1.5	1.3
South A	ORSA	2	4	-	1	7	6	1.2	0.8
East A	OREA	1	-	3	4	8	6	1.3	1.2
East B	OREB	1	2	1	1	5	6	0.8	0.7
North A	ORNA	1	3	1	-	5	3	1.7	1.3
North B	ORNB	1	3	-	1	5	3	1.7	1.3
West A	ORWA	1	3	1	2	7	7	1.0	0.9
West B	ORWB	1	5	2	4	12	9	1.3	1.2
Center	ORCE	1	4	3	-	8	7	1.1	1.0
VP Front Office	SAOR	1	-	-	-	1	N/A	N/A	N/A
	TOTAL	11	28	12	16	67	53	1.3	1.1

Annex C Analysis of Project Completion Reports

C.1 Summary of PCR information

Process of PCR preparation and ratings system

Project Completion Reports (PCRs) summarize the project's contribution to development outcomes, assessing (ADF/ADB, 2009b):

- (i) The degree to which the project achieved its development objectives and delivered outputs as set out in the appraisal report;
- (ii) Prospects for the project's sustainability; and
- (iii) The Bank and the Borrower performance, including compliance with relevant safeguards and cross-cutting policies.

PCRs are a key milestone in project implementation and an essential form of self-assessment, constituting Bank's preferred tool to show concrete results to its shareholders and accumulate knowledge within the institution. They also serve as the primary tool to highlight lessons learned to improve the quality of the Bank's operations.

The responsibility for PCR preparation lies with the Sector Departments, with the project's task manager in particular. The PCR has to be peer reviewed by at least two staff and cleared by the Sector Manager and the Regional Director, and finally approved by the sector Vice-President. OPEV reviews all PCRs resulting in a "PCR Evaluation Note" which assesses the objectivity of the performance ratings, the pertinence of lessons/recommendations, and a general quality assessment, to ensure consistency across PCRs. In most cases, the PCR Evaluation Note validates the rating but in some occasions, they amend some scores.

The PCR format changed in April 2009, when new guidelines on Project Completion Reporting were issued by the Quality Assurance and Results Department (ORQR). The rating system is very similar in both formats but in the new one, criteria are standardised further across programmes and consolidated in fewer number of sub-criteria. Also, the scores are rounded up to zero decimal points.

The system uses a 1 to 4 scale to score the achievements of the programme as follows:

- 4 – Very Good: Fully achieved with no shortcomings
- 3 – Good: Mostly achieved despite a few shortcomings
- 2 – Fair: Partially achieved. Shortcoming and achievement are roughly balanced
- 1 – Poor: Very limited achievement with extensive shortcomings
- NA – Non Applicable

The PCR summarises the main features of the programme structured as follows:

- A. Programme data and key dates

- B. Programme Context
- C. Programme Objectives and Logical Framework
- D. Outputs and Outcomes
- E. Programme Design and Readiness for Implementation
- F. Implementation – states the major characteristics of programme implementation with reference to timing of tranche releases, waivers, supervision, etc.
- G. Completion – describes the PCR process
- H. Lessons Learned – summarises key lessons for the Bank and the Borrower suggested by the programme’s outcomes

Summary ratings are then auto-generated from the relevant section and summarised across three criteria and seven sub-criteria as shown in Table C1 below.

Table C.1 Example of Presentation of PCR Ratings, new format

CRITERIA	SUB-CRITERIA	RATING
PROGRAMME OUTCOME	Achievement of Outputs	3
	Achievement of Outcomes	3
	Timeliness	4
	OVERALL PROGRAMME OUTCOME	3
BANK PERFORMANCE	Design and Readiness	4
	Supervision	3
	OVERALL BANK PERFORMANCE	4
BORROWER PERFORMANCE	Design and Readiness	3
	Implementation	3
	OVERALL BORROWER PERFORMANCE	4

Number of PCRs received and status of other PBOs

PCRs received old format	48
PCRs received new format	12
PBOs Ongoing (no PCR available)	21
PBOs Approved (no PCR available)	5
PBOs unavailable on DARMS	6
PCRS not received	20
Total	112

Number of PBOs with scores available

Scores are available for the 60 PBOs for which we have received a PCR and 5 PBLs with scores taken from the PCR Evaluation Note or the PCR rating sheet:

Number of PBOs for which scores are available:	
PCRs in old format	48
PCRs in new format	12
Scores available from PCN or rating sheet	5
Total	65

Summary of scores available

Out of the available scores:	#	%
Overall equal or below 2	11	17%
Overall greater than 2 and equal or below 3	43	66%
Overall greater than 3	11	17%
Total	65	100%

PBOs not in the original list

The inception report lists 112 PBOs under the review period. From the documentation received, there appeared to be PBOs undertaken during the evaluation period which were not in the original list. It appears like there are at least seven PBOs in addition to the original list. Information on three others could not be validated with SAP data.

Document Type	Country	Project Name	Include in List?	Sector name	Appr Date	App Amt (mUA)	Cross-check SAP data against data on document received
PCR	Benin	Budget Reforms Support Programme	yes	Social	09.05.2001	14	Matches PCR received - found in SAP
PCR	Chad	Economic Management Support Project (Page)	yes	Multisector	22.07.2003	2.32	Matches PCR received - found in SAP
PCR	Rep of Congo	Economic Management Support Project (Emsp)	yes	Multisector	17.09.2003	0.50	Matches PCR received - found in SAP
PCR	Rep of Congo	Economic Reform Support Programme	?	Multisector	13.12.2004	7.00	PCR received - NOT found in SAP
PCR	Congo	Institutional Support To The Economic Recovery And Re-Unification Support Programme (Isp-Errsp)	?	Multisector	13.11.2002	3	
PCR	DRC	Multisector Institutional Support Project	yes	Multisector	13.11.2002	3.23	Matches PCR received - found in SAP
PCR	Tanzania	Institutional Support Project For Good Governance	yes	Multisector	13.12.2004	4.80	Matches PCR received - found in SAP
PCR	Chad	Economic Management Support Program	yes	Multisector	22.07.2003	2.32	Matches PCR received - found in SAP
PCN	Malawi	Aid And Debt Management And Governance Grant	yes	Multisector	18.10.2000	0.55	Matches PCR received except for amount - found in SAP
PCN	Morocco	Programme De Réformes Économiques Et Sociales (PRES)	?	?	1999	?	NOT found in SAP

C.2 Summary of reasons given for differences between PCR and PCN ratings

7 – Burkina Faso: Programme Complementary PASR II (2004) (2.2 vs 2.9)

- The PCR ratings needed realigning with the usual scale of performance measurement – for some reason a different scale was used

13 – Cameroon: Structural Adjustment Programme III (2001-2003) (2.3 vs 2.0):

- Score for 'Poverty Alleviation & Social & Gender' adjusted as PCR did not use sufficient data to substantiate the impacts claimed. Also did not make any reference to role of women in development;
- Score for bank performance adjusted as bank over-estimated the capacity of the borrower to implement the 106 measures specified in the PAS III and therefore had to become closely involved in programme implementation. The bank also failed to carry out identification and preparation visits; and a mid-term review. There were not supervision visits. The bank does not seem to have contributed anything to the social and economic analysis of this programme.

16 – Cape Verde: Programme of Support to Reforms III (2004-05) (2.4 vs 2.5)

- There is a small difference that is explained by rounding up one of the scores to a higher decimal point (institutional framework from 2.5 in PCR to 3 in PCN)

22 – Chad: Structural Adjustment Programme III (2002-03) (2.0 vs 2.22)

- The difference is explained by the lower rate given in the PCN for sectoral policy (1 in the PCN vs 3 in the PCR) although the PCN notes that it is only a decimal correction. It is unclear how a two point difference can be explained by rounding up decimal points.
- In contrast, the PCN rated the bank's performance higher (2 in the PCN vs 1 in the PCR) explaining that there were two evaluation missions before the negotiations and approval of the loan.

39 – Ghana: Economic Reform Support Loan II (ERSO II) (2001-03) (2.3 vs. 2.45)

- All the individual scores match one by one so the PCN validated each of the scores given in the PCR. However, the overall average is calculated differently which makes the PCR have an overall score of 2.3 and the PCN 2.45.

52 – Madagascar: Structural Adjustment Loan III (2000-03) (2.2 vs. 2.31)

- The difference is explained by decimal corrections in the PCN, which makes three scores jump from 2.5 to 3.
- However, the PCN does not give a score for the identification mission as it noted that this was combined with the preparation one.

53 – Madagascar: Pret d'Adjustement Structurel IV (2003-05) (2.3 vs. 2.58):

- Score for 'Compliance with Covenants' amended as was underestimated; delays had already been noted in timetabling of programme

- Score for bank performance at preparation stage amended as this was under evaluated for no apparent reason
- Score for bank performance at appraisal stage amended as the REP (?) was of satisfactory quality

72 – Morocco: Programme of Support for Administration Reform (2004-05) (3.0 vs. 2.84)

- The difference is partly explained by decimal corrections.
- There is a significant discrepancy on the score regarding the impact on staffing (3.5 in the PCR and 2 in the PCN): The PCN notes that the result has been an increase in the salary mass but the long-term results have been overestimated in the PCR.

76 - Mozambique: Program of Economic Reform & Good Governance (2000-04) (2.35 vs 3.16)

- PCR deemed to have underrated both implementation performance and the Bank'

77 – Mozambique: Second Programme of Economic Reform and good governance (2004-05) (2.6 vs 3.2):

- Score for 'adherence to implementation schedule' amended as loan effectiveness was attained on a strictly timely manner, and so program completion was reached within the appraisal time frame. These are rare outcomes in policy based lending operations so score adjusted upwards from 3 to 3.5.
- Score for 'adherence to cost schedule' amended upwards (from 3 to 3.5) as there were no slippages in disbursements or in implementation schedules, which would otherwise result in cost overruns.
- Score for 'compliance with covenants and conditions' amended upwards (from 2 to 3.25) as the PCR gave a 2-point score for "compliance with contractual clauses" and yet there was compliance with 9 conditions precedent stipulated for the loan. Clauses form only a small part of covenants and conditions stipulated for loans. Since covenants and conditions under the program were complied with on a timely basis, the score assigned to this indicator has been increased.
- Score for 'Adequacy of monitoring evaluation and reporting' amended upwards (from 2 to 3.25) as the PCR underestimates the efficiency and effectiveness with which reporting was accomplished under the program. Although a separate monitoring and evaluation unit was not established, this function was adequately performed within the framework of the Program for Aid Partners (PAP), which calls for periodic and semi-annual reviews of program implementation.
- Score for bank performance at supervision stage amended upwards (from 2 to 3.25) as there was no evidence in the PCR of implementation inadequacies due to inadequate supervision. To the contrary, it might be argued that the satisfactory program execution across-the-board was also attributable to continuous monitoring of implementation.

88 – Sao Tome: Structural Adjustment Programme, Phase III (2001-04) (1.9 vs 2.4):

- There are many differences between the PCR and the PCN. The PCN explained that the scale used by the PCR is somewhat different from that normally used and the scores used for the elements that make up the components are decimals, which is

contrary to the provisions in force. The realignment of the notes therefore concerns the upgrade to the scale and the usual notes and corrections concerning the differences in evaluation of performance by OPEV.

93 – Sierra Leone: Economic Rehabilitation And Reconstruction Loan (2001-03) (2.9 vs 3.2):

- Score for 'Adherence to implementation schedule' amended upwards (from 1 to 3) as although there was prolongation of 4 months over the 13-month program implementation schedule, this did not affect program execution in any significant manner. Accordingly, the rating of 1.0 is considered as disproportionately low and has been adjusted appropriately.
- Score for bank performance at identification and preparation stage amended from 2 to 3, because even when another donor plays a leading role at this stage of the project cycle, it does not mean that the Bank's rating performance should be border lined. Hence, the rating has been adjusted upwards to reflect the Bank's true role and commitment to the program.
- Score for 'Macro-economic policy' adjusted from 2 to 3 because the impact of war on macroeconomic developments seemed minimal once the adjustment program was started, as in this particular case. The rating in the PCR was not consistent with actual economic performance, which indicated significant achievements in annual GDP growth rates and declines in the annual rates of inflation.
- Score for 'Private sector development' adjusted from 2 to 3 because again the impact was minimal once the adjustment program was on course. As reported, some significant progress was made in this regard, implying minimal impact on the Strategic Plan relating to public enterprise reform.

C.3 Comments for cases where individual rating score (for any variable) is lower than 2

9 – Burkina Faso: Poverty Reduction Strategy Support Programme (2001-03) (overall: 2)

- Performance of the borrower: All indicators were below 2 because the implementation rate of the measures was very low, the accounts were not audited and the monitoring-evaluation system was inadequate since the reports were transmitted to all the donors without taking stock of the Bank component and the completion report was not prepared.
- Performance of the Bank: The ratings at appraisal and monitoring are 1.5 and 1 respectively because the matrix of measures was too ambitious and the supervision was inadequate.
- Programme performance: 4 out of 11 indicators below two. The private sector promotion component was late in relation to schedule; the budgets and MTEFs were of poor quality and expenditures on external financing not controlled; the contract audit was not performed; failure to prepare draft audited budgets; poor monitoring of the control and audits reports.

10 – Burkina Faso: Poverty Reduction Strategy Support Programme II (2003-05) (overall: 2)

- 'Implementation performance assessment': insufficient quality of all component elements
- Bank performance: each of 4 component elements found to be unsatisfactory
- Borrower's performance was confused with that of the implementing agency and was therefore found to be unsatisfactory
- Institutional development: reforms were undertaken but their appropriation by the administration left something to be desired and the new resources put into place are still insufficient

11 – Burundi: Economic Reforms Support Programme (2006-07) (overall: 1.4)

- Performance of the borrower (1.5): 2 out of 3 indicators are below 2 because there were considerable delays and several of the planned measures were not carried out and programme monitoring was poor as quarterly and completion reports were not prepared and forwarded to the bank.
- Performance of the bank (1.5): 2 out of 4 indicators were below 2 because the indicators chosen did not take due account of institutional weaknesses; there were no measures to accompany bank privatization; it was not stated how the monitoring agency was to be strengthened; the PCR notes that two unequal tranches could have been more appropriate.
- Programme performance (1.5): 6 out of 8 indicators are below two because there were no sector strategies; pro-poor expenditure in the national budget remained low, private sector development was slow; some measures were not implemented to reform the budget implementation procedures; the financial and management information system could not be put in place, and; there were significant delays in implementing the specific measures envisaged.

13 – Cameroon: Structural Adjustment Programme III (2001-2003) (overall: 2.3)

- Borrower performance assessment – implementation was not in line with the prescribed schedule; only 58% of objectives achieved, most of which were delayed. Regular programme progress reports were not completed.

20 – Centrafrique: Economic Reform Support Programme (2007-08) (overall: 2)

- Programme Performance (2.03): 3 out of 10 indicators were below 2 because the population under the poverty line didn't change; private sector development didn't improve; and the institutional framework hadn't improved.

22 – Chad: Structural Adjustment Programme III (2002-03) (overall: 2.22)

- Performance of the Bank (2): The programme was carried out over 24 months instead of 12.
- Performance of the Borrower (2): At identification and preparation, there were not missions (scores of 1) and the Bank backed the reform programme already supported by IMF and the WB.
- Programme Performance (2.25): 2 out of the 10 indicators were below two because there were delays in the structural policy reforms; and the non-oil private sector environment did not experience notable changes.

24 – Congo: Reforms Support Programme (2004-06) (overall: 2.05)

- Compliance with the schedule: The program implementation, billed to last 12 months according to the appraisal report, dragged on. 43.8% of the measures are still to be implemented, a good part of which would continue to be in the implementation phase by the Bank completion report preparation date;
- Adequacy of Monitoring & Evaluation and Reporting: The monitoring-evaluation of ERSP was satisfactorily carried out by the Bank. On the other hand, the Borrower's technical Secretariat did not seem to have all the information to enable a satisfactory appraisal of the program monitoring that devolved on it.

33 – Ethiopia: Structural Adjustment Loan II (2001-04) (overall: 1.8)

- Adherence to time schedule (1.5): Fulfilment of the conditions for release of the second tranche was completely out of schedule.
- Compliance to covenants (1.5): There was considerable delay (25 months) in fulfilling loan conditions for 2nd tranche.
- Adequacy of Monitoring & Evaluation and Reporting (0.5): No quarterly progress report was prepared and no audit has been made.
- Bank performance at appraisal (1.8): Appraisal (combined with preparation) was done in June 2001 and post-appraisal in July 2001. The timeframe for fulfilling some of the conditions for 2nd tranche was short as some of the reforms were premature leading to the delay in fulfilment of loan conditions.
- Bank performance at supervision (1.5): There is no Bank documentation on file to indicate the project was supervised more than once (mid-term review) despite the delays in fulfilling conditions.

43 – Guinea: Structural Adjustment Programme III (2001-03) (overall: 1.5)

- Programme Performance (1.3): not sufficiently justified in report
- Sustainability (1.66): the ending of budgetary support from development partners would have led to deterioration of the economic situation and increase of poverty in the country
- Overall assessment of results (1.55): aggravation of macroeconomic inequalities, increase in poverty and lack of sustainable results

45: Lesotho: Agricultural Adjustment Loan (1999-2003) (overall: 1.1)

- Performance of the Borrower (1.5): Most of the activities were delayed; less than half of the grant and the loans were disbursed; GoL delayed in fulfilling bank's conditions; no medium-term review was undertaken.
- Performance of the Bank (1): The project was not well identified, not well prepared, had no good indicators and the supervision missions was ineffective, while there is no evidence of identification or preparation missions.
- Programme Performance (1): Non-implementation of most of the envisaged project activities as a result of poor management both by the bank and the borrower.

85: Rwanda: Poverty Reduction Strategy Support Programme (PASRP I) (2004) (overall: 2.17)

- Performance of the Bank (1.83): At supervision, a multi-disciplinary team should have been mobilised for an in-depth monitoring of each component.

- Programme Performance (2.17): On sustainability, a score of 1.8 was given because of the weak technical and human capacities and the staff reduction following the civil service reform.

91 – Senegal: Private Sector Adjustment Programme (2003-07) (overall: 2.39)

- Programme Performance rating (1.83): The terms of the loan agreement relating to the Monitoring Committee and quarterly reports were not complied with. The agreement provides for the regular functioning of the committee and stipulates, among others, that the Borrower shall send to the Fund quarterly monitoring/evaluation reports on programme implementation, and conduct audits of the special account. The Monitoring Committee did not operate and it was the Coordinator of the Technical Secretariat (CEPOD) who moved implementation of the Programme along. The Technical Secretariat met when the need arose, or whenever a mission arrived. It also put together the technical committees for monitoring the studies. The quarterly activity reports were not sent regularly by the Technical Secretariat, but it kept an updated record of the implementation of measures. The Borrower has undertaken to prepare the required audit reports.

99 – Tanzania: Structural Adjustment Loan II (2001) (overall: 2.04)

- Programme Performance rating: significant time slippages, extending completion by about 23 months; delays and difficulties with conditions, even with 1st tranche; disbursements problematic since outset due to onerous conditions;
- Bank performance rating: Conditions of the loan turned unrealistic and they faced issues of the calendar of parliament; supervision missions should have applied expertise on structural impediments.

101: Tanzania: Poverty Reduction Support Loan (2006-07) (overall: 2.4)

- Adherence to time schedule (1.8): Fulfilment of the conditions for release of the loan funds was out of schedule leading to disbursement of funds at the very end of the financial year.
- Compliance to covenants (1.8): There was delay (9 months) in fulfilling loan conditions for release of funds.
- Financial management and audit systems (1.8): Financial management and audit systems are being strengthened under the ongoing reforms.

108: Uganda: Poverty Reduction Support Loan (2002-05) (overall: 3.1)

- Adherence to time schedule (1.5)
- Performance of the Bank – supervision (1.5)
- Financial and integrated systems of management including audit systems (1.5)

111: Zambia: Support for Fiscal Transparency and Accountability (2001) (overall: 1.87)

- Performance of the Borrower (1.88): There were loan delays in implementation; disbursements were problematic because of onerous conditions; and there were no serious accounting cost overruns for the Bank loan and grant.
- Performance of the Bank (1.7): The programme remained un-supervised for several years.
- Programme Performance (2.05): The audit was overly delayed.

112 – Zambia: Economic Recovery Loan II (1999-2001) (overall: 2.27)

- Release of 2nd tranche funds was delayed due to fulfilment of conditions not being met from 1st tranche funds; no progress reports found; appraisal report had to be withdrawn; timeframe specified in appraisal report was wrong; no financial management report shown to PCR mission.
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C.4 Lessons learned from PBOs

PCRs include a section on “lessons learned” which are compiled below. There are five PBOs for which no PCR was received but lessons learned were available from PCNs, which are: 53, 62, 88, 105 and 108.

1 – Benin: Poverty Reduction Strategy Support Programme (2003-05):

- (i) The Bank’s support to budgetary reforms also requires the assessment of its capacity and the procedures applied under the programme budgets, with a view to a gradual change for a more consistent programme approach, just like the other partners. The interventions of the Bank could therefore use the budget support instrument to back up reforms and sectoral programmes whose implementation depends on national laws;
- (ii) The pursuit of the Bank’s assistance to budgetary support programmes also requires a better coordination and harmonization of its interventions, at internal level and with the other development partners, according to progress made by the country. In fact, there are increasingly countries like Benin who favour budgetary support as a preferred mode of intervention in their various sectors of activity;
- (iii) Despite adherence to the project cycle, sound programme monitoring and closer coordination with the donors, GDP growth was low and poverty has not significantly reduced. This situation should encourage the Government to persevere in the effort and to undertake, with courage, the implementation of reforms that were not fully implemented, namely the privatization of the public service (SBEE, Telecommunications and the Port of Cotonou) and to fight more against corruption.

2 – Benin: Second Poverty Reduction Strategy Support Programme (PRSSP II) (2006-08):

- (i) There should be a stronger link between the goals set and the measures applied to achieve them such that each measure contributes directly towards the achievement of the objective either because it helps to remove an impediment or because it helps create the right conditions;
- (ii) given the duration of the programme, the measures and objectives should correspond to priorities that are better targeted and more concentrated;
- (iii) there should only be one monitoring indicator for each measure, to avoid confusion in assessing progress;
- (iv) such programmes should be spread over many years, to help strengthen other Bank intervention;
- (v) each measure should have only one monitoring indicator to make it easy to evaluate progress;
- (vi) Implementation of reform programmes requires the right combination of human and technical resources. Programme quality will therefore be enhanced by strengthening the identification, preparation and appraisal teams and by making sure that they have the skills that match the technical requirements of the programme;
- (vii) The quality of reform programmes would be improved if they were implemented in coherence with institutional support and other forms of technical assistance and capacity building.

6 – Burkina Faso: Appui Strategie Recution Pauvrete IV – in French (2008-09)

For the Government:

- (i) the relevance to strengthen the financing of the implementation of the PRSP through the mechanism of general budget support given the needs for capacity building and the significant level of ownership of the process of policy definition development and membership of the PTF that enhances the dialogue framework,
- (ii) the need to strengthen the administrative capacity to increase ownership and better monitoring of reform programs,
- (iii) the need to continue efforts to improve the environment for private sector growth and diversification of the economy to increase their contribution to GDP and thus reduce the economy's vulnerability to external and climate shocks
- (iv) the importance of continuing reforms to strengthen transparency in public financial management to increase the level of domestic resource mobilization and efficiency of public spending.

For the Bank:

- (v) continue to support the implementation of the PRSP in the spirit of strengthening the achievements including the reforms initiated at the level of private sector competitiveness by enrolling in the medium-term vision to create conditions for the viability of SMEs. The continuation of the intervention will also enable the operationalisation of important tools in place, including the quality policy;

- (vi) pursue the combination of general budget support with targeted institutional support to ensure effectively complement needs for capacity building;
- (vii) take account of the short turnaround of budget support programs in targeting reforms to support monitoring indicators;
- (viii) consider the administrative burdens in determining performance criteria and disbursement; and finally,
- (ix) the preparation of the programme completion report (December 2010) is limited on the assessment of results and impact of budget support programs, because the planned reforms are not yet due.

7 – Burkina Faso: Programme Complementary PASR II (2004)

- (x) The importance of dialogue and coordination of actions; need for harmonisation of conditionalities, reform measures and procedures of different technical and financial partners;
- (xi) need for institutional support to bodies responsible for implementation;
- (xii) budgetary support essential for capacity building of governments to develop and implement reforms.

8 – Burkina Faso: PASRP III (2005-08)

- (i) The conditions for the disbursement of the second tranche did not take into account the rolling nature of the joint performance and disbursement matrix; whereas other partners chose their conditions on an annual basis as per the matrix;
- (ii) To distinguish between policy dialogue measures which call for a participatory approach (corruption) and other types;
- (iii) The programme should be combined with support aimed at building capacity if complex reforms are to be implemented;
- (iv) The conditions should be clear and precise; and
- (v) The monitoring and dialogue benefited from the presence of an economist in the Bank's country office.

9 – Burkina Faso: Poverty Reduction Strategy Support Programme (PRSSP I) (2001-03)

- (i) Take account of the administrative capacity of countries and political environment;
- (ii) Ensure existence of the prerequisites for budgetary support;
- (iii) Take account of the transmission time in determining the duration of programmes;
- (iv) Review these criteria for monitoring reform programmes.
- (i) importance of managing and learning from implementation of structural reforms and the success factors of reform programmes;

10 – Burkina Faso: Programme d'Appui Strateg. Reduct Pauvrete II (2003-05)

- (ii) importance of structural measures in and of themselves but also in ensuring transformation of the economy;
- (iii) need for institutional support for bodies responsibly for implementing measures;
- (iv) the negative impact on the bank of its absence on the budget support coordination group (GSB).

11 – Burundi: Economic Reform Support Programme Phase I (ERSP-I) (2006-07)

- (v) In a post-conflict situation, it is better to opt for a multi-year and multi-tranche financing approach;
- (vi) Reform programmes and measures must be well-targeted and designed together with other donors and with the Government;
- (vii) Measures should be chosen with due consideration to their degree of complexity and the country's institutional capacities;
- (viii) Reform programmes must be accompanied by appropriate institutional support and targeted technical assistance; and
- (ix) The Bank must carry out regular monitoring of programme implementation.

12 – Burundi: Economic Reform Support Programme Phase II (ERSP-II) – in French (2008-09)

- (i) In the design of the programme, the high number of measures (55) for the implementing period (14) did not take into account the institutional capacities;
- (ii) The sequence of reforms was not correct as some depended on the enforcement of others;
- (iii) The gaps in the system of coordination of external aid in the country does not facilitate the collection of data on external financing for their inclusion in the interim system of public finance management;
- (iv) The Bank must continue its efforts to ensure better coordination with other partners in the Partnership Framework for Budget Support;
- (v) The Bank must formulate the measures more precisely;
- (vi) The Bank should strengthen its presence on the ground for better monitoring.

13- Cameroon: Third Structural Adjustment Programme (SAP III) (2001-04)

- (i) The Bank should continue to support economic reforms in Cameroon;
- (ii) The Bank should be more present on the ground;
- (iii) The Bank should strengthen the institutional capacity of teams responsible for the evaluation of economic reform programmes;
- (iv) The Government should prepare quarterly monitoring reports of future programmes and transmit them to the Bank;
- (v) The Government should carry out audit of the special account opened and render account of the use of resources of the second loan tranche; and

- (vi) The Government should improve public finance management and conclude a new programme with the IMF which should help to fully implement the reform programme.

15 – Cape Verde: Economic Reform Support Programme II (2002-03)

Programme success factors:

- (i) good coordination between programme stakeholders and continuous involvement of borrower;
- (ii) importance of reviewing strategic and policy documents at programme inception and gaining clear understanding of the country's institutional capacity and the complexity of reforms;
- (iii) mobilisation of external aid and remittances.

16 – Cape Verde: Economic Reform Support Programme III (2004-05)

Success factors and sustainability of programme effects:

- (i) continuous involvement of borrowers and establishment of good dialogue and coordination amongst all stakeholders;
- (ii) stable, democratic and transparent socio-political context;
- (iii) TA to address institutional capacity constraints; and
- (iv) integration of lessons learned from previous programmes, especially those related to the strengthening of the multi-disciplinary nature of M&E teams and more realistic evaluation of actions needed to implement the programme effectively.

20 – Central African Republic: Economic Reform Support Programme (2007-08)

- (i) Government's political will and commitment are essential factors for reform implementation;
- (ii) Coordination between donors supporting the reforms is an essential asset in the implementation and success of these reforms; and
- (iii) For short-term programs, the setting of a realistic pace for the implementation of measures by the donors, taking due account of the context of a post-conflict country, institutional capacity and human resources, is a guarantee for the smooth implementation of measures and adherence to schedule.

22 – Chad: Structural Adjustment Programme III (2002-03)

- (i) Programme justification and formulation: The programme was justified. A Government request consistent with the national priorities set out in the PRSP and CSP objectives was made prior to programme appraisal. As regards programme formulation, it is important to adhere to the full cycle of project preparation. The presence of other donors must not constitute grounds for the disregard of identification and preparation missions. Furthermore, it is necessary for the conditions, number of programme measures and their timing to be tailored to the country context. The multidisciplinary aspect of programme appraisal teams

- must be encouraged. The experience gained by the structure entrusted with programme implementation is essential for obtaining adequate technical data;
- (ii) Programme implementation and supervision: Adherence to the programme implementation schedule, and programme ownership by the Borrower are essential for smooth programme implementation. Programme implementation must be supplemented with institutional capacity building. At Bank level, it is fundamental to render programme implementation more flexible. Supervision, especially timely mid-term review, would be the appropriate instrument to ensure such flexibility. It is necessary to adopt a rule of annual programme supervision by a team of adequately constituted experts. Furthermore, it is important to audit the special account after each disbursement by the Government-appointed body;
 - (iii) Adherence to loan covenants and conditions. The Government must make more effort to conform with loan covenants and conditions. Special attention must be paid to the following elements: frank dialogue during discussions on conditions precedent; implementation of agreed measures; adherence to disbursement deadlines; timely preparation of the completion report in accordance with the operation manual's guidelines, and the audit report on the special account after each disbursement.

23 – Chad: Governance Reforms Support Programme (2005)

- (i) There needs to be better identification of risks, changing context and appropriateness of a fast-disbursing financial instrument for it to be effective and maintain the credibility of the bank.
- (ii) The effectiveness of the complementarities of the fast-disbursing support with institutional support has been limited and for the future, consideration should be given to take into account different targets (short vs long-term).
- (iii) Care should be taken to limit the number of preconditions and the measures.
- (iv) Conditions must be based on measures that authorities have effective control;
- (v) A focus on the quality of supervision is particularly important in weak states;
- (vi) The management units need to have the ability to effectively mobilise reform agents; and
- (vii) Dialogue between donors is important to minimise transaction costs and identify areas where progress can happen on an incremental basis.

24 – Congo: Reforms Support Programme (2004-06)

- (i) the formulation of reform programs should necessarily take into consideration the political context and Government's institutional capacity, to ensure the implementation of the measures adopted within the time frame, as well as their ownership and internalization by the country concerned;
- (ii) it is necessary that the continuation of State disengagement from the productive sectors should be in line with the commitment of the authorities to liberalize the economy and provide business opportunities for the national and foreign private sector;
- (iii) it takes more than increased allocations to the poor to alleviate poverty. In order to have real impact on the target populations, a reliable monitoring system all

- along the public expenditure process should be devised and a range of poverty monitoring indicators installed;
- (iv) the sustainability of the achievements obtained in implementing the program largely depends partly on the political will and determination of the Government to pursue the macro-economic and structural reforms and partly on the involvement of government departments concerned.

33 – Ethiopia: Structural Adjustment Loan II (2001-04)

- (i) At appraisal, the implementation capacity of the Government should be thoroughly assessed in order to define the conditions which are achievable within the overall framework of reforms. Also, in line with the accepted best practices the number of conditions should be fewer and fully harmonised with the overall policy matrix supported by all partners;
- (ii) The Bank needs to closely follow up policy based operations through more regular supervision and review missions; (iii) The Bank needs to respond to changes in the local operating environment more quickly for better performance of the programme.

34 – Ethiopia: Poverty Reduction Support Loan (2004-05)

- (i) In a budget support operation supporting only one-year budget, the Bank should insist on meeting prior conditions before board approval to facilitate disbursement of the loan proceeds immediately after the entry into force of the loan agreement;
- (ii) If there is no baseline data which would allow assessment of performance at completion, a study to determine the baseline should be undertaken early in the programme period and periodic program review reports should incorporate data gathering and have a realistic time frame for publication; and
- (iii) Postponing or leaving out implementation measure could avoid delays in programme implementation, affecting development effectiveness and sustainability of the program. In such situation, a decision on whether it's worth to leave measures out should be taken between government and donors.

35 – Ethiopia: Protection Basic Services (2006-08)

- (i) The Bank should tighten political risk assessment versus development assistance: Although a continuation of aid and support of previous gains was made possible following the suspension of DBS, through supporting GOE's fiscal federalism for the delivery of basic services; some risks remain. The Bank should develop and support the build up of correlated indicators to be monitored to reduce the risks of the crises such as the one that gave birth to PBS-I. Continued donor support for basic services at the local level still remain susceptible to major political risk at the macro level. In addition, it would be in the interest of GOE to collaborate in reducing instability of aid, particularly the case with development budget support because it impacts the economy at macro-level;
- (ii) Integrate PBS-I Lending Innovations into Bank lending Instruments: The operation contained a novelty in lending, the 'earmarked' budget support. The instrument should be calibrated with preconditions, harmonised and integrated into Bank lending instruments;

- (iii) Strengthen Bank Leadership in Policy Dialogue: The Bank needs to deepen its intellectual participation and leadership to reflect its significant role as a player and contributor to aid and development coordination in Ethiopia. What needs improvement (and inclusion in Bank records for purposes of PCRs) is greater involvement in program evaluative inputs and background information with a stronger role among other donors. A correlated dimension of this lesson is the need to eliminate weaknesses in country offices in terms of professional staffing to the point where the Bank's engagement with government and co-financiers in program implementation is prominent;
- (iv) Strengthen the Developmental and Sustainability impacts of Bank Assistance: During implementation, a substantial share of the resources allocated in the regions and woredas went to recurrent spending- wages in particular. Future aid, and GOE resources, should help the regions to develop their development blueprints and agenda, harmonized at the Federal level. This approach would promote regional priorities and participatory development;
- (v) Strengthen PFM reporting: In line with the findings of the recent Bank retrospective on Budget Support Lending, the reporting requirements of future PBS-type support should be tilted away from the quantity of reports and towards technical quality of analyses of PFM implementation issues, especially the depth and transparency of reporting.

38 – Gambia: Poverty Reduction Budget Support Program (PRBS) (2009)

- (i) Joint intervention by budget partners improves the chances of the attainment of the program's outcomes. The identification of this operation in the Joint ADB/WB Joint Assistance Strategy (2008-2011) was an important contribution to its success;
- (ii) The operation could have been more effective if the EU component is better synchronized such that the tranche releases coincide with or immediately follow the ADB/WB tranche release;
- (iii) The relative success of the program was partly due to the fact that the objectives of the program were well-alignment in sequence and timing to the IMF support PRGF;
- (iv) The principle of "selectivity" based on the comparative advantage of each budget partner should be adhered to, particularly for countries like the Gambia, where there are weaknesses in financial and economic governance;
- (v) existence of a joint agreed-upon policy matrix has been a contributing factor to the success of the program; this should be further consolidated by having a signed draft Memorandum of Understanding (MOU);
- (vi) in view of the inherent weaknesses in donor co-ordination by the government, the joint annual review meeting for the Gambia Budget Support proved to be effective not only for assessing the implementation of policy reforms of the program, but as a vehicle for coordinating donor strategy and program in general;
- (vii) annual review meetings of the budget support partners should be synchronized to coincide with and include the annual review of the PRSP, as is the case in Tanzania;
- (viii) The design of future budget support operations should be combined with institutional support and/or technical assistance operations, which complement the budget support operation. The ADB's Institutional Support Project proved to be of great help to the authorities in complying with the benchmarks of the PRGF program in the area of fiscal reporting, external debt management, and IFMIS.

39 – Ghana: Economic Reform Support Loan II (ERSO II) (2001-03)

- (i) the need for adequate consensus building for intended privatization of strategic public enterprises in quick disbursing policy-based lending;
- (ii) that conditionalities should be focused and well crafted to remove any uncertainties to ensure their timely fulfilment and
- (iii) that even after conditionalities have been fulfilled, there should be continuous monitoring and follow-up to ensure that they remain genuinely effective.

40 – Ghana: Poverty Reduction Support Loan (2003-04)

- (i) the significance of country administrative capacity and the degree of borrower ownership in implementing reform programs. Both borrower capacity and commitment were found to be at a low level;
- (ii) the need for realistic timeframes for program implementation since implementation and management of policy change tends to be time-consuming;
- (iii) that the achievement of expected policy outcomes is often times dependent on parallel implementation of other complementary actions that would require active follow-up to ensure that those actions on which program success depend are also executed; and
- (iv) for effective monitoring of reform implementation where multi donor participation is involved, it is imperative that a common policy assessment framework is adopted rather than have a coexistence of two different policy assessment models.

41 – Ghana: Poverty Reduction Support Loan II (2005-06)

- (i) For the MDDBS programs, development partners should fix all its conditions precedent to disbursement, and should use the common assessment framework to agree them.
- (ii) The development partners should move towards the use of joint documents for their multi-donor budget support programs.
- (iii) There should be consistency between the evaluation report and the evaluation matrix.
- (iv) The reform programs should be well designed and sequenced to avoid delays in their implementation.

43 – Guinea: Structural Adjustment Programme III (2001-03)

- (i) the importance of adequate evaluation, during programme design, of the importance and respective priority of measures to be implemented, of the national and sub-regional political context and of the administration's institutional capacity;
- (ii) importance, for programme implementation, of sound management, coordination and M&E structures;
- (iii) good communication of M&E results to the bank;
- (iv) fulfilment of outstanding conditions before additional support is granted.

45 – Lesotho: Agricultural Sector Adjustment Programme (1999-2003)

- (i) Importance of government ownership;
- (ii) Participation of relevant stakeholders in project identification and other phases of project implementation;
- (iii) Institutions of timely review of projects so as to remedy projects of constraints impinging negatively on the project and for appropriate corrective measures;
- (iv) Setting of attainable realistic targets and quantifiable indicators;
- (v) Provision of timely and appropriate support;
- (vi) Avoid complicated conditions prior to disbursement of loans or grant for timelessness of project start; and
- (vii) Effective donor coordination and communication in project management.

46 – Lesotho: Public Utilities Sector Reform Programme (2000-08)

- (i) An unplanned positive effect to the achievement of the project purpose was the duration of the Lesotho Electricity Company (LEC) management contract. This is only possible if the utility is independent of governmental interference;
- (ii) Adequate assessment of the situation on the ground is necessary before various privatisation format options (not pre-determined ones) can be considered;
- (iii) The programme had no components for LEC system reinforcement due to its targeted approach;
- (iv) No unified policies were put in place for the operations and maintenance of the pilots, putting the sustainability of the Rural Electrification Unit in question; and
- (v) The support from the Lesotho authorities was very strong given their involvement in the design and implementation of the project.

48 – Liberia: Public Financial Management Reform Support Program I (2008-09)

- (i) There are two main risks to the rapid progress related to the automation and capacity constraints and training needs, neither of which is entirely within the Government's control;
- (ii) Capacity constraints must be reviewed and accompanying financing secured in terms of the scope and timeline of operations;
- (iii) Stronger coordination is needed including to avoid problems related to cross-conditionality. ADB could assume an active role in the budget support working group.
- (iv) Field presence would ensure follow-up and that ADB remains active in the dialogue even if their allocation is exhausted.

52 – Madagascar: Structural Adjustment Loan III (2000-03)

Key lessons learned relate to

- (i) political stability and stability of governmental administration structures;
- (ii) availability of sectoral/ thematic studies on certain politically sensitive reforms before programme implementation;

- (iii) harmonisation of actions and coordination between donors and government and donors amongst themselves; and
- (iv) timely and effective implementation of required actions.

53 – Madagascar: Pret d'Adjustement Structurel IV (2003-05)

Success factors were:

- (i) clear definition of fields of competence of different state structures involved;
- (ii) adequate allocation of material and human resources to implement the programme;
- (iii) effective and timely implementation of certain structural reforms.

54 – Malawi: Support for Good Governance Loan (SGGL) (2004-05)

- (iv) The programme was not closely monitored by the Government which has resulted on lack of clear information flow on progress made within the programme;
- (v) One of the positive outcomes of the programme has been the sustainability of pro-poor expenditures which are protected from any reductions, as a result of a Government strategy;
- (vi) The programme faced difficulties conducting audits of national accounts as a result of severe lack of capacity in the national audit office. There needs to be further support to capacity building in PFM;
- (vii) There were too many activities and conditions; and
- (viii) Information management was extremely weak.

56 – Malawi: Poverty Reduction Support Grant (I) (2009)

- (i) Using national systems simplified the design, implementation, supervision and monitoring of the operation. This enabled the Bank to design and implement the operation within a financial year. However, there is need to take measures that will enable the Bank to disburse its budget support during the desired first half of the financial year rather than during the last quarter of the budget;
- (ii) It is very difficult to attribute changes in the performance of PFM impact institutions or areas to the provision of budget support especially in cases where performance improved although their budgets were not fully funded despite the disbursement of budget support. In providing budget support, the Bank should provide complementary coordinated technical assistance (where necessary) so as to strengthen capacities to implement the PFM reforms;
- (iii) The need for clarity or specificity in the selection, definition, and negotiation of conditionalities;
- (iv) Risk analysis, including fiduciary risk analysis and macroeconomic analysis is critical to the success and sustainability of budget support in Malawi and should be a major focus of appraising PRSGII and should be appraised jointly with other donors. Furthermore, risks associated with institutional capacity weaknesses need to be considered in the design of a follow-up operation.

57 – Mali: Third Structural Adjustment Programme (SAP III) (2002-04)

- (i) Partner coordination well before the programme with PERs and other assessments enabled the implementation of almost all the measures and the programme's success;
- (ii) The strong involvement of sectoral structures in the implementation of components for which they were responsible and which contributed to satisfactory implementation of the programme and attainment of the set objectives.

62 – Mauritania: Programme d'Ajustement de la Fiscalite (PASFI) (2001)

Importance of coordination role between administration structures which are directly involved in implementation of similar projects.

63 – Mauritius: Development of Budget Support Loan for Economic Reform Programme (2007)

- (i) Strong Government leadership/ Ownership in the design and implementation of the reform programme initiated during the 2005/06 budget, led to the positive outcomes. In this context, the government fully engaged the private sector to support the reform agenda;
- (ii) Availability and technical support across sectors for capacity building and analytical work by DPs contributed to achievement of the objectives of the programme;
- (iii) Mutual Understanding and strong collaboration between the Bank and the Government led to the positive outcomes in the reform programme;
- (iv) Use of smart indicators – outcome indicators such as primary spending as a % of GDP is proved not to be the best indicators during economic crisis period;
- (v) Collaboration and coordination among Development Partners supporting the reform programme of the Government (World Bank, Agence Francaise de Development, EU and UNDP) through formal mechanism such as business plan meetings, joint analytical work, joint appraisal and assessment , implementation and sharing of information contributed to the programme achieving most of its objectives;
- (vi) Lack of Bank presence undermined competitiveness of the institution compared to the development partners represented at country level and undermined synergy of the budget support operation and other Bank Group operation;
- (vii) Release of tranche based only on one condition could create serious problems ahead and undermine development reforms;
- (viii) Depending on the progress and commitment of the Authorities, the Bank should be flexible on missed conditions, so as not to jeopardize the development programmes;
- (ix) The appraisal of a programme as well as its supervision should be helped by specialists in risk (sovereign, economic) analysis.

67 – Morocco: Water Sector Adjustment Programme (2003-08)

- (i) A logical framework that clearly defines the sequence of objectives, activities, results and effects as well as separate indicators for measuring results and the effects would have been of great help for monitoring program implementation and evaluation its interim and final results;
- (ii) Partial implementation of the SAP is significantly due to the large number of conditionalities and the underestimation of completion deadlines, especially those requiring amendments to laws;
- (iii) The budget support has benefited the general national budget, but not the budget of those departments concerned with a visible impact by those latter which are more sensitive to develop actions (investment projects) as reform measures;
- (iv) Managing the program has suffered from lack of management support (technical assistance). The negative effects on the overall monitoring of the program and its coordination was exacerbated by the fact that the programme had not planned capacity building activities of the institutions concerned for the reform

69 – Morocco: Fourth Programme of Financial Sector Support (2002-04)

- (i) Formulation of conditions: It is important to prioritise conditions and actions where there is potential for achievement and resources can be mobilised accordingly.
- (ii) It was found that some laws were published beyond the period covered by the program. The Borrower justifies this shift by the variety of procedural channels. It would be wise to consider the weight of these circuits and accordingly determine a reasonable timeframe for the implementation of measures.

70 – Morocco: Medical Coverage Reform Support Programme (First Phase) (PARCOUM I) (2002-08)

- (i) The need for more realistic conditions and schedules;
- (ii) Limit the legal type of measure/conditions;
- (iii) Clearer definition of performance indicators at the appraisal and;
- (iv) Ensure a better monitoring of programme.

72 – Morocco: Public Administration Reform Support Programme Phase I (PARAP I) (2004-05)

- (i) The Government's efforts at informing public servants of the reform should be reinforced and enlarge to a wider public;
- (ii) The internalisation of technical knowledge linked to new tools requires a vast training programme;
- (iii) Need to reinforce public resource mobilisation;
- (iv) Close coordination among donors was an important factor;
- (v) Support through activities of analysis and technical assistance provided by the donors contributed to enhancing the quality of the reform programme;

- (vi) The Bank's contribution could have been richer if it had been backed by the provision of services of analysis or technical assistance;
- (vii) The Bank should ensure multi-disciplinary nature of the teams of experts to participate in the missions;
- (viii) This type of programme required very long commitment by the Bank. The yearly loan with a single tranche appeared appropriate but difficulties arose in the application of the instructions in the operations manual regarding monitoring of the programme and the number of missions; and
- (ix) The need for more presence on the ground to effectively participate on the dialogue.

74 – Morocco: Public Administration Reform Support Programme III (2008-09)

- (i) The joint nature and quality of partnership between three co-financiers (World Bank, European Union and African Development Bank) have been beneficial for the support which was sometimes politically difficult;
- (ii) The success of a Budget support is also linked to its support through technical assistance which helps better understand and define certain instruments to accelerate the implementation of reforms by improving the implementation capacity;
- (iii) It is important to improve internal communications between jurisdictions to better entrench reforms and strengthen its ownership;
- (iv) It would be advisable that the Bank adopts a programmatic approach harmonize it with the World Bank as co-financier.

76 - Mozambique: Program of Economic Reform & Good Governance (2000-04)

- (i) PARPA process presents a good model of how to systematize reforms designed to building key blocs for poverty reduction and sustained development;
- (ii) the Performance Assessment Framework provides a sound basis for focusing directly on actionable priorities among Aid Partners;
- (iii) prescription of standard remedies is not always the answer in the implementation of reforms;
- (iv) modern tax legislation reforms alone do not guarantee increased revenue mobilization if collection machinery and cost-recovery arrangements remain weak; and
- (v) public sector reforms are not an adequate prerequisite to long-term growth if private sector development is not fostered as the veritable engine of growth.

77 – Mozambique: Second Programme of Economic Reform and good governance (2004-05)

- (i) Development Budget Support Loans (DBSLs) are powerful instruments for supporting government reform programs aimed at combating poverty on a sustainable basis;
- (ii) Performance Assessment Frameworks (PAFs) constitute a sound and reliable basis for setting out development and reform agenda for countries that have

elaborated their poverty reduction strategies and need to have harmonized and coordinated actions among development partners to ensure that Aid Partners contribute effectively to development and reform programs;

- (iii) Modern tax legislation does not constitute an effective tool for tax revenue mobilization unless backed by an adequate and appropriate institutional framework, including efficient tax administration vehicles or entities;
- (iv) While the Ministry of Finance plays a pivotal coordinating role in mobilizing revenue and allocating resources among various competing demands of spending sectoral ministries, maximum caution needs to be exercised, to ensure that individual sectoral ministries do not develop and foster sectoral power bases vis-à-vis donors, as this carries the risk of diverting resources from the center to the periphery;
- (v) Public sector reform is not a sufficient condition for long-term growth, which in order to be sustainable, should be supported by robust and dynamic private initiatives since the private sector remains the most powerful driver of long-term growth low income countries pursuing economic liberalization programs.

77a – Mozambique: Poverty Reduction Support Loan (2006-07)

- (i) Increased harmonisation of development strategies through PAP procedures promises significantly more benefits than risks both to the external Aid Partners and to the GoM.
- (ii) The enormous scope and depth of reforms required to develop and to lay foundations for growth, coupled with limited domestic resources, require medium- to long-term engagements to ensure aid predictability and to tie in with national development plans.
- (iii) The introduction of legislation is no guarantee of effective implementation. Concentration on the achievement of process benchmarks should evolve towards measurement of service delivery.

79 – Multinational: African Regional Technical Assistance Centres (AFRITAC) (2005)

- (i) to improve AFRITAC sustainability, there is need to allocate larger resources for human capacity building;
- (ii) there is need to improve TA information dissemination to attain better synergy and complementarities with donors who are contributing to AFRITAC; towards that end, it is recommended to improve the accessibility of member countries to the "Technical Assistance Information Management System" (TAIMS);
- (iii) the next phase should develop a three-year plan for each major component of TA needs, with clear, monitorable, and quantifiable indicators of objectives, outputs and outcomes;
- (iv) the next phase of AFRITAC should give more weight to regional integration, by assisting regional institutions in the design and implementation of their policies and programs;
- (v) there is need to increase the number of African consultants and short-term experts, recruited by AFRITAC;

- (vi) the terms of reference and composition of the Steering Committee should be revisited, as there is a need to manage the program at two levels: one at the operational level and another at a higher level, which is concerned with strategic and policy issues; and
- (vii) the ADB should intensify its cooperation with AFRITAC centers in its policy dialogue with RMCs and in the design of its operations.

80 – Niger: Structural Adjustment Programme III (2001-04)

- (i) Major lessons relate to the need to strengthen entities concerned with program implementation to ensure successful program execution;
- (ii) stresses the significance of political will (commitment and ownership) to ensure accelerated implementation of reforms, particularly in the areas of public enterprise reform and financial sector reform;
- (iii) and lastly, underscores the significance of coordination among donors in terms of sequencing reforms and disbursing funds to the borrower.

81 - Niger: Programme d'Ajustement Structurel IV (2003-06)

- (i) need for rationalization of water resources and diversification of the production base;
- (ii) overarching significance of technical and administrative capacities in the successful implementation of reform programs;
- (iii) need to expand reform efforts to include institutional reforms required to improve private investment as well as the development of mineral and tourism resources.

82 – Niger: Structural Adjustment Programme (SAP V) (2005-07)

- (i) the success of this Programme and the fact that 93% of the major reform measures were implemented according to schedule, was due to the Government's commitment as well as the right-sizing of the programme;
- (ii) the Bank's approach to the Programme's design which catered for only a limited number of components and measures, is an approach to promote because it takes into account the country's limited institutional capacity;
- (iii) it is important to maintain dialogue with the Government on the need to boost the human and material resources for the internal and external control organs to enable them to properly play their role of establishing good governance practices at all levels;
- (iv) regular Bank monitoring of the Programme is crucial for the smooth implementation of the reform
- (v) programmes;
- (vi) the next Bank reform support operation in Niger, should focus on strengthening the control organs;
- (vii) it is important to scrupulously comply with the project cycle and especially to distinguish between the preparation and appraisal phases so as to carry out decisive, in-depth analyses before designing reform programmes;

- (viii) it is important to refrain from disbursement conditions based on measures that demand the intervention of the lawmaker to modify laws, texts or political decisions, at least for the first disbursement, since it could take time before these laws are modified and promulgated;
- (ix) it is vital to avoid measures dependent on related activities that are properly mastered;
- (x) it is important to avoid measures that are demanding in terms of institutional organization and are difficult to implement because they require efforts from different often uncoordinated administrations.

85: Rwanda: Poverty Reduction Strategy Support Programme, Phase I (2004)

- (i) The conditions precedent to disbursements, especially those for the second tranche, were too many;
- (ii) The measures to be implemented under the poverty reduction strategy, in particular those relating to the structural reforms, should be determined on the basis of the country's manpower capacities;
- (iii) Better monitoring and supervision by the Bank could have improved performance in the programme implementation;
- (iv) The presence of an Economist in the Bank's Country Office will improve the supervision quality of the programme, as well as dialogue with the authorities;
- (v) The continuation of reforms to improve public finance management and procurement contracts is essential to consolidate the macroeconomic framework and promote the private sector.

86 – Rwanda: Appui Strategie de la Reduction de la Pauvrete (2007-08)

- (i) The success of the Programme's implementation which led to the completion of 94% of the major reform measures in a relatively short timeframe (14 months) is due to the Government's commitment and also the rapidity of the administrations concerned;
- (ii) The Bank's design of the Programme which consisted in limiting both the numbers of components and measures to be implemented is an approach to prioritize because it takes into consideration the country's institutional capacity;
- (iii) The fact that the Bank focused more on joint supervisions/reviews with other donors rather than a review of every measure of its programme alone had the advantage of reducing transaction costs for the Bank and the Government. In addition, this approach made it possible to strengthen aid coordination in line with the Paris Declaration and the Accra Agenda for Action. Indeed, this approach makes it possible to exchange information with the other donors. All of this will help to enhance the complementarity sought in the Paris Declaration and the Accra Agenda for Action;
- (iv) Consequently in the context of harmonization with other donors, the Programme's matrix of measures backed by the Bank should be a sub-set of the overall matrix of measures retained by all the donors providing budget support to the country so as to adopt a single method of monitoring programme implementation;
- (v) Among the topics for dialogue with the Government, should be the institutional stability of the structure coordinating budget support programme implementation

so as to preserve a critical mass of skills essential for the sustainability of the success achieved from one programme to the other; and

- (vi) Lastly, given the nature and duration of the programme, in future, specific sector studies must be planned with a view to measuring the impact of Bank financing on investments and poverty reduction.

88: Sao Tome: Structural Adjustment Programme, Phase III (2001-04)

Because of weak institutional capacity of the country and the lack of oversight bodies and coordination of the Borrower, the implementation of the measures wouldn't have been possible without the technical assistance and institutional support from other donors, including the World Bank and UNDP, with the consequent low level of ownership of certain actions.

The recommendations revolve mainly on the institutional capacity of the Borrower (appropriate assessment, capacity, ownership), rationalization and coordination of monitoring and evaluation, the justification for the use of funds, the continuation of various activities including institutional support.

91 – Senegal: Private Sector Adjustment Programme (2003-07)

- (i) The need to consolidate and pursue the reforms initiated under PSASP;
- (ii) The need to draw up a realistic timetable and goals, that take into account the institutional capacities and resources allocated to the departments concerned;
- (iii) The need to reduce the number of conditions and lay down precise conditions, each relating to an action or specific and objectively measurable outcome;
- (iv) The importance of formalizing and strengthening the monitoring and technical coordination of the Programme by a light and efficient body like CEPOD, rather than a political-type monitoring committee, comprising several ministers;
- (v) The importance of reliable statistics and relevant indicators to assess and monitor the Programme, in particular statistics on the private sector, the business climate and economic and social development; (vi) The need to strengthen coordination and dialogue between the Government and development partners, specifically the "Private Sector" Thematic Group.

93 – Sierra Leone: Economic Rehabilitation And Reconstruction Loan (2001-03)

- (i) significance of country ownership and commitment of the program, which was anchored in the country's development strategy-the Interim PRSP;
- (ii) importance of focusing on a few but crucial development priority areas of reform, and defining concisely, performance or output indicators for monitoring and assessing implementation performance while allowing for a measure of flexibility to be exercised;
- (iii) value of working in concert with participating development partners or co-financiers, to ensure successful program execution and monitoring;
- (iv) need to address capacity constraints in program implementation in post-conflict countries.

94 - Sierra Leone: Economic Rehabilitation And Reconstruction Loan II (2003-05)

- (i) countries emerging from conflict situations may not have requisite capacities to undertake recommended reforms within given time horizons, which may be unrealistic or overly ambitious timeframes within which to implement reforms. Based on this experience, the emerging lesson is that civil service reforms and privatization are of secondary importance in post-conflict countries, where the utmost priority is placed on consolidating peace, resettling people, revitalizing the economy, rehabilitating infrastructure and restoring basic services;
- (ii) need to set a few critical conditions precedent to tranche releases in order to ensure effective program implementation.

95 - Sierra Leone: Economic Rehabilitation And Reconstruction Loan III (2005-07)

- (i) Governance reform is central to Sierra Leone, and the ERRP III format has proven some success in supporting such reforms. Governance reforms entail high risks with respect to implementation and commitment, which needs to be factored into design;
- (ii) Disbursement delays from the ADF (and by consequence volatility in external financing) resulted partly from insufficient communication or misunderstandings from the part of the government and sometimes also within the ADF, either in terms of what the grant condition stipulated, or in terms of what kind of evidence was needed. Thus, reforms were sometimes in place but evidence was not provided to that effect;
- (iii) Specific ERRP III reform indicators, apart from tranche conditions, were not monitored by the ADF. Conversely, the PAF through which the MDBSG monitors reforms in Sierra Leone and to which ADF adheres in principle has been consolidated and prioritised but still contains 31 indicators which puts an undue burden on the government to follow up and act upon. Currently, ADF is not taking the lead on any of the indicators in the PAF;
- (iv) Strong monitoring and evaluation is an integral part of programme implementation and success. Although the ERRP II suffered from weaknesses in reporting, problems and weaknesses both on the GoSL and ADF side have persisted;
- (v) Capacity constraints, in particular the difficulty to recruit sufficiently qualified staff with public sector remuneration packages has affected programme implementation.

99 – Tanzania: Structural Adjustment Loan II (2001)

- (i) Building on the lessons of SAL II, the implementation shows how policy-based support may succeed, yet leave marginal effects in terms of targeted outcomes, e.g. private sector development, agriculture and rural development and overall poverty reduction in this case.
- (ii) Structural conditionalities in key sectors do not necessarily lead to outcomes in specific sectors. Supply responses take time, but a prolonged series of macro-stabilising interventions without comparable results on the real sectors pose the risk of eventually derailing macro-stability itself.

- (iii) The principal lesson learned is that macro-stability and GOT commitment must be maintained but, in addition, attention must in future focus the quality and progress on the program outcomes. This suggests a shift in future budget support towards assisting Tanzania to remove the structural factors that hamper the achievement of more robust results.
- (iv) The PCR indicates some key structural factors that could be addressed:
 - a. Private Sector Development: Address investment climate issues such as financial deepening and widening the currently narrow base of private sector players that have access to credit; Remove burdensome licensing procedures that lead to high start-up costs in Tanzania; Ease restrictive labor regulations, obstacles in registering property, poor property rights; ameliorate poor infrastructure, exemplified in recent years by the crisis in the energy sector;
 - b. Economic Governance: Upgrade the fight against corruption and poor governance that undermine private investment. In the latter context, corruption is induced by government regulations susceptible to rent seekers; complex business licensing systems; overlapping regulatory mandates; ad hoc provision of tax exemptions; and loopholes in dispute resolution;
 - c. Agriculture and Rural Development: Deepen agriculture sector growth to match or exceed real GDP growth. Currently it is the predominant contributor to GDP growth and livelihoods for 80 percent of the population, yet its growth is running a full 1 percent in real terms below GDP growth rate; Diversify agricultural production, especially towards cash crops; Address supply-side constraints, e.g. multiple local commodity taxes; weak rural infrastructure; inadequate skills.

100 – Tanzania: Poverty Reduction Strategy Loan I (2004-05)

- (i) The identification /preparation/appraisal phase could have achieved the purpose of a quick budget support yet avoided the perception of the use of prior action conditions by employing the PRBS framework to pursue more credible and more helpful post-disbursement policy conditions within the PRBS annual reviews; and
- (ii) The improvement in disbursement and effectiveness suggests the Bank must engage early in any joint budget support frameworks and contemplate multi-year single tranche budget support operations as favoured by other multilaterals.

101 – Tanzania: Poverty Reduction Support Loan II (2006-07)

- (i) The need to reduce the number of conditions and to closely follow-up their fulfilment to ensure that disbursement is made in good time during the planned implementation of the program;
- (ii) The need for the funding/coordination function of the Public Expenditure and Financial Accountability Review (PEFAR) to be reviewed to ensure that PEFAR report is made available on a timely basis and widely, so that the GBS Annual Reviews benefit from it by making reference to it.

102 – Tanzania: Poverty Reduction Support Loan III (2008)

- (i) The overall success of PRSL III was the focus of the reform areas on key reform area(s): financial governance and Infrastructure. The operation also limited the conditionalities to five triggers and three benchmarks. These two features were designed to facilitate fast-disbursing of the loan proceeds. However, the criterion of quick-disbursing should not be at the cost of policy reforms urgently needed: the ADB should continue to work closely with the donor community to lend support to reforms which are critical for the development program; though quick-disbursing should continue to be a criterion, yet the ADB should also aim at policies which are genuinely needed.
- (ii) Effectiveness of the PRSL III was also attributable to the support provided by the ADB's "Institutional Support Project for Good Governance", which provided TA and institutional support to the same areas of focus of PRSL III, i.e. financial governance.
- (iii) The ADB should consider supporting policy and institutional reforms leading to increased investments and improved yields within the agricultural sector; this is particularly critical as the agricultural sector impacts most of the poor; thus the next ADB country strategy and program should include an agricultural sector adjustment loan or an agricultural institutional support project. The Bank may want to include in its ESW a study on agricultural strategy.
- (iv) As the roads sub-sector has been an area of focus for PRSL III, the Bank's list of ESW should include an assessment of the impact of the reform in the road sub-sector in the next 2-3 years.

103 – Tunisia: Programme d'Appui a la Competitivite (1999-2001)

- (i) The government's political will and programme ownership are determining factors for the effective implementation of reforms;
- (ii) The targeting and concentration of measures according to interactions and the sequencing of reforms over a limited number of sectors helped achieve good performance;
- (iii) Close coordination among cofinanciers as well as their financial and technical contribution, especially in the conduct of economic and sector work during the design phase of the programme, helps ensure the quality of the programme design, and, subsequently, its implementation performance;
- (iv) The flexible attitude of cofinanciers, in particular with respect to fulfilling conditions, makes it possible to adapt reforms to initially unanticipated constraints. However, delays in obtaining waivers are relatively long—two and a half months; and
- (v) Conditions relating to privatization or mergers should be reviewed in a thorough and prudent manner, taking into account the effect of external factors on the Government's initial political will.

104 - Tunisia: Programme d'Appui a la Competitivite II (2001-04)

- (i) the success of a programme depends on its smooth preparation on the basis of the economic and sector work carried out, with the careful targeting of reforms

- and coordinated policy and macro-economic and structural reform implementation;
- (ii) Loan conditions that are examined thoroughly and consensually with the authorities and are clearly formulated with precise verification criteria, facilitate their fulfilment and speed up loan effectiveness and programme implementation;
 - (iii) the disbursement procedures of the Bank (including the waiver) were slow in relation to the other co-financiers; and
 - (iv) an administration endowed with stable and competent teams, highly committed to both the design and implementation of the reforms, as well as ownership of the reform programme by the Borrower, constitutes a major asset for reform implementation and programme success.

105 – Tunisia: Programme d'Appui a la Competitivite III (2005-07)

General lessons:

- (i) importance of good programme preparation via economic and sectoral studies;
- (ii) targeting of a limited number of sectors, with clearly formulated reasons given for conditions;
- (iii) importance of evaluating the technical feasibility of each condition in order to avoid delays.

Specific lessons:

- (i) close coordination between cofinanciers in order to ensure high quality dialogue with the authorities;
- (ii) need to focus on the content, rather than the form, of reforms envisaged. These reforms should be based on the establishment of a concurrent and competitive environment, the stabilisation of the banking sector or the transparency of business accounts which are closely linked with the financing of the domestic economy.

108 – Uganda: Poverty Reduction Support Loan (2002-05)

The PCR identified some appropriate lessons but these did not adequately focus on project-cycle related issues for budget support lending, an area in which the bank's experience remains scanty as most of these operations have been cofinanced with other development partners who invariably play a leadership role in their design and overall coordination. The program financed was complex, as it had numerous components and conditions to be fulfilled. The majority of components and the various conditions were fulfilled. This was a manifestation of relatively good performance and factors to which this is attributable could provide further insights in the Bank's experience with budget support loans. The major lessons emerging from this operations included:

- i) the two-lump sum of disbursement associated with this operation had a positive effect on the implementation process is that because of its flexible nature, it facilitated an effective management and monitoring of the program;
- ii) conditionalities led to the creation of institutional capacities for managing fiduciary risks by building entities whose long-term sustainability may be in doubt;
- iii) since the budget support loan involved a basket funding process with the participation of other cofinanciers, the adoption of a common working approach such as the formation of Uganda Joint Assistance Strategy (UJAS), resulted in

better coordination and lowering of program transaction costs for the Government of Uganda.

109 – Zambia: Poverty Reduction Support Loan (2006-08)

- (i) the initial transaction costs associated with budget support, especially at the finance ministry, are high and need to be provided for;
- (ii) the selection of targets and indicators for the PAF is complex and risks focussing on issues of lesser importance; and
- (iii) that such an operation is difficult to supervise without a strong country office.

110 – Zambia: Poverty Reduction Budget Support II (2008-2010)

- (i) Strong and efficient public governance systems/institutions are critical to timely and successful implementation of budget support programmes,
- (ii) A clear and well coordinated donor support mechanism is important for achieving meaningful in-country policy dialogue,
- (iii) Robust and available data is pertinent to ensuring successful PAF assessments including selection of indicators,
- (iv) Flexibility in the aid delivery mechanism can be helpful in achieving and sustaining development outcomes during crisis such as the on going global financial crisis.
- (v) It is observed that overall performance declines against annual PAF indicators. This is attributable to the nature of indicators and the complexities of the indicators over time.

111 – Zambia: Support for Fiscal Transparency & Accountability (2001)

- (i) the need to foster an orderly use of counterpart funds;
- (ii) if not remedied, identified institutional weaknesses could seriously jeopardize policy interventions;
- (iii) that it is not realistic to stipulate 22 condition precedent to be met within a short timeframe between the initial and last disbursement; that cascading of conditions renders prompt fulfilment of conditions difficult because if one condition remains unmet other reliant conditions cannot similarly be met; and
- (iv) that conditions that fall outside the realm of the Government, such as the legislature, result in delays in the fulfilment of conditions that call for parliamentary action.

112 – Zambia: Economic Recovery Loan II (1999-2001)

- (i) As a balance of payment support operation, the loan should have ensured that the relevant measures had been taken on time to facilitate disbursement within the projected period. This would have avoided disbursement of funds at the end of the program period which necessitated extension of the programme period;

- (ii) Programme design should have assessed the capability of the Borrower to meet the conditions within the agreed time frame to avoid implementation delays.
- (iii) Borrowers should be reminded upon project completion that client PCR preparation is an obligation on their part and should be done within one year after completion of project activities;
- (iv) Long delays in PCR preparation render evaluations weak due to unavailability of data. In cases where there is need to do a PCR after a long time after project completion an assessment of availability of data should be made and a decision to proceed based on availability of data should be made;
- (v) The Bank policy that if a policy document is not presented to the Board six months after its preparation, there should be a reappraisal should be strictly adhered to;
- (vi) Programmes and projects where funding is not pulled together, should be appraised independently, if they are complementary and support same components the conditions should be the same;
- (vii) Where retrenchments are recommended and implemented, the social safety nets designed to mitigate the effects, should be a sustainable programme over a long period and should target productive enterprises not consumption activities or hand outs;
- (viii) Privatisation should not be to off load Government of inefficient institutions, but should be forward looking and where sale of companies is involved the taxation should be progressive so that when companies become profitable, Government get also benefit;
- (ix) Adopt PCR recommendations to avoid repeated implementation problems in future operations.

Annex D Data on African Development Bank Operations

Table D.1 Bank Group Loan and Grant Approvals by Country, 1999-2009 (million UA)

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% Total
Algeria	157.46	89.25	-	148.87	0.35	-	-	-	0.60	-	0.50	397.03	1.5%
Angola	-	-	9.63	13.50	4.63	-	17.54	-	17.90	-	12.00	75.20	0.3%
Benin	12.27	27.34	33.13	19.31	51.72	21.24	59.50	15.00	-	25.00	22.00	286.51	1.1%
Botswana	-	2.78	-	-	-	34.34	-	-	0.60	38.23	1,110.97	1,186.92	4.5%
Burkina Faso	10.00	10.96	60.67	28.26	79.00	39.61	56.81	14.96	20.00	63.49	62.64	446.40	1.7%
Burundi	-	0.37	-	-	-	20.16	12.34	16.30	7.32	14.00	10.67	81.16	0.3%
Cameroon	21.95	26.46	53.13	34.69	46.50	12.13	25.60	124.83	-	-	43.36	388.65	1.5%
Cape Verde	0.13	5.74	-	8.46	0.35	3.50	-	4.14	4.82	5.00	36.97	69.11	0.3%
Central African Rep.	-	-	-	-	-	-	-	3.30	6.50	9.50	19.48	38.78	0.1%
Chad	21.10	12.00	22.59	24.27	2.32	2.40	37.49	13.00	-	-	32.24	167.41	0.6%
Comoros	-	-	-	-	-	-	-	-	-	1.50	15.90	17.40	0.1%
Congo, Rep. of	-	-	-	-	0.86	7.00	-	17.35	-	1.00	12.75	38.96	0.1%
Congo, Dem. Rep.	-	-	2.35	78.90	47.50	55.23	87.45	1.85	184.94	-	65.00	523.22	2.0%
Côte d'Ivoire	32.67	28.66	-	83.28	-	-	-	-	20.00	0.31	324.83	489.75	1.9%
Djibouti	-	0.81	3.40	6.42	6.95	5.34	0.34	0.33	6.50	57.78	0.33	88.20	0.3%
Egypt	53.55	-	74.92	166.33	-	-	284.34	398.55	316.75	302.43	77.90	1,674.77	6.3%
Equatorial	-	-	-	-	-	-	-	-	-	-	-	63.54	0.2%

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% Total
Guinea										63.54			
Eritrea	-	2.30	19.90	-	0.36	18.63	-	-	-	-	2.00	43.19	0.2%
Ethiopia	-	4.08	185.78	21.01	102.41	61.98	43.61	231.02	0.33	143.44	-	793.66	3.0%
Gabon	-	-	-	0.38	-	76.25	15.36	-	238.10	-	102.02	432.11	1.6%
Gambia	5.65	12.91	9.59	11.92	0.36	4.95	5.50	8.00	1.40	4.02	9.00	73.30	0.3%
Ghana	16.16	40.75	76.58	69.66	81.38	12.80	86.00	65.97	75.91	172.96	117.44	815.61	3.1%
Guinea	-	22.86	35.98	24.45	-	-	22.74	3.50	-	146.41	5.17	261.11	1.0%
Guinea-Bissau	-	0.38	12.94	-	7.16	-	1.35	6.15	-	2.00	14.14	44.12	0.2%
Kenya	15.50	28.62	20.00	-	57.85	51.33	41.52	57.04	190.19	25.93	135.00	622.98	2.4%
Lesotho	6.05	11.74	-	11.69	10.53	0.79	-	6.83	8.90	-	17.38	73.91	0.3%
Liberia	0.37	-	-	-	0.35	-	-	3.00	15.24	12.00	13.78	44.74	0.2%
Libya	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Madagascar	26.10	22.89	14.85	10.33	25.00	45.24	57.33	35.30	113.15	75.00	1.15	426.34	1.6%
Malawi	24.24	11.73	24.99	9.97	21.83	12.00	15.35	30.00	14.89	39.94	49.10	254.04	1.0%
Mali	21.94	20.75	36.59	53.75	28.13	33.92	49.92	15.00	25.00	55.00	49.50	389.50	1.5%
Mauritania	23.02	1.80	46.91	7.55	24.62	6.97	0.34	9.70	5.98	17.73	112.37	256.99	1.0%
Mauritius	-	14.87	96.92	8.05	-	-	7.74	-	33.74	-	437.88	599.20	2.3%
Morocco	19.60	79.87	133.83	245.27	177.01	369.34	175.71	245.93	180.78	217.02	582.98	2,427.34	9.2%
Mozambique	37.25	118.56	40.71	24.87	55.25	30.00	9.53	118.91	17.33	60.00	31.63	544.04	2.1%
Namibia	7.10	-	26.83	19.72	-	59.10	-	-	-	-	0.60	113.35	0.4%

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% Total
Niger	-	-	34.93	10.10	43.20	3.00	40.67	16.00	3.00	40.00	2.00	192.90	0.7%
Nigeria	36.51	43.40	17.96	160.63	35.00	1.70	108.31	111.89	86.27	52.45	365.03	1,019.15	3.9%
Rwanda	-	19.87	10.90	-	49.77	51.86	-	25.00	33.00	11.62	57.30	259.32	1.0%
Sao Tome and Principe	4.20	-	1.84	4.00	-	-	-	4.00	-	-	1.00	15.04	0.1%
Senegal	24.75	30.00	34.11	13.40	65.29	9.58	83.19	-	-	30.00	169.45	459.77	1.7%
Seychelles	7.09	-	-	-	-	-	0.32	-	-	0.60	13.66	21.67	0.1%
Sierra Leone	9.21	0.39	20.96	16.00	30.54	3.64	39.70	1.99	-	10.30	36.26	168.99	0.6%
Somalia	-	0.37	-	-	-	-	0.32	0.35	-	-	-	1.04	0.0%
South Africa	82.59	75.76	-	15.07	106.31	117.07	-	-	333.04	203.84	1,732.90	2,666.58	10.1%
Sudan	0.35	0.37	-	-	0.35	-	-	0.33	9.62	-	-	11.02	0.0%
Swaziland	11.11	-	29.63	14.62	49.96	-	0.35	5.50	-	-	-	111.17	0.4%
Tanzania	28.15	7.71	118.77	16.90	31.33	114.73	-	145.34	150.00	125.00	152.00	889.93	3.4%
Togo	12.18	-	-	-	14.56	-	-	2.20	-	14.57	12.83	56.34	0.2%
Tunisia	262.97	115.28	362.47	86.23	196.33	140.22	181.69	14.73	87.80	282.73	276.67	2,007.12	7.6%
Uganda	32.54	82.77	43.44	96.96	0.22	74.18	88.50	52.99	179.38	190.02	128.71	969.71	3.7%
Zambia	33.77	31.65	17.73	-	22.03	13.66	0.35	63.89	-	58.91	0.33	242.32	0.9%
Zimbabwe	118.23	0.37	-	-	-	-	0.35	-	-	-	1.29	120.24	0.5%
Sub-total	1,175.76	1,006.42	1,734.96	1,564.82	1,477.31	1,513.89	1,657.16	1,890.17	2,388.98	2,573.27	6,478.11	23,460.85	88.8%
Multinational	19.46	63.58	16.05	22.06	287.16	219.17							11.2%

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% Total
							85.78	417.95	193.30	596.98	1,027.54	2,949.03	
Total	1,195.22	1,070.00	1,751.01	1,586.88	1,764.47	1,733.06	1,742.94	2,308.12	2,582.28	3,170.25	7,505.65	26,409.88	100.0%
<i>% wrt total</i>	<i>4.5%</i>	<i>4.1%</i>	<i>6.6%</i>	<i>6.0%</i>	<i>6.7%</i>	<i>6.6%</i>	<i>6.6%</i>	<i>8.7%</i>	<i>9.8%</i>	<i>12.0%</i>	<i>28.4%</i>	<i>100.0%</i>	