AFRICAN DEVELOPMENT BANK GROUP

Bank Group Policy on Program-Based Operations

OPERATIONAL RESOURCES AND POLICIES DEPARTMENT

February 2012
# Bank Group’s Policy on Program-Based Operations (PBOs)

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ACRONYMS

AAA  Accra Agenda for Action
ADB  African Development Bank
ADF  African Development Fund
AfDB  African Development Bank (Bank Group)
AsDB  Asian Development Bank
BoP  Balance of Payments support
CRBS  Crisis Response Budget Support
CSP  Country Strategy Paper
EC  European Commission
ESW  Economic and Sector Work
FSF  Fragile States Facility
GBS  General Budget Support
GCI  General Capital Increase
IFIs  International Finance Institutions
IMF  International Monetary Fund
IS  Import Support
LICs  Low Income Countries
MICs  Middle Income countries
NDP  National Development Plan
PAF  Performance Assessment Framework
PAR  Program Appraisal Report
PBA  Performance-Based Allocations
PBOs  Program-Based Operations
PCR  Project Completion Report
PEFA  Public Expenditure and Financial Accountability
PFM  Public Financial Management
PRS  Poverty Reduction Strategy
PRSPs  Poverty Reduction Strategy Paper
RMCs  Regional Member Countries
SBS  Sector Budget Support
SMCC  Senior Management Coordination Committee
SWAPs  Sector-Wide Approaches
WB  World Bank
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A. POLICY BACKGROUND

1. INTRODUCTION

1.1. Background

1.1.1. The mandate of the African Development Bank, as set out in its Articles of Agreement\(^1\), is to contribute to sustainable economic development and social progress of its Regional Member Countries (RMCs). In this regard, the African Development Bank Group (hereinafter referred to as the “Bank Group” or the “Bank”) believes that Program-Based Operations are useful financing instruments in support of nationally owned policy and institutional reforms in RMCs, while contributing to the availability of predictable medium term finance to support priority spending to meet RMCs’ medium and long term development goals.

1.1.2. Reviews of the Bank’s use of Policy-Based Operations to support policy reforms and to finance priority expenditures in RMCs have highlighted the complexity of existing procedures and guidelines on policy-based operation instruments. These reviews, most recently an independent evaluation of policy-based operations (February 2011)\(^2\), call for a new and consolidated policy to replace the old disparate procedures and guidelines. The recent review also indicates that the former use of the term Policy-Based Operations to refer to the family of related policy and budget support financing instruments is confusing, as it suggests more policy leverage than has been achieved; hence the need for a name change to a term more reflective of the broadening scope and application of such instruments. The new Policy therefore adopts the name Program-Based Operations (PBOs).\(^3\)

1.1.3. A commitment was made to the African Development Fund (ADF) Deputies during the 2010 replenishment negotiations for the twelfth session of the ADF that a comprehensive new policy for PBOs would be prepared to consolidate existing good practice and streamline requirements. The development of this policy for PBOs was also included in the matrix of Institutional Reforms which were part of the commitments in the General Capital Increase (GCI-6) reforms.

1.1.4. This new Policy supersedes the existing policies on PBOs.\(^4\) This Policy, together with the forthcoming Implementation Guidelines will provide complete operational guidelines for the use of PBOs within the Bank Group.

1.2. Policy Preparation Process

1.2.1. The preparation of the Policy included internal and external consultations. At the internal level, a cross-complex and multi-disciplinary team was established under the guidance of Senior Management to prepare the policy. External consultations were held between June and August 2011 in Lisbon, Khartoum and Dakar with a broad range of stakeholders including civil society, governments, bilateral and multilateral donors, including international financial institutions, and academics. Consultations were also held in Washington DC with the World Bank, Inter-American Development Bank and the Bank Information Centre (BIC). There was also provision for a 60-day on-line comment period through the Bank Group’s website.

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\(^2\) Details on the Bank’s use of PBOs and lessons learnt can be found in “Evaluation of Policy Based Operations in the African Development Bank, 1999-2009”, Operations Evaluation Department (OPEV), March 2011.
\(^3\) The acronym PBOs remains the same but henceforth refers to Program (not Policy) Based Operations.
\(^4\) Annex 1 lists the relevant Bank policy documents which are superseded by this new Policy and its accompanying Implementation Guidelines.
1.3. **Rationale of the Policy**

1.3.1 The rationale for the new Policy is three-fold: (a) to consolidate and streamline the existing policies relating to PBOs; (b) to improve the Bank Group’s approach to PBOs, notably in response to internal reviews, in order to improve the efficiency and effectiveness of PBOs in achieving results and to make the Bank Group more responsive to the needs and requirements of RMCs; and (c) to leverage the Bank’s comparative advantage in providing PBOs for post-conflict state building in fragile states.

1.3.2. The overarching rationale for this new Policy is to provide a comprehensive framework that will position the Bank Group to better support the development needs of its RMCs in a transparent and results-oriented manner through PBOs. PBOs are seen – circumstances permitting – as the preferred modality of support in many RMCs. In this regard, the policy seeks specifically to:

- Update the rationale for the Bank Group’s provision of PBOs to its RMCs.
- Update the range of instruments, which the Bank Group can use for PBOs.
- Clarify the criteria for assessing the eligibility of RMCs for PBOs.
- Enhance the delivery of the Bank Group’s aid effectiveness agenda through PBOs, in particular ownership, alignment, predictability and harmonization.
- Indicate the Bank Group’s commitment to providing effective PBOs to achieve the potentially significant benefits they can sustain in situations of fragility, balanced against the additional risk of such operations.

1.3.3. In response to reviews of the Bank Group’s use of PBOs, experiences of other development partners, international good practice and the overarching rationale stated above, the new Policy envisages a broadening and deepening role for the Bank Group, building on its unique position as a regional development institution. In particular, this Policy leverages the Bank Group’s legitimacy and particular experience to engage proactively in leading budget support groups in RMCs and shaping the dialogue in major sectoral areas through the Bank’s Decentralization Road-Map which will strengthen the capacity of field offices and regional resource centres. It also exploits the Bank Group’s comparative advantage in providing PBOs as predictable financing across a range of countries including, in particular, for state building in fragile states.

1.4. **Value Added of Bank Group:** By virtue of its legitimacy as a regional institution, the Bank Group takes on the role of a trusted partner with a high degree of political and social influence which is different from the global international finance institutions. This trust is essential to the conduct of policy and institutional reform dialogue, which is particularly evident with regards to responsiveness on themes, such as governance and PFM, and sectors, such as infrastructure. With a governance structure that is considerably local in nature, the Bank has greater potential for policy dialogue that will permit it to address sensitive issues in a more peer to peer manner with enhanced sensitivity without seeming to impose external values and thinking. Also, with its focus directed at the specific region, the Bank can design, adapt and apply approaches that may not be appropriate elsewhere in the world and which are more difficult for global IFIs. Further, the Bank has a comparative advantage in providing PBOs to fragile states compared to other donors because of its level of regional legitimacy and multilateral standing. The Bank has demonstrated an added value to RMCs in acting as a lender of last resort when needed. In order to optimize these potential added values, there is the need for better institutional capacity at the Bank Group level. It is within this context that this Policy positions the Bank Group to deepen its analytical work, expertise and presence on the ground, as embedded in its Knowledge Management Strategy, Decentralization Strategy and within its sectoral policies and strategies.
2. EXPERIENCES IN POLICY BASED OPERATIONS

2.1. Trends in Bank’s use of PBOs

2.1.1. Throughout the last decade, the Bank Group’s use of PBOs\(^5\) has increased faster than the overall increase in the Bank’s operations. While remaining stable in the early 2000s, the use of PBOs grew from 2005-2008 and saw a notable increase in 2009, in response to the global financial crisis. Total PBOs approvals from 1999-2009 amounted to UA 6.1 billion, including UA 3.6 billion ADB loans (31.3% of ADB approvals), UA 1.8 billion ADF loans (21.8% of ADF approvals), and UA 0.7 billion ADF grants.\(^6\)

2.1.2. Multi-sector operations (including governance PBOs\(^7\) between 2006-2009) have dominated, especially under the ADF window. Almost all ADF PBOs for governance include complementary technical assistance. Only eight out of 102 ADF operations were sector focused, with almost half of the amount of sectoral operations (in value terms) being accounted for by one operation to the energy sector in Nigeria in 2009. Otherwise, there have been three agricultural sector budget support operations (two in Lesotho in 1999, and one in Tanzania 2007), two social sector budget support (education) operations (one in Rwanda 2006 and one in Tanzania 2007), and one finance sector budget support operation (Mauritania, 2001). In contrast, sector operations have accounted for nine out of 21 ADB PBOs, and for 42% by value.

2.1.3. Import support has been used only on an exceptional basis by the Bank Group and predominantly in fragile states or in countries facing crisis-related situations. In spite of the infrequent use of import support as a PBO instrument, it is retained in this new policy, as an instrument that can be used in RMCs where fiduciary risks do not allow other PBO instruments.\(^8\)

2.2. Lessons Learnt from Bank PBO Operations

2.2.1. The recent evaluation\(^9\) of the Bank Group’s experience in the use of PBOs concludes that overall the Bank has made significant progress in its use of PBOs. For instance, the Bank operates as an important partner in joint donor budget support arrangements and has developed a stronger organizational capacity and structure for the design, appraisal, management and monitoring of PBOs. The Bank has also proven highly responsive in assisting its RMCs to address the recent challenges of international economic and financial instability that have impacted the RMCs and has made important contributions to the development of budget support to fragile states under the Fragile States Facility. The Bank Group enjoys a unique comparative advantage, based on its legitimacy as an African institution, to facilitate effective policy dialogue with RMCs. To this effect, the Bank Group has played a pivotal role in chairing budget support groups in countries such as Tanzania, Rwanda, Madagascar, Burkina Faso and Malawi. The unique leadership of the Bank Group has been effective in facilitating, balancing and maintaining strong dialogue between the governments and development partners in these countries.

2.2.2. In spite of these achievements and prospects, the evaluation noted significant shortcomings in the Bank’s procedures and practices compared to approaches used in other development agencies. The evaluation found that the Bank’s policy framework for PBOs has the following limitations:

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\(^5\) The Bank Group has used primarily two PBO instruments: (i) development budget support lending, which comprises general budget support and sector budget support, and (ii) policy-based lending ("import support").


\(^7\) The predominance of Governance Sector PBOs is partly due to the commitment made by the Bank Group in its Medium Term Strategy (2008-2012) to place governance as one of its four priority areas of intervention. The other three are Infrastructure, Private Sector Development and Higher Education, Science and Technology.

\(^8\) See 5.1.4 and 6.2.3 for fuller explanation of this role.

Lack of consistent, widely available and unified guidance on PBOs.
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 the achievement of results.
Insufficient guidance from Country Strategy Papers (CSPs) on the role of PBOs.
Complex and time-consuming design and appraisal procedures.
Lack of genuinely multi-sector approach to PBOs which are designed most often as budget support for governance.
Uncertainty about audit and fiduciary risk requirements.

2.2.3. The evaluation also noted that there is considerable confusion in the use of the term PBOs to refer to the set of program financing instruments used by the Bank Group. It raised questions about the linkages between the inputs of PBO's (finance, policy dialogue, conditions and technical assistance) and the projected results, highlighting the challenge of attribution; but it also recognized the attributable impact on financing of core expenditures within the budget. In this context it is worth stressing the move from structural adjustment through policy based operations to budget support operations amongst many donors. With this broadening application of PBOs, there is the need for a more appropriate title/name that will adequately capture the family of policy and budget support instruments used by the Bank Group. Coupled with the need to consolidate and rationalize the various policies and guidelines which govern PBOs and the range of sub-instruments, the new Policy adopts the name Program-Based Operations (PBOs) to refer to this family of instruments used by the Bank Group.

2.3. Experience of Development Partners

2.3.1. There have been a number of rigorous evaluations of the effects of policy-based/budget-support operations over the past five years and their results have been similar. A Joint Evaluation of General Budget Support (OECD-DAC 2006) evaluated US$ 4 billion of Budget Support Operations (BSOs) in 7 partner countries across 24 donors including the Bank Group. More recently the World Bank conducted two studies: one internal retrospective which looked at Development Policy Operations (DPOs) approved from FY06-09, covering 166 operations in 66 countries (including FY09 operations responding to the food, fuel and financial crises); and one by the World Bank's Independent Evaluation Group (IEG) focusing on Poverty Reduction Support Credits (DPOs for low income IDA eligible countries) covering the period 2001-2008. The current international evaluation effort on budget support is being led by the EC and includes the Bank Group as one of the partner agencies.

2.3.2. The overall message across these evaluations is that such operations represent an important element in the toolkit of development partners to address critical issues of growth and poverty alleviation. There has been a shift from macroeconomic adjustment towards issues of public sector governance and basic social services with particular emphasis on supporting public financial management (PFM) reforms as well as increasing resources and improving allocation efficiencies for health and education. During the recent crises, these operations protected critical expenditure programs and helped sustain efforts towards fiscal stimulus and social safety nets. Moreover, as the approach to the design of these operations has evolved and good practice principles for conditionality have been applied, there has been tangible progress in ownership, easing of conditionality and better harmonization. The evaluations point to the difficulty in attributing outcomes to the operations and

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making the causal linkages. In addition, the evaluations emphasized the need to: deepen the quality and depth of macroeconomic assessments and determination of social, economic and environmental impacts; strengthen results frameworks; and improve approaches to multi-donor efforts.

2.4. Implications of Development Partner Experiences for the Bank Group

2.4.1. The recent review by the Operations Evaluation Department of the Bank Group experiences in PBOs vis-à-vis those of other agencies suggests some specific conclusions and comparisons with current Bank Group practice:

I. Other agencies have simplified and unified the instruments they are using for PBOs, as well as preparing detailed procedures to guide all aspects of decision-making that are specific to the PBO instrument. The Bank Group appears to significantly lag behind all the other agencies reviewed in these respects, with a considerable lack of clarity about the policies and guidance for PBOs.

II. There is a general (though not universal) move towards longer term multiple year operations, often based on prior actions. These can be carried out in a programmatic framework of linked sequential operations in support of a medium-term government plan of action such as a nationally owned poverty reduction strategy. This approach provides flexibility in the selection of conditions on a year-to-year basis, but also allows engagement with sustained reform processes. While the Bank Group has used multiple year operations, it has to date been constrained from developing a medium-term framework for single year operations, due in part to the requirement for each annual operation to have a complete design, appraisal and PCR process, regardless of the medium-term context.

III. While some agencies do not have specific quantitative restrictions with respect to the proportion of total loans or grants that are provided using PBOs (e.g. the EC), others such as the World Bank (WB) and the Asian Development Bank (AsDB) do have caps, although they remain flexible in their application of the caps, especially in responding quickly and effectively to the effects of crisis. This is unlike the African Development Fund (ADF) where the share of PBOs in aggregate is capped by Deputies (at 25% under ADF-12).

IV. In comparison to other agencies using PBOs, the Bank Group has relatively weaker policy and analytical capacity, particularly in-country. This is an area that will need to be strengthened to support improved engagement through PBOs to deliver results.

2.5. Benefits and Risks of PBOs

2.5.1. Experiences (of the Bank Group and other partners) in the implementation of PBOs thus far have demonstrated that all types of PBOs (general or sector) entail some fiduciary, macroeconomic and at times even political and reputational risks that result from direct transfer of financial resources into the beneficiary country’s national budget. Notwithstanding these risks, compared with project-related approaches, PBOs have demonstrated the following advantages which make them indispensable as financing instruments: (a) they strengthen country ownership since they are implemented through national systems in support of national development plans; (b) they strengthen the national budget process as a central policy instrument at all stages and enable comprehensive long-term planning; (c) they help to raise dialogue between development partners and the beneficiary country by promoting disclosure of the national budget and focusing on key reforms; (d) they increase predictability of aid, especially with multi-year PBOs; (e) they contribute to state building in fragile states and (f) they allow development partners to harmonize procedures, improve aid coordination and effectiveness and help to reduce transaction costs.
B. BANK GROUP’S POLICY ON PROGRAM-BASED OPERATIONS

3. GENERAL POLICY DIRECTIVES

3.1. Definition: Program-Based Operations (PBOs) are fast disbursing financing instruments, which the Bank Group provides to the national budget in the form of loans or grants, to address actual, planned or unexpected development financing requirements of its RMCs - together with associated policy dialogue and economic and sector work - in support of nationally driven policy and institutional reforms.

3.2. Vision: The Bank Group’s vision is to use PBOs, where appropriate, as part of an instrument mix tailored to country circumstances, focusing on support to RMC expenditure and policy reforms, including increasing revenue where appropriate, to improve service delivery, thereby supporting poverty reduction through strong, sustained and shared growth. Strong policy dialogue will be at the core of the Bank Group’s PBOs and will be used to ensure that objectives, policy measures and results are well elaborated and understood. The Bank Group will continuously strive to broaden its capacity in policy dialogue. PBOs will be used in all eligible RMCs (MICs and LICs, fragile and non-fragile) and as grants and/or loans from relevant financing windows.

3.3. Objectives of PBOs: Depending on the country needs and specific country context, PBOs will be used by the Bank Group to provide resources to the national budget, the purpose of which will be aligned with the following broad objectives:

- To sustain growth and address poverty by contributing to actual or planned development spending consistent with a country’s poverty reduction strategy (PRS) or national development plan (NDP).
- To strengthen country systems of economic and financial governance, notably Public Financial Management (PFM) systems and economic management policies.
- To support and sustain nationally led reforms (be they economy-wide, sectoral or institutional) that seek to address social spending priorities and development challenges, including PFM, economic diversification and employment creation.
- To mitigate the adverse impact of shocks by supporting critical expenditures.
- To contribute to the recovery, state building and arrears clearance of countries emerging from conflict.

3.4. Expected Results

3.4.1. All PBOs will have expected results clearly articulated within a results-based logical framework. These results will be measured at the output, outcome and impact levels and will be drawn generally from the national Poverty Reduction Strategy Papers (PRSP), National Development Plan (NDP) or, where available, common Performance Assessment Frameworks. The expected results from each operation will be designed according to the country context and the diversity of the Bank Group’s PBO instruments, and will include:

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13 See Annex 3 for a list of new provisions under the new PBO Policy.
14 Either directly or, in the case of import support, indirectly through financing the balance of payments deficit.
15 It should be noted that the Implementation Guidelines will include a revised Appraisal Template for the various PBO instruments which will have a results-based matrix for the purposes of monitoring and tracking results at different stages of implementation and post implementation.
Output level:

- Implementation of the country’s medium term strategy, PRSP or NDP
- Implementation of nationally owned priority policy reforms in specific sectors of focus to include public expenditure, domestic revenue, business environment, social sectors, infrastructure, etc.
- Strengthened PFM system - transparency, accountability and comprehensiveness of the budget, procurement, audit and control of corruption - including rebuilding this basic state architecture in fragile states
- Improved allocative efficiency – public spending matched with national priorities
- Improved investment framework
- Increased public expenditure or core expenditures maintained during crisis

Outcome level:

- Country’s medium-term plan, PRSP or NDP goals delivered
- Credible, comprehensive, transparent, accountable and effective PFM systems
- Conducive business environment
- Enhanced sector level performance in target sectors (as above)
- Enhanced capacity to absorb the fiscal impact of a crisis
- Enhanced capacity to effect reforms for state recovery as well as rebuilt systems of economic and financial management in fragile states

Impact level:

- Reduced poverty and increased living standards
- Strong, sustained and shared growth
- Specific MDG targets attained

3.5. Mechanisms to Deliver Results

3.5.1. Based on international evidence, PBOs are expected to help RMCs achieve the results outlined above through three mechanisms:

- Systemic effects on strengthening country systems and support to country-led reforms of PFM systems, including budget, procurement and audit, leading to better budget efficiency.
- Through policy dialogue supporting RMC-led policy reforms in sectors of mutual interest.
- By contributing finance to government expenditure on the overall budget priorities and therefore contributing directly to the overall development results achieved by RMC governments.

3.6. Results Measurement: Since PBO operations are typically joint with other donors and RMC governments and are implemented through country systems, it is difficult to attribute a direct link between the specific inputs of the Bank Group (and those of other partners) and the expected results. Therefore the Bank Group will measure progress in terms of the collective efforts of the RMC and other partners, where applicable, while taking into account other intervening external factors. In this regard, PBO results will be measured by reviewing: (i) national reporting, including annual performance and financial reports and assessment of the Performance Assessment Framework, where applicable; and (ii) specific program documents, including performance indicators. This will be done systematically during: (i) joint review missions; (ii) Bank Group supervision missions; (iii) participation by field/regional offices in working groups with the RMC and other partners; (iv) mid-term reviews of PBO programs; (v) program completion report (PCR); and (vi) selective post program impact evaluation conducted by the Bank Group. The mid-term review of the Results-Based Country Strategy Paper (CSP) and the completion report of the CSP will also be used as opportunities to monitor the overall progress of the Bank’s PBO in-country and assess the necessary conditions for continuous provision of the PBO.
4. **KEY GUIDING PRINCIPLES**

The following core principles will guide the Bank Group’s PBO operations:

4.1. **Country Ownership**: PBOs will reflect strong country ownership of reforms and actions supported by the Bank Group. Eligibility requires Governments to demonstrate strong commitment to the reform process which will be aligned with the country’s poverty reduction strategy paper (PRSP) or national development plan (NDP). The Bank Group will continue to work in tandem with other development partners to deepen and broaden country ownership.

4.2. **Results Focus**: Consistent with the Bank Group’s Action Plan for Quality and Results, PBOs will remain focused on explicit and monitorable results-based logical frameworks that outline the objectives and expected results to which the Bank Group’s PBO operations contribute.

4.3. **Alignment and Predictability**: The Bank Group will engage in multi-year programming of PBOs to enhance predictability of PBO resources in order to ensure effective, credible and reliable short and medium-term budget planning processes in RMCs (especially in general and sector budget support operations). Where possible, the Bank Group will provide indications over the longer term (beyond 3 years), through the CSP. The Bank will strive to provide timely disbursement of PBO resources in order to ensure alignment with national budgets.\(^{16}\) In this regard, the Bank Group will seek to align the processing of PBOs with national timelines for the budget and donor group reviews.

4.4. **Harmonization and Coordination**: The Bank Group will enhance harmonization and coordination in-country by streamlining its overall approach to PBOs with those of other development partners, as deemed appropriate. The Bank Group will seek to work with all donors, including emerging donors, at the country level. In particular, the Bank Group will strive to harmonize its preparation, monitoring and assessment frameworks with other partners and with joint Performance Assessment Frameworks (PAFs) and joint donor groups, including joint missions, joint analytical work and assessments of eligibility/fiduciary risk. The Bank will seek leadership of these joint groups where appropriate.\(^{17}\)

4.5. **Mutual Accountability**: Mutual accountability will entail, inter-alia, RMCs’ commitment to reinforce participatory approaches by systematically involving a broad range of development partners in the formulation and implementation of development strategies. On the part of the Bank, mutual accountability will include provision of timely and transparent information on PBO resources (as highlighted in Section 4.3.). Together, the Bank, other partners and the RMC will jointly design and monitor Performance Assessment Frameworks to assess progress in implementing the agreed commitments, through existing country level mechanisms. The Bank will use joint reviews of these frameworks to assess RMC performance and, therefore, eligibility for tranche release where appropriate. At the same time, the Bank will continue to own performance directly and in consultation with other coordinating agencies.\(^{18}\)

4.6. **Flexibility**: The Bank Group will remain flexible in the use of PBOs in order to respond to the changing country circumstances, government priorities and crisis. Flexibility will be enhanced through, *inter alia*, the application of a medium term programmatic approach to respond to the needs, preferences and priorities of RMCs. Flexibility will also be demonstrated in the use of the range of PBO instruments to support country-owned actions and reforms geared towards achieving specific

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\(^{16}\) To make PBOs predictable for effective planning by governments in the medium to long term, the Implementation Guidelines will provide specific details; e.g., when to notify RMCs of PBO allocations and when to disburse.

\(^{17}\) The Implementation Guidelines that will accompany this Policy will elaborate further on how and when to harmonize and coordinate with other partners in doing PBOs including emerging donors.

\(^{18}\) This is consistent with the Paris Declaration on Aid Effectiveness.
development objectives in the broad array of RMCs; i.e., Middle Income Countries (MICs), Low Income Countries (LICs), and Fragile States.

5. SCOPE OF PBOs

5.1. Instruments

There are two broad categories of PBO instruments: budget support, which comprises general budget support, sector budget support, and crisis response budget support; and import support (see Chart 1).

Chart 1: Bank Group PBO Instruments

5.1.1. General Budget Support (GBS) is a Bank Group loan or grant providing un-earmarked financial transfers to the national budget in support of policy and institutional reforms, as established in the country’s national development plans or national poverty reduction strategy and the budget priorities. This financing will be accompanied by policy dialogue in support of on-going government led policy reforms in multiple sectors as well as other complementary instruments, where appropriate.

5.1.2. Sector Budget Support (SBS) is a Bank Group loan or grant that involves policy and institutional reforms in a particular sector of the Bank Group’s operational priorities, supported by unallocated financial transfers to the national budget. This financing will be accompanied by policy dialogue in support of a particular sector and other complementary instruments, where appropriate.

5.1.3. Crisis Response Budget Support (CRBS) comprises a fast disbursing loan or grant to mitigate the adverse impact of crisis or shocks in the full range of RMCs (MICs, LICs, Fragile States). This will involve risk assessment to determine the Bank Group’s intervention and financial transfers to the national budget to mitigate the adverse impact of a crisis, and to protect the poor and vulnerable groups, usually through financing part of the fiscal deficit. The crisis may be: (a) political - involving widespread social unrest (see Footnote 29); (b) economic - where exogenous events threaten a sustained decline in GDP growth (such as terms of trade or commodity price shocks, recession, depression, debt or financial crises and contagion, etc.); or (c) humanitarian - a situation in which there is an exceptional and generalized threat to human life, health or livelihoods brought by a natural/non-

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The Bank will channel resources to support the national budget directly under GBS, SBS and CRBS, while resources provided under IS shall support the national budget indirectly through the national balance of payments accounts.

Crisis response will be for exogenous shocks beyond the control of the authorities of the member country, with significant negative impact on the economy.
natural disaster. Design of CRBS appraisal reports will justify the decision to use the instrument based on the nature of the crisis. There is limited scope for policy dialogue at times of crisis, but the instrument can be used to open the door for future policy dialogue. The Bank Group will streamline its processes to fast-track the preparation and disbursement on PBOs under CRBS operations.  

5.1.4. Import support (IS) is akin to other donors’ balance of payments support. It is a Bank Group loan or grant that involves the transfer of financial resources to the central bank or used to boost reserves in support of a balance of payment deficit. Import Support is not the strategic focus of the Bank Group. As such, the instrument will be maintained and used only in exceptional cases as part of a coordinated donor action (notably in coordination with the IMF) to mitigate short-term macroeconomic instability in any RMC.

5.2. Complementary Support: The Bank Group will provide complementary support to PBOs. These will comprise parallel assistance in the form of technical assistance for capacity building and analytical work (diagnostics as well as economic and sector work). The combination of inputs to be supported as complementary to PBOs will depend on the specific objectives of the PBO and will be determined in the CSP and finalized during the preparation stage of a PBO. The operationalization of these complementary support packages will be guided by the Implementation Guidelines that will accompany this Policy.

5.3. Categories of Countries and Financing Windows: The Bank Group will consider use of PBO instruments in all its RMCs, MICs, LICs and blend countries, including Fragile States. The Bank Group will utilize financing windows in accordance with countries eligibility to access these windows. ADB resources will finance PBO instruments in MIC and blend countries, while ADF resources will be used to support PBOs in LICs, including Fragile States, blend countries and gap countries. Blend countries will be eligible for PBOs under ADF and ADB windows, subject to prevailing ADF Rules and the Bank Group Credit Policy. The Bank Group may utilize other resource envelopes, such as the Fragile States Facility (FSF), to provide PBOs in different country contexts, where appropriate.

5.4. Relationship with Basket Funding and SWAps: A PBO can only be used to finance the national budget of an RMC albeit with dialogue focused in particular sectors if required. Conversely, basket funding typically comprises joint funding by a number of donors contributing to a shared financing window or trust fund, usually managed by one of the donors on behalf of all. It is therefore not the same as a PBO since it involves co-financing a joint donor window, rather than an RMC budget. This Policy therefore does not include authority for the Bank Group to finance basket funding arrangements as part of its PBO operations, unless the basket funds are channeled to the national budget in support of policy and institutional reforms in which case the Bank Group will apply the appropriate PBO instrument(s). In contrast, Sector-Wide Approaches (SWAp) involve all major development partners working together under the RMC Government leadership in a particular sector against a single government-led sector investment plan. In the context of harmonisation and aid effectiveness, it is good practice to participate in SWAps where they exist for PBOs. The Bank Group will therefore engage in PBO-related SWAps in RMCs where they exist. The Bank Group will also seek to promote this strategic sector wide approach through PBOs where they are not already practice.

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21 This list is not intended to be exhaustive. In the face of any crisis affecting the RMC’s ability to continue to provide basic government services or where there is additional urgent need to protect human lives, the Bank’s Management will decide whether to present a CRBS operation to the Board for approval.

22 Under CRBS, the Bank’s internal procedures such as time frame required for: (i) review of preparation documents at the Bank level, and (i) submission of the PAR for translation and Board, etc., will be streamlined to accommodate the crisis situation. The streamlined procedures will be detailed in the Implementation Guidelines.

23 This is because IS provides fiduciary assurance/safeguard which other PBO instruments do not, i.e. the spending can easily be traced in the balance of payment accounts.
6. **FRAMEWORK FOR PBO**

6.1. **Country Strategy Papers (CSP):** CSPs will provide the basis and strategic context for the use of a PBO in a RMC. As the primary planning document for the Bank Group’s operations, CSPs will provide the required justifications for PBOs and also articulate their relevance within the Bank Group’s lending (or grant) program in the particular RMC.

6.1.1. **Decision to use PBOs:** CSPs will determine the decision to use PBOs and the instrument choice based on:

- ✓ Relative benefits and risks of a PBO
  - Government preferences for PBO and priority areas for support.
  - Potential benefits of using PBOs on policy reform, social spending, poverty reduction and inclusive growth.
  - Potential risks of a PBO including fiduciary, political, developmental and reputational.
  - Alternative ways to deliver the results required (their likely benefits and risks).
  - Recent experience of PBOs in-country.
- ✓ Meeting the specific eligibility criteria (below).

6.2. **Specific Eligibility Criteria for PBOs by instrument type**

6.2.1. **Eligibility for General Budget Support (GBS) and Sector Budget Support (SBS)** is based on the following criteria:

- ✓ **Government commitment to poverty reduction**, inclusive growth and reforms, demonstrated by the existence of well designed, consultative PRSP/NDP and effective implementation mechanisms.²⁴
- ✓ **Macroeconomic stability**²⁵ will be assessed on the basis of the Bank Group’s analysis and the IMF’s assessment. The presence of an on-track IMF program will be an important determination of the macro-economic policy framework. Where there is no Fund program, at the early stages of PBO preparation, the Bank will ascertain, before making its own assessment, whether the IMF has any major concerns about the adequacy of the country’s macro-economic policies. Any outstanding concerns on the macro-economic policy framework will be communicated to the Bank’s Board. The Bank Group will maintain continuous relationship with the IMF throughout the design and implementation of PBOs. In ADF and Blend countries, the Bank Group will rely on the presence of an on-track IMF program or a positive letter of assessment from the IMF to help determine eligibility up front and to use as an important monitoring tool. In ADB countries, while the IMF will be consulted and a positive letter of assessment sought, it will not be a formal eligibility requirement subject to the Bank’s own assessment of macroeconomic stability using indicators as available.
- ✓ **Satisfactory fiduciary risk assessment**²⁶ by the Bank Group to affirm either the adequacy or improving condition of the country systems (PFM) to allow GBS.²⁷

²⁴ PBOs support the national budget and government policy priorities including on-going reforms. It is therefore important that these priorities reflect well the objectives of the Bank in using a PBO.
²⁵ Macroeconomic stability refers to an RMC’s economy when there is little volatility in the movement of the key macroeconomic variables such as inflation, exchange rates, interest rates, fiscal deficits. Generally, it is a setting in which there is low and stable inflation, currency stability, low interest rates, low fiscal deficits relative to GDP, and low national debt relative to GDP. These conditions minimize an economy’s vulnerability to external shocks and are necessary, but not sufficient, for sustained GDP growth. If there are considerable fluctuations in the macro-economy, PBOs can make matters worse, therefore they would be provided only in the context of a stable macroeconomic framework, usually established by the RMC with IMF assistance. This is not relevant for CRBS or import support: the former is designed to respond to crisis including macroeconomic instability and the latter can itself contribute to macroeconomic stability.
²⁶ Satisfactory risk assessment in this Policy refers to minimal risk that the Bank Group PBO funds will: (i) be used for the intended purposes; (ii) achieve value for money; and/or (iii) properly accounted for. Fiduciary risk may arise from varied factors, including the lack of capacity, competency or knowledge, bureaucratic inefficiency; and/or active corruption. In this regard, the Bank’s approach to
the 4 pillars of the Bank’s Fiduciary Risk Management Framework (FRMF) for PBOs (Budget, Procurement, Audit and Reporting, Corruption) and against a full range of indicators, including transparency and comprehensiveness (PEFA indicators). An assessment that PFM is at least satisfactory or improving is a technical eligibility criterion to assure Management that national systems are sufficiently strong (or, where there are weaknesses, these are being addressed) to safeguard Bank resources. The Bank Group does not support the use of minimum standards of PFM, but rather looks for a positive trajectory of change indicating effective RMC commitment to reform. However, the Bank would typically expect to have, at least, a transparent budget to ensure, inter-alia, that adequate analysis of budget need can be assessed.

✓ Political stability is essential for effective support to the policy reform agenda through PBOs. Providing PBOs in situations of political instability could worsen that instability as it runs the risk of supporting one group over another. Where there is no political stability, PBOs may not be the most appropriate instrument.

✓ Harmonisation, as demonstrated by strong partnership amongst donors, including emerging donors where appropriate, the use of joint budget support agreements and performance assessment frameworks, inter-alia.

6.2.2. Eligibility for Crisis Response Budget Support (CRBS) will remain the same as for General Budget Support and Sector Budget Support. The Bank Group may decide to remove the requirement for macroeconomic stability and/or political stability, due to the crisis context. PARs for CRBS will include an analysis of the macroeconomic situation, in collaboration with the IMF, and of the political environment. Partners will be consulted on this and program design, to ensure the operation is designed to deliver maximum added value. Commitment to poverty reduction, adequate country systems (including satisfactory fiduciary risk assessment) and harmonisation will remain important criteria for CRBS.

6.2.3. Eligibility for Import Support will remain the same as for General Budget Support and Sector Budget Support. The Bank Group will, however, apply less stringent requirements for macroeconomic stability or the adequacy of country systems. This is because import support itself provides a macroeconomic stabilization function (therefore stability is not a prerequisite for its effectiveness) and it provides an inherent fiduciary safeguard over and above other PBO instruments.

6.2.4. RMCs with Weak Country Systems: The Bank Group’s assessments of the country’s fiduciary risk will inform its decision on the adequacy of the PFM system (including when the PBO will support PFM actions) and reforms to support the operation. This assessment will be based on the Bank’s own

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27 The PAR and annexes will summarise the most recent FRA (linked to the CSP) and update it where necessary based on joint diagnostic tools.

28 The guidelines will provide details on what budget transparency means.

29 Political stability refers to the absence of a politically motivated event that has the potential to affect the outcome of the Bank’s PBO intervention, such as the contestability of elections, political risk analysis and widespread social unrest.

30 PBOs support the budget; they are by definition a joint instrument. All donors active in budget support need to work closely together to share risks, reduce transaction costs and improve effectiveness.

31 These two criteria are designed to maximise the influence of dialogue on policy reforms. CRBS is not an instrument primarily for policy reform. Rather, it is an instrument designed to help mitigate the impacts of crisis, hence, to maintain core public expenditures or allow additional poverty safety net spending in order to mitigate impact of a shock.

32 This implies that the Bank can proceed with Import Support (IS) where there is no: (i) macroeconomic stability, because IS can itself contribute to macroeconomic stability, or (ii) adequacy of country systems, because IS can be provided against a negative list of import purchases, and spending on imports can be tracked to cover an amount equal to the IS provided. Therefore weak country PFM systems (of audit in particular) can be avoided using this instrument.
analytical work conducted in coordination/collaboration with others based on joint diagnostic tools, such as PEFA. In RMCs with weak country systems, the Bank Group will provide PBOs only if the country has committed to an adequate program of PFM improvement/reform and there is evidence to suggest that improvements are occurring in a timely manner. In this regard, loan conditions based on prior actions shall help to mitigate the fiduciary risks associated with the PBO and demonstrate the country’s commitment to reform.

6.2.5. Treatment of fragile states: The Bank Group will seek to exploit its comparative advantage of delivering PBOs in fragile states. The Bank Group will use PBOs in fragile states in coordination with other donors to: (a) help rebuild core systems and institutions for economic and financial management, (b) mitigate persistent vulnerabilities that threaten recovery, (c) build the capacity to effect reforms, and (c) support countries that demonstrate a commitment to reform and the potential for progress. In this way, PBOs can yield great benefits in fragile states by contributing to state building. However PBOs could also carry considerable risks in situations of fragility. As such, the decision to use PBOs in fragile states will be preceded by analysis of risks (fiduciary, political, operational and reputational) and consideration of potential benefits. Fragile states will be subjected to the normal PBO eligibility criteria outlined above. Where one or more of the eligibility criteria cannot be met, the Bank Group will consider waiving such criteria and allow PBOs to promote state-building where, as a minimum: (i) the government demonstrates strong leadership and commitment to reform; and if possible (ii) there is satisfactory up-front assessment of the fiduciary environment or credible reforms in progress which can be assisted by the PBO itself. PBOs will be accompanied by complementary capacity-building projects and technical assistance targeting areas of fiduciary risk. PBOs provided through the Bank Group’s Fragile States Facility (FSF) window financing will also be subject to the relevant rules of the FSF, including the use of fiduciary safeguards.

6.2.6. Resource Allocation: While the total percentage share of PBOs may vary according to the applicable ADF/ADB and other relevant policies, the expected total volume or share for a country will be determined in the CSP, taking the following factors into consideration:

- Financing requirements of a country: the CSP will take into account the actions necessary to achieve the expected results of the PBO, the costs of the reforms, the size and disbursement profile of the Bank Group’s lending program, the size of the budget deficit and priority spending programs over a medium term framework and other financing available.
- The specific policies for each ADF cycle and the country’s relative allocation of available concessional resources, while that of ADB countries, including blend countries, will depend on the creditworthiness and risk exposure of the country as well as the impact of disbursements of large loans on the Bank’s prudential ratios.
- The country’s overall debt sustainability, based on an assessment of the expected impact of the development policy program on the debt condition of the country.
- The lending envelope envisaged and the share of PBOs in total lending in the CSP.
- The overall macro-economic performance and absorptive capacity of the country.
- Plans of other donors to provide PBO funding.
- Recent performance of PBOs in-country.

6.2.7. The amount is subject to revision at the time of PBO preparation in response to changing country circumstances, such as changes in the institutional and policy contexts, including the macroeconomic, governance and policy frameworks as well as changes in the capacity of the PFM systems.

33 Refer to the Fragile States Facility Guidelines and The Bank’s Strategy for Enhanced Engagement in Fragile States.
34 Currently, non-set aside resources for PBOs is set at 25% of aggregate performance-based allocations for ADF. There are no country level limits. These may change according to prevailing ADF rules.
6.3. Unprogrammed PBOs: The Bank Group will consider PBOs in MICs and LICs, including Fragile States, which have not been programmed within the CSP. The circumstances under which such PBOs will be provided are outlined below.35

6.3.1. Unprogrammed PBO in MICs (crisis and near crisis situations): The Bank Group will provide a PBO on an exceptional basis in a MIC beyond the limit established in the CSP if the country is approaching or is in a crisis with substantial structural and social dimensions, and has an urgent and extraordinary financing need. The Bank Group will use the CRBS instrument under such circumstances. The volume of such financial support is subject to the availability of adequate ADB financial and risk-bearing capacity.

6.3.2. Unprogrammed PBO in LICs and Fragile States (Crisis36, Conflict37 and Post-Conflict situations): Countries affected by crisis or conflict may require an unusually quick response from the Bank Group. There may not be sufficient time or country capacity to adequately address design considerations38 (as outlined below) or a strong policy program developed with stakeholder consultation. In such situations, PBOs will be considered by the Bank Group on an exceptional basis under the CRBS instrument. The preparation of a one-off PBO under such situations will be guided by the Implementation Guidelines that will accompany this policy.

6.4. Supplemental Financing39: The Bank Group will provide supplemental financing through existing PBO operations in exceptional cases at the request of a member country. A separate loan financing agreement will be prepared based on the same Appraisal Report, Objectives and Logframe of the operational PBO. Supplemental financing will be provided for a PBO for which an unmet and unanticipated financing requirement would jeopardize the implementation of an existing operation that is otherwise proceeding on schedule and in compliance with the agreed policy agenda. Board approval will always be sought in supplemental financing. If instances where the supplemental request exceeds the original loan amount, the Bank Group will require a new PBO intervention. Supplemental financing will be approved only under the following circumstances:

- The PBO is being implemented in compliance with provisions of the Loan or Grant Agreement.
- The country is unable to obtain sufficient funds from other sources on reasonable terms or in a reasonable time.
- The time available is too short to process a further freestanding Bank operation.
- The country is committed to the program and the implementing agencies have demonstrated competence in carrying it out.

7. DESIGN OF PBOs

7.1. Analytical Work: The design of PBOs relies heavily on analytical work. Consistent with the knowledge management agenda, the Bank Group will ensure that the necessary background studies are undertaken to support PBOs. The Bank Group will undertake the relevant analytical work in coordination/collaboration with other partners and the government or draw on prior analytical work by

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35 Where a PBO is in response to a crisis situation, the new instrument “Crisis Response Budget Support” shall be used. The preparation of the CRBS shall be guided by the Implementation Guidelines to accompany this Policy.
36 Countries affected by crisis are those facing either an urgent financial crisis (actual or potential) with substantial structural and social dimensions, or actual or potential serious economic dislocation caused by shocks.
37 Staff may refer to the Fragile States Facility for details on eligibility criteria for conflict and post conflict countries.
38 For instance, possible distributional effects, effects on poverty reduction, social and gender issues and fiduciary arrangements.
39 A supplementary financing request for a PBO shall be accompanied by a concise supplemental financing document. The preparation of the document shall be guided by the Implementation Guidelines.
others, including policy framework papers. The program appraisal report (PAR) will clearly articulate the primary sources of analytical work used in the design of the PBO. Prior analytical work will include existing analyses of the country’s economy-wide or sectoral policies and institutions aimed at stimulating investment, creating employment, accelerating and sustaining growth, as well as analyses of the poverty and social (including gender) impacts of proposed policies, environment/climate change, governance and public expenditure management, procurement, and financial accountability systems.

7.2. Results Framework: The PAR of a PBO will clearly outline, in a results-based logical framework, the development objectives of the Bank Group-supported PBO, which will include the hierarchy of objectives, expected results, performance indicators and targeted time frame for achievement of results.

7.3. Loan/Grant Conditions: The PAR and legal agreements will define the specific loan or grant conditions for the PBO program. These will be guided broadly by: (i) the key principles highlighted above; (ii) the Poverty Reduction Strategy or National Development Plan, as prioritized in the common Performance Assessment Framework (PAF) where applicable and associated policy dialogue in country; and (iii) the Letter of Development Policy submitted by the Government to the Bank Group in support of the preparation of the PBO. In this regard, the Bank Group will determine in accordance with the principles of good practice for conditionality which of the RMC’s proposed policy and institutional actions are critical for the implementation and expected results of the program supported by the PBO. The Bank Group will seek to harmonize these conditions with other development partners in consultation with the country, while retaining the responsibility for financing decisions.

7.4. Streamlining Conditionality: Consistent with international consensus on best practice, the Bank Group will link PBO funding to a harmonized framework of conditions, which implies that the Bank will seek, wherever possible, to draw conditions from a common operational framework, such as the PRSP, NDP, and where applicable the PAF or an equivalent national framework (as consistent with Section 7.3). Recent evidence has shown that in general successful policy change is country-owned and led, rather than externally imposed as conditions. In this regard, the Bank Group will premise PBO effectiveness on progress made or prior actions that facilitate the achievement of, and measure progress towards, the key elements of the PRSP, NDP or PAF, as assessed in the eligibility criteria. Conditions precedent for disbursement of PBOs will be limited to actions identified, prioritised and implemented by the government, according to agreed timelines, which are critical to the success of the PBO supported program and recorded in the PAF, where applicable. Specific details will be outlined in the Implementation Guidelines.

7.5. Programmatic Approach to PBOs: The Bank Group may design PBOs using a programmatic approach to improve predictability, reduce transactions costs and improve flexibility. This generally refers to a series of linked and sequential financing tranches set within a multiple year framework in

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40 Policy framework papers (PFPs) are developed by Governments in collaboration with the IMF and the World Bank. PFPs typically outline the origins of a country's challenges, corresponding improvement efforts, and requisite financing requirements as well as probable impacts on environment and society.

41 The Letter of Development Policy (LDP) sets out the government’s program of objectives, policies, and measures to be supported by the PBO. This is typically a subset of the government’s overall strategy or PRSP or a shorter letter reflecting specific parts of the country’s PRSP or national strategy which will be supported by the PBO.

42 Including results from: (i) the Bank’s 2011 OPEV evaluation of PBO’s; (ii) 2006 OECD report on “Harmonising Donor Practices for Effective Aid Delivery; and (iii) the World Bank’s 2006 Good Practice Principle for the Application of Conditionality”.

43 Prior actions are the actions that are deemed critical to achieving the results of the PBO. Prior actions are taken by a country before presentation of a PBO program to the Bank’s Board and are included in the Legal Agreement as conditions precedent for disbursement.

44 The advantages of a programmatic approach include: (i) it will facilitate medium term planning by governments and will enhance the predictability of Bank Group resources and alignment with the national budget cycle; (ii) it will expedite the Bank’s preparation of subsequent support particularly in the case of programmatic operations since subsequent support will be approved by the Board on a streamlined basis; (iii) it will encourage medium to long term planning and sustainable institution building; and (iv) it will provide a realistic phasing of reforms.
support of medium-term policy reforms. Taking a programmatic approach will enable the Bank Group to indicate potential financing on a medium term (e.g., 3-year rolling basis) to RMCs early on in the national budget cycle to facilitate alignment and predictability. The programmatic approach to PBOs will be a phased support that is tied to a country’s medium term national development plan (NDP) or Poverty Reduction Strategy.

7.5.1. In the design of a programmatic approach to PBOs, the Bank Group will have the following options:

I. **Programmatic Operations - A series of single year operations in a multiple year framework:** Will involve a series of single tranche operations that are sequentially presented to the Bank Group Board, within a medium term framework specified at the outset, including indicative prior actions, monitorable progress indicators and triggers for subsequent operations. Indicative triggers will be set forth in the overall multiple-year PAR and will be adapted to changing circumstances at each phase of the program. Subsequent loans/grants in the series will be phased, based on satisfactory progress in meeting the defined triggers. At the end of each phase, a streamlined Appraisal Document will be prepared, which will indicate the prior actions (loan conditions precedent for disbursement) that have been taken in advance of the next loan/grant as well as the triggers for subsequent operations in the series. A formal PCR will not be completed each year, but at the end of the medium term program. The use of a programmatic series is particularly useful in RMCs where the Bank Group wishes to improve predictability and transparency of PBO flows, while allowing for flexibility in the medium term design of the PBO to accommodate changing circumstances. It also allows the Board greater control over the program financing and requires only a streamlined Appraisal Document and separate ratification by the RMC at each phase.

The Bank Group Board will consider and approve the multi-year or medium term framework program outlined in the PAR alongside the first tranche and its associated conditions. However, because triggers for subsequent phases in the series will be indicative, all subsequent loans in the series will be presented to the Bank Group Board for approval. The subsequent operations in the series generally will be presented on a streamlined basis. A separate loan agreement will be prepared for each phase of the program. Unlike traditional multi-tranche operations, which rely on promises for future actions to justify disbursements, each single-tranche loan under a programmatic operational series will be approved by the Bank Group Board following actual performance, i.e., on the basis of already completed actions; hence, contribute to systematic policy implementation.

II. **Programmatic Tranching:** The Bank Group will continue to use multiple year single loan operations with a series of tranches set within a multiple year framework all approved upfront in one PAR. Under this model, the conditions precedent for disbursement of each tranche (typically based on prior actions taken in advance of the loan) will be identified and approved by the Board, concurrently, at the time of

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45 The types and modalities of programmatic PBOs or their equivalents by other donors and IFI’s are evolving. As new variations emerge and are considered appropriate for the Bank Group, the Policy could include those subject to Board approval.

46 See Annex 8 for existing multi-year frameworks amongst selected development partners.

47 Triggers will be the planned actions in the second or later phases of a PBO program that are deemed critical to achieving the results of the program and that will be the basis for establishing the prior actions or conditions precedent for disbursement in subsequent operations. In other words, triggers will be the expected prior actions for a subsequent operation. Triggers are indicative in nature, and as such, they will not be included in the Loan Agreement. They will be included only in the PAR and will be adapted to changing circumstances. The Bank Group will evaluate the achievements with respect to triggers to decide on the scope, timing, and prior actions for each later operation in a programmatic operational series. The details of prior actions for a subsequent operation may differ somewhat from the triggers in the preceding operation due to changes in country circumstances.

48 See Implementation Guidelines for an outline.

49 Triggers will be indicative in order to capture the medium to long term nature of most significant reform efforts and provide the Bank with the necessary flexibility to adjust to new information and changing circumstances during implementation and to be able to change the scope of the operation over time.
initial Board approval. This approach requires a high degree of certainty on reform actions and timing, but has the advantage of significantly reducing transactions costs and improving efficiency for both the Bank and the RMC. In this regard, conditions precedent for disbursement or the prior actions will be set forth in the loan agreement and subsequent tranches will be disbursed against these without further consideration by the Bank's Board. Unless all tranche-release conditions are met, a tranche will be released only if the Bank Group Board approves a waiver of the unmet condition(s).

7.5.2. The type and length of time set for a specific programmatic approach will be indicated in the CSP and finalized in the PAR based on country performance and commitment to policy priorities in the PRSP, other donors’ plans and risks.\(^{50}\)

7.6. Self-Standing PBOs: The Bank Group will maintain, as an option, the preparation of PBOs in a one-off operation (self-standing operation) when appropriate. Each self-standing operation will be subject to consideration and approval of the Bank Group Board.

7.7. Tranching\(^ {51}\): The PAR will outline the tranching arrangements for the PBO, which could be a single or multiple tranches, fixed (base tranche) or variable (performance-based) tranches depending, *inter alia*, on the country’s financing requirements and the content and phasing of the program and risk. The Bank’s Management will retain the right to alter the conditions for tranche disbursement based on overall progress which will be presented to the Board and assessed as a waiver request.

7.8. Risk Management\(^ {52}\): The PAR will provide details on the risk management of PBOs. RMCs will primarily be responsible for managing the operational risks affecting the development effectiveness of PBOs. The Bank Group will reinforce the RMCs role in risk management by independently identifying the financial and non-financial risks associated with the PBO, including operational, developmental, macroeconomic, political, fiduciary, economic, social, environmental, governance, reputational, and capacity/implementation risks, as appropriate. The Bank Group will also ensure that the PBO takes appropriate mitigation measures against identified risks and adopts monitorable indicators to track the probability of risks during preparation of PBOs.

7.9. Consultations and Participation: PBOs provide the opportunity, through policy dialogue, to support RMCs to strengthen their capacity to formulate and implement effective national development priorities. In this regard, the Bank Group will proactively engage in country dialogue with governments and other development partners as necessary for RMCs to deepen arrangements for broad based consultations and participation in PBOs. In addition, the Bank Group will advise RMCs to consult with and engage participation of key stakeholders in the country in the process of formulating the country’s development plans/strategies. The PAR will describe the country’s arrangements for consultations and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the country’s development strategy. The Bank Group has a duty to consult on the actions it supports. Relevant analytical work conducted by the Bank Group, particularly on poverty and social impacts and on environmental aspects, will be made available to the public as part of the consultation process, in line with the Bank Group’s Information Disclosure Policy.

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\(^{50}\) The Programmatic operations are currently the preferred option by RMCs and development partners not least because it offers the flexibility for them to adapt to new information and changing country circumstances. The Implementation Guidelines will provide specific details on when to use the two programmatic approaches and how to operationalize them.

\(^{51}\) See definitions of the tranche options in Annex 3.

\(^{52}\) The Implementation Guidelines will provide directions on the application of PBOs on risk assessment.
7.10. Cross Cutting Issues

7.10.1. Poverty and Social Impact, including gender: Consistent with its mandate of poverty reduction and commitment to social and gender issues, the Bank Group will identify the implications of a PBO for poverty reduction, social inclusion and equity, gender and vulnerability within a country. The Bank Group will analyze the effects of the country’s policies supported by the PBO as well as the effects of the PBO itself (e.g., macroeconomic effects including on inflation and the exchange rate) on poverty, gender and broader social issues as part of PBO design. Where there may be significant gaps or shortcomings in the analysis, including the gender analysis, the PAR of the PBO will outline how such gaps will be addressed before or during implementation. This is especially important in the context of programs with large financial footprints or which support certain types of economic policy reform with potential negative social effects. In such contexts, the Bank Group will assess and seek to mitigate negative impact on poor and vulnerable groups, such as women, children, girls and unemployed youth.

7.10.2. Climate Change and Environment: The Bank Group will assess whether or not the specific country policies to be supported by the proposed PBO will have significant implications for the country’s environment and climate change. The appraisal report will clearly articulate the capacity of the country systems to mitigate significant impact, drawing on the relevant country-level or sectoral environmental and climate change analysis. In case of significant gaps or short-comings, the Bank Group will outline, in the appraisal report, how these shortcomings/gaps will be addressed before or during implementation.

7.11. Policy Dialogue: The Bank Group will capitalize on the existing Knowledge Management and Decentralization Agenda to strengthen policy dialogue in order to ensure that major reforms are agreed (as drawn from the PAF or PRSP) in the PAR, objectives identified and results assessed. The Bank Group will ensure that policy measures and verifiable results would be at the core of a more strategic and focused dialogue. The scope of policy dialogue will depend on the specific objectives of the PBO supported intervention at the country level and will cover, inter-alia: (a) key public policy, and expenditure issues, (b) strategic issues of economic management, including revenue mobilisation (tax collection and administration), (c) implementation of actions and measures agreed by the Government and PBO partners for inclusion in the PAF or development program, and (d) monitoring the RMC’s commitment to the agreed reforms. While the Bank Group would not interfere in the political affairs of an RMC through its dialogue, it recognizes that the political environment could have an impact on the success of its interventions. In this regard, the Bank Group will reflect the political context of an RMC in the design (using political risk analysis) and implementation of PBO operations in order to ensure maximum value added.

8. IMPLEMENTATION OF PBOs

8.1. Use of Country Systems: Consistent with the Bank Group’s commitment to the Paris Declaration principles and the Accra Agenda of Action, the implementation, monitoring and evaluation of PBOs will be premised on the use of country systems. The Bank will use country systems after they have been adequately assessed and deemed strong enough or improving with a credible reform program. PBOs will, as a first choice, be undertaken jointly and, as a second choice, in consultation with other donors. Under circumstances of “stand-alone” PBOs, the Bank Group will coordinate with...
other development partners on the ground to assess the relevance of the operation and the adequacy of the country systems and macro-economic environment.

8.2. Monitoring: PBO operations will be monitored from inception to completion in order to ensure smooth implementation and to track progress towards the achievement of development objectives. Monitoring of PBOs will be premised on the use of country performance assessments. In collaboration with RMCs and development partners, the Bank Group will use relevant analysis (e.g., Annual Performance Reviews of Poverty Reduction Strategies; Public Expenditure Reviews; and Fiduciary Risk Assessments) to provide a common basis for the objectives and results of PBOs. The monitoring function in PBOs will be supported by national information systems and Bank Group Core Sector Indicators to provide quantitative monitorable indicators.

8.3. Supervision: The Bank Group will complement the RMC’s effort by reviewing progress of PBO implementation during regular supervision missions involving both Field Offices/Regional Resource Centres and Headquarters to provide: (i) assessment of the Bank Group’s provision of effective and proactive support for the implementation of the PBO; (ii) effective dialogue with the relevant stakeholders; and (iii) timely performance reporting, which will also highlight any major constraints or changes in country circumstances that affect the smooth implementation of the PBO. Supervision missions will also be used to verify fulfillment of specific conditions of the PBO. Where there are joint budget support groups in operation, the Bank Group will participate in joint supervision missions.

8.4. Evaluation: At any time during or after the programming phase, PBOs may be subjected to evaluation. Upon completion of an operation, a Program Completion Report (PCR) will be prepared. For programmatic operations, a full PCR will be prepared upon completion of the entire program, which will include a separate assessment of the contribution of each individual operation in the program series. For self-standing operations and programmatic tranche operations in a single loan, a full PCR will be prepared upon completion of the program.

9. FINANCIAL MANAGEMENT ARRANGEMENTS

9.1 Fiduciary Risk of PBOs: The Bank Group will assess fiduciary risks of PBOs at the level of the CSP which will be updated during the preparation of the PBO design. Fiduciary Risk Assessments will include the status and trends of a country’s budget, audit and reporting, public procurement and corruption. The assessment will analyse the risk factors driving fiduciary risks and determine the relevant risk mitigation measures to adopt. Mitigation measures will include: (i) the mix of financing instruments, supporting technical assistance; (ii) support to reform programs; and (iii) short term fiduciary safeguards and monitorable indicators to track high-probability risks.

9.2 Reliance on Country PFM Systems: The Bank Group’s ex-ante fiduciary risk assessment will inform the assessment of the PBO eligibility criteria on the use of country systems. The up-front assessment will establish whether national systems are adequate for Bank Group use or are likely to be so with support through the PBO itself. Where this is not the case, the Bank Group will reject a PBO if

56 The Implementation Guidelines will provide details on monitorable indicators.
57 See the Implementation Guidelines on PBOs which will provide details on a supervision framework focused on development results and risk monitoring. The framework will seek to provide guidance on, inter alia, (i) timely and effective adjustments in individual PBOs during implementation; (ii) the role of the Field Offices; and (iii) tracking and management of risks.
58 The PCR shall assess: (i) the degree to which the program achieved its development objectives and outputs as set out in the PAR; (ii) other significant outcomes and impacts; (iii) prospects for the program’s sustainability; and (iv) the Bank Group and borrower performance, including compliance with relevant Bank policies, (e) the lessons learnt from implementation.
59 The assessment shall be based on the current Bank Group Fiduciary Risk Management Framework for PBOs.
there are insufficient safeguards built in. The Bank will consider the use of other instruments that will provide adequate safeguards for Bank Group resources under such circumstances.

9.3. Audit: Consistent with the Bank Group’s Fiduciary Risk Management Framework for PBOs (FRMF), the Bank Group will not audit PBO resources directly due to the fungible nature of PBO resources. Instead, it will rely on national auditing and reporting systems. In this regard, the Bank Group will program a PBO only if there is satisfactory up-front assessment of the country systems, including the country’s auditing systems. This implies that PBOs will be programmed where national audit systems are sufficiently robust, based on the Bank Group’s up-front assessment. The up-front assessment will be conducted as part of the Bank’s fiduciary risk assessment in the CSP, which will help inform the decision to use PBO as consistent with the eligibility criteria. When the review identifies weaknesses in the audit and other PFM systems, or when an acceptable action plan to deal with identified weaknesses is not in place, the Bank Group will identify the additional steps needed to secure acceptable fiduciary arrangements and safeguards to strengthen the national audit for the PBO. Where these options are lacking, the Bank Group will reject a PBO and may consider the use of other financing instruments, as deemed appropriate by Senior Management. The Bank Group will use its 3-pronged approach to auditing PBOs, as follows:

1. **Upfront Assessment** of country systems including the national auditing arrangements before the use of PBO.
2. **Adequate appraisal/supervision** including upfront specification of quantifiable output and outcome indicators, and monitoring mechanisms.
3. **Financial reporting** with full disclosure on funds utilization to ensure funds are used as intended.

C. POLICY IMPLEMENTATION AT THE INSTITUTIONAL LEVEL

10. PBO IMPLEMENTATION MODALITIES

10.1. Key Elements for Policy Implementation: The Bank Group's increased engagement and effectiveness in PBOs as outlined in the new Policy will require substantial efforts to mobilize and prepare staff, provide detailed guidance and modernize procedures. Emphasis will be on the following elements:

- Whole Bank Approach
- Revisions of processing procedures for PBOs, including clarification of roles and responsibilities across the Bank Group, clear delegation of authority and streamlining procedures.
- Preparation and consolidation of Implementation Guidelines.
- Design and roll-out of continuous staff training programme.
- Enhanced leadership of policy dialogue

10.1.1. Whole Bank Approach: With the increasing importance of an integrated Bank and the value of doing sectoral PBOs, especially in priority areas, it is essential to embrace the “Whole Bank approach” that will see the Bank’s Regional Departments (which includes field offices and regional resource centres) regularly programming PBOs in the CSPs, while the Sector Departments operationalize PBOs as part of financing instruments. This will require: (i) strengthening the capacity of Regional Departments (including field offices and regional resource centres) to frequently consider PBOs in CSPs and Sector Departments to design and implement PBOs, (ii) inter-departmental collaboration, particularly between the Bank’s Governance, Economic and Financial Management Department, other sectors and field offices and regional resource centres; and (iii) enhancing the capacity of field offices and regional resource centres to engage pro-actively in policy dialogue as well as provide critical support to Sector Departments in the design, implementation and evaluation of PBOs.
10.1.2. **Business Processes:** Business processes for PBOs have relied on those for investment projects as currently set forth in Presidential Directive 07/2007. These processes will be revised to reflect the value-added at each stage of identification, preparation, appraisal and supervision of a PBO and the potential time savings, especially for follow-on operations as in a programmatic series or crisis related initiative. The revisions will also clarify the roles and responsibilities across country departments, field offices and regional resource centers, task teams and Management at the various stages of the process. These will be prepared by the Operational Policies Department in consultation with Operational Departments for discussion by Senior Management and issuance as part of the Implementation Guidelines.

10.1.3. **Implementation Guidelines:** Guidelines are required to guide staff on more specific expectations, practices and clarifications of critical inputs to the preparation, appraisal, supervision and evaluation of PBOs. These will be prepared over time including: Streamlined business processes; Preparing PBO programs through medium term frameworks; Results framework in PBOs; Framework for CRSB; Approaches to setting conditionality and tranching; Approaches to alignment, harmonization and coordination; and Approaches to fiduciary risks which will be based on the Bank’s Fiduciary Risk Management Framework for PBOs.

10.1.4. **Training:** The implementation of the new PBO policy will require developing a training program for staff that will be implemented on a rolling basis over time. This training will include all aspects of the new policy and Implementation Guidelines including rationales for each part of the guidance and how policy dialogue can be best conducted. It will be developed once the policy and guidelines are complete and, after piloting, it will be rolled out across staff in sector, regional and compliance Departments as well as in Field Offices.

10.1.5. **Enhanced and institutionalized leadership of policy dialogue:** Effective implementation of the PBO Policy and the envisaged role of the Bank Group in leading budget support groups would require enhancing the Bank Group’s internal capacity (particularly at the field office level) to engage fully in policy dialogue, which would include: (i) active participation in policy forums including, multi-donor budget support groups and PFM working groups, to discuss budget priorities, aggregate allocation of resources and reform agendas; (ii) increased dialogue on substantive policy issues at the sector level; and (iii) enhanced dialogue on the prioritization of poverty reduction policies.

10.2. **Interim Procedures and Guidelines:** The Policy would go into effect upon approval by the Board. It is expected that the implementation of the Policy will be gradual, as the Bank prepares the Implementation Guidelines, implement the staff training program, undertake the necessary analytical works, and update the CSPs. Existing processing procedures and guidelines would apply, except where Senior Management or the Policy itself have indicated otherwise.

10.3. **Policy Alignment:** Where applicable, the Bank Group’s policies, strategies, and related administrative rules, operational procedures and guidelines will be aligned with this Policy to support the Policy implementation requirements.

10.4. **Policy Review:** The Bank Group’s Evaluation Department, following Board request, will conduct independent evaluations of the Policy at 5-year intervals. The findings of the review will be sent to the Board and used to update the Policy accordingly.
11. COST IMPLICATIONS

11.1 The most immediate costs are related to the launching of the Policy, including the revision of processes, preparation of guidelines and training. These require broad-based teams and dialogue among staff and Management. It is expected that such costs will be incurred mainly in FY12. The more significant costs over time relate to the Bank Group’s increasing participation and leadership in PBOs and related multi-donor support efforts, deepening its capacity to carry out policy dialogue and related analytical work, and working more effectively in cross-sectoral teams. The cost associated with these will be covered under existing Bank Group initiatives, such as the Decentralization Road Map and the Knowledge Management Agenda [see Annex 8 for details].
CROSS REFERENCES, REPLACEMENTS AND COMPLEMENTARY POLICIES

Bank Policies and Guidelines to be Replaced by the New PBO Policy and Implementation Guidelines


Complementary Bank Policies which this Policy helps to Deliver


Policies and Guidelines to be replaced by the PBO Implementation Guidelines in 2011

ANNEX 2: DEFINITIONS OF KEY TERMS

- **Capacity Building**: refers to the strengthening of a country’s institutions so as to ensure an effective and efficient implementation of its PRSP/NDP. The Bank Group will support a RMC in capacity building activities through the provision of technical and/or financial assistance.

- **Categories of Countries**: refers to the African Development Bank Group’s broad classification of countries as: (i) Middle Income Countries (MICs); (ii) Low Income countries (LICs); and (iii) Fragile States.

- **Complementary Support**: refers to the parallel assistance that will be provided to a country in addition to a PBO. These could be a package or a combination of inputs, namely technical assistance, capacity building and or analytical work.

- **Conditions Precedent for disbursement**: is the set of conditions set in the PAR and or Loan agreement that must be satisfied for the Bank Group to make disbursements in a Program-Based Operation.

- **Financing Windows**: refers to resources under the constituent institutions (African Development Bank, African Development Fund and Nigeria Trust Funds) which the Bank Group utilizes to support its operations in Regional Member Countries (RMCs).

- **Fungibility**: budget support funds are said to be ‘fungible’ because they completely substitutable. This means that by putting money into the central budget, donors cannot track the spending of that money nor can they be assured that it has gone to a particular sector or activity. For this reason, PBOs can only be provided when the policy and budget priorities of the RMC are acceptable to the Bank Group as a whole.

- **Mutual accountability**: Defined in the Accra Agenda for Action (2008) as “…a process by which two (or multiple) partners hold one another responsible for the commitments that they have voluntarily made to each other. But it is also more than that. It is a process through which commitment to, and ownership of, shared agendas is created and reinforced by: building trust and understanding; shifting incentives towards results in achievement of shared objectives; embedding common values; deepening responsibilities and strengthening partnership; and openness to external scrutiny for assessing results in relation to goals.”

- **Performance Assessment Framework (PAF)**: refers to a matrix of policy actions and indicators, defined jointly by the RMC and a group of development partners in support of joint budget support arrangements. The PAF indicators and targets are generally revised on an annual basis and there is an annual review of performance against them which assesses whether performance has been ‘satisfactory’ (typically a minimum of 80 percent achievement of targets).

- **Prior actions**: are the actions that are deemed critical to achieving the results of the PBO. Prior actions are taken by a country before presentation of a PBO program to the Bank’s Board and are included in the Legal Agreement as legally binding conditions which need to be met before disbursement.

- **Policy Dialogue**: refers to a frank and constructive dialogue between donor partners and RMC governments on broad or sectoral policy reforms and general budget priorities. It is a core input in a PBO. Policy dialogue has to be informed by well-targeted analytical work and consultation with
stakeholders including civil society, as it provides an opportunity to contribute effectively to the content and sequencing of government policies.

- **Regional Member Countries** refers to the 53 African countries who are members of the African Development Bank Group.

- **Sector wide approach (SWAp)** refers to an approach that involves financing of a specific sector through various financing modalities, including PBOs and investment/project financing.

- **Supplemental Financing**: The provision of supplemental funding in support of the objectives of an existing Bank Group PBO.

- **Technical Assistance**: Refers to the support the Bank Group provides in the form of grants or loans to support its Regional Member Countries in: (i) identifying, formulating, and implementing programs and projects; (ii) improving the institutional capabilities of governments and executing agencies; (iii) formulating development strategies; (iv) promoting the transfer of technology; and (v) fostering regional cooperation.

- **Tranches**:
  - **Fixed tranche or base tranche** refers to a base disbursement (tranche) that is of a fixed value and is usually provided early in the fiscal year (first quarter) and is subject to set of minimal prior conditions.
  - **Single tranche** refers to a PBO designed to have only a single disbursement based on prior conditions.
  - **Multiple Tranches** refer to multiple disbursements effected throughout the PBO programmatic cycle. Disbursements are based on satisfactory fulfillment of conditions as set out in the program documents and loan/grant agreement.
  - **Variable or Performance tranche**: refers to a tranche which does not have a fixed value and the amount to be disbursed depends on performance or progress made in a number of pre-defined areas, as agreed with the Government.

- **Triggers**: are the planned actions in the second or later phases of a PBO program that are deemed critical to achieving the results of the program and that will be the basis for establishing the prior actions or conditions precedent for later operations. In other words, triggers will be the expected prior actions for a subsequent operation. Triggers are indicative nature, and as such, they are not included in the Loan Agreement. The Bank Group will evaluate the achievements with respect to triggers to decide on the scope, timing, and prior actions for each later operation in a programmatic operational series. The details of prior actions for a subsequent operation may differ somewhat from the triggers in the preceding operation due to changes in circumstances.
### POLICY UPDATE: What is new in Bank Group PBO Policy

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Policy Context</strong></td>
<td>PBOs guided by different Bank Group documents (see Annex 1)</td>
<td>Bank Group Policy On Program Based Operations and its Implementation Guidelines</td>
</tr>
<tr>
<td><strong>Name</strong></td>
<td>Policy Based Operations</td>
<td>Program-Based Operations</td>
</tr>
<tr>
<td><strong>Instruments</strong></td>
<td>(i) General Budget Support; (ii) Sector Budget Support</td>
<td>Crisis Response Budget Support added to existing PBO instruments</td>
</tr>
<tr>
<td></td>
<td>Import Support</td>
<td></td>
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<tr>
<td><strong>Role of Results-Based</strong></td>
<td>Not well-defined</td>
<td>A well-articulated role for CSPs. They will provide the strategic context and basis for the provision of PBOs</td>
</tr>
<tr>
<td><strong>Country Strategy Papers (CSPs)</strong></td>
<td></td>
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<tr>
<td><strong>Results Framework</strong></td>
<td>Not well defined</td>
<td>A logical framework for results defined; i.e. fuller results agenda</td>
</tr>
<tr>
<td><strong>PBOs design</strong></td>
<td>(i) Programmatic tranches –multiple tranches in a single loan set within a multi-year framework; and (ii) Self-standing (one-off) PBOs</td>
<td>Programmatic operations added to existing approaches, based on sequentially linked single tranche (multiple loans) operations set in a multi-year framework</td>
</tr>
<tr>
<td><strong>Conditionality</strong></td>
<td>(i) using conditionality to leverage policy reform; (ii) prior actions</td>
<td>Prior actions</td>
</tr>
<tr>
<td><strong>Tranching</strong></td>
<td>Fixed tranches</td>
<td>Fixed and variable (performance) based tranches</td>
</tr>
<tr>
<td><strong>Eligibility criteria</strong></td>
<td>Unclear for various instruments</td>
<td>Clearer eligibility criteria for all instruments</td>
</tr>
<tr>
<td><strong>Whole Bank approach</strong></td>
<td>PBOs largely undertaken by the Governance, Economic and Financial Management Department</td>
<td>A framework for all sector departments to utilize PBO instruments</td>
</tr>
<tr>
<td><strong>Supplemental financing</strong></td>
<td>Rules for supplemental financing not specific to PBO operations</td>
<td>Rules for supplemental financing for PBOs laid out</td>
</tr>
<tr>
<td><strong>Fragile States</strong></td>
<td>No clear guidance on PBO instruments in fragile states (FS)</td>
<td>FS eligible for PBO if they: (i) demonstrate commitment to an adequate program of PFM improvement reform and there is evidence to suggest that improvements are occurring in a timely manner; (b) meet the general eligibility criteria outlined in the Policy.</td>
</tr>
<tr>
<td><strong>Processing</strong></td>
<td>PBOs relied on business process for investment projects as set out in the Presidential Directive 07/2007</td>
<td>Business process specifically tailored to improve the efficiency and effectiveness of the Bank’s PBOs will be laid out in the Implementation Guidelines.</td>
</tr>
<tr>
<td><strong>Documentation</strong></td>
<td>Standard PCR and PAR format for all Bank projects</td>
<td>Template for PCR, PAR and results based matrix to be revised in accordance with the specific requirements of PBOs</td>
</tr>
</tbody>
</table>


## Comparative Table of PBOs across Selected Development Partners

<table>
<thead>
<tr>
<th>Category</th>
<th>AfDB new Policy</th>
<th>World Bank</th>
<th>AsDB</th>
<th>EC</th>
<th>DFID</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Programmatic Approach</strong></td>
<td>Yes Multi-year programming approved up front based on medium term framework including a series of single tranche multiple loans operations</td>
<td>Yes Multi-year programming approved up front based on medium term framework including a series of single tranche multiple loans operations</td>
<td>Yes Multi-year programming approved up front based on medium term framework including a series of single tranche multiple loans operations</td>
<td>Yes Multi-year programming approved up front including MDG contracts with 6 year commitments</td>
<td>Yes Multi-year programming approved up front</td>
</tr>
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<td></td>
<td>Multi-year programming with multiple tranche operations in a single loan</td>
<td>Self-standing operations (one year)</td>
<td></td>
<td>Self-standing (one year operations) in some Fragile States</td>
<td>Self-Standing operation, though rarely used</td>
</tr>
<tr>
<td></td>
<td>Self-standing operations (one year)</td>
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<tr>
<td><strong>Eligibility Criteria</strong></td>
<td>Macroeconomic stability. Political stability. Government commitment to &amp; ownership of reforms [including PFM and PRSP/NDP implementation] Satisfactory fiduciary risk assessment Harmonization</td>
<td>Macroeconomic framework Country commitment to &amp; ownership of reforms PFM reforms Harmonization</td>
<td>Macro-economic framework Country commitment to &amp; ownership of reforms PFM reforms</td>
<td>Macro-economic framework Well-defined national policy &amp; strategy PFM reform program Harmonization</td>
<td>Commitment to poverty reduction and the MDGs Respect for human rights and other international obligations; PFM reform program Strengthening domestic accountability</td>
</tr>
<tr>
<td>Tranching</td>
<td>Single tranches</td>
<td>Single tranches</td>
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<td></td>
<td>Multiple tranches</td>
<td>Multiple tranches</td>
<td>Multiple tranches</td>
<td>Multiple tranches</td>
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<tr>
<td></td>
<td>Fixed tranches only based on prior actions</td>
<td>Fixed tranches</td>
<td>Fixed base tranche (70% of MDG contracts and a variable amount of all PBOs)</td>
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<td>Results performance tranche conditional on poverty outcome results achieved.</td>
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<tr>
<td>Conditionality</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Eligibility criteria</td>
<td>Eligibility criteria</td>
<td>Unclear, but flexibility in the use of conditionality</td>
<td>Eligibility criteria</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Based on prior actions critical for the implementation of and expected results of the PBO or the PAF.</td>
<td>Based on prior actions critical for the implementation of &amp; expected results of the PBO.</td>
<td>Based on performance against the PAF</td>
<td>Based on performance against the PAF</td>
<td></td>
</tr>
<tr>
<td>Audit of PBOs</td>
<td>Up-front fiduciary risk assessment determines eligibility for PBO and therefore reliance on national audit systems.</td>
<td>Reliance on national audit systems because of up-front FRA</td>
<td>Reliance on national audit</td>
<td>Reliance on national audit.</td>
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</tr>
<tr>
<td></td>
<td>Audit done up to the point where the funds are transferred to the national treasury of the partner country and verification of quantifiable output/outcome indicators, and monitoring mechanisms.</td>
<td>Audit done up to the point where the funds are transferred to the national treasury of the partner country.</td>
<td>Audit done up to the point where the funds are transferred to the national treasury of the partner country.</td>
<td>A PBO above £10m requires a DFID FRA</td>
<td></td>
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<tr>
<td></td>
<td>BoP is audited only to the extent of verifying import certification provided by the Government</td>
<td>The flow of BoP loan proceeds are audited only to the extent of verifying an import certification provided by the Government</td>
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<td>Import support (IS) is audited by the Bank to the extent of verifying import certification provided by the Government</td>
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</tbody>
</table>
**DRAFT TABLE OF CONTENTS FOR THE PBO IMPLEMENTATION GUIDELINES**

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<th>Headings</th>
<th>Sub-headings</th>
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</table>
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  o Transmission mechanisms  
  o Evaluation evidence  
  o Sustainability  
  o Wary of overstating policy leverage  
  o Non-traditional focus areas  
  ➢ Country preferences and context  
  ➢ Policy Consultation and Preparation Process |
| **Chapter 2: PBO instruments** | ➢ Instruments, objectives, key features and results  
  o Budget Support Operations:  
    • General Budget Support  
    • Sector Budget Support  
    • Crisis Response Budget Support  
  o Import Support  
  ➢ Package of inputs  
  o Funds – on budget, fungible  
  o Complementary Capacity Building and Technical Assistance  
  o Policy Dialogue - decentralised  
  o ESW – to inform dialogue  
  ➢ Types of intervention  
  o Multisectoral, sectoral interventions  
  o Programmatic approach, predictability  
  ➢ Categories of Countries and Financing Windows  
  o ADB  
  o ADF  
  o Fragile States  
  ➢ Specific objectives for each PBO instrument in MICs, LICs and fragile states |
| **Chapter 3: Decision to use PBOs** | ➢ Role of CSPs  
  ➢ Costs/Risks and benefits  
  o Assessing potential benefits of PBOs by context  
  o Assessing risks of PBOs (operational, political, fiduciary, reputational, etc.)  
  ➢ Determining eligibility  
  ➢ Eligibility criteria and their assessment |
Macroeconomic Analysis
- Political analysis
- Adequacy of Country Systems/fiduciary risk management

- Instrument choice
- Resource Allocation (size of PBO)
- Analytical Work (Knowledge Products)
- Consultation and Participation
- Cross cutting issues
  - Poverty and Social Impact
  - Gender impact
  - Impact on the Environment and Climate Change

Chapter 4: Design of PBOs
- Multiple year programming and predictability
- Alignment with national budget cycle & predictability
- Loan / Grant Conditions
  - Performance Assessment Frameworks
- Tranching
- Risk Management
  - Incl. Fiduciary risk and safeguards
- Component selection/design
- Quality Assurance and Results
  - Quality at Entry
  - Quality at Implementation
  - Quality at Exit
  - Contribution to development results
### Chapter 5: Aid effectiveness Good Practice
- Ownership
- Alignment and predictability
- Harmonisation
- **Mutual Accountability – including joint assessment mechanisms**
- Streamlining Conditionality
  - Approaches to setting conditionality
  - Tranching

### Chapter 6: Program cycle management
- Bank’s Business Processes
- New PBO processing schedule, approvals
  - Decision to use PBOs
  - Identification and PCN
  - Quality Assurance Panel, Country Team
  - Design and PAR
  - Peer Review, Quality at entry
  - Approval
  - Implementation, policy dialogue, tranche release and supervision
  - Audit, review, PCR
- Roles and responsibilities at the various stages of the process across:
  - country departments
  - field offices and regional resource centres
    - chairing budget support groups
  - Task teams
  - Management

### Chapter 7: Implementation of PBOs
- Effectiveness and procedures for making disbursements
- How to conduct policy dialogue and the nature of dialogue
- Responsibilities of Bank throughout the cycle of operations

### Chapter 8: Donor Coordination
- Maintaining continuous cooperation with other development partners
  - Diagnostics and risk analysis
  - Joint missions
  - Performance Assessment Frameworks
### Partnership principles/MoUs
- Bank engagement with joint budget support groups
  - Added value, legitimacy
  - Good practice in engaging with/chairing BS groups
  - Resource requirements
  - Dealing with political issues

### Chapter 9: Evaluation, Audit and Reporting
- **Supervision**
  - Reporting results, including a robust results framework for the different instruments
    - PCR, including the contents and time frame for PBO PCR
    - Contribution to development results
    - Joint reporting and attribution
  - Ex post audit and evaluation

### Chapter 10: Additional PBO resources
- Dealing with un-programmed PBOs,
  - Supplemental resources and others

### Annexes

#### Glossary of terms
- Definition of terms such as:
  - Fragile states
  - Political stability
  - GBS, SBS, CRBS, IS
  - Macroeconomic stability
  - Policy dialogue

#### Design templates
- Templates for:
  - Concept note
  - Appraisal Report
  - Results-based logframe,
  - Streamlined Appraisal Document (multiyear programs)
  - PCR

#### Fiduciary Risk Management Framework for PBOs
- The full fiduciary risk assessment is done at the time of CSP. Each PBO PAR will include text reporting the findings and an annex with further detail.
PROGRAMMATIC OPERATIONS

Single Year Operations within a Multiple-Year Framework

Triggers are Expected Prior actions for subsequent phases

Phase 1
1st Loan approved by Board alongside indicative loans and triggers for the entire program as set out in the PAR
Triggers determine the next phase of the series

Conditions for 1st loan based on prior Actions

Phase 2
2nd Tranche Operation (2nd Loan)
Conditions based on prior actions completed in the preceding period
Board Approval Required, Streamlined Appraisal Document (SAD)

Phase 3
3rd Tranche Operation (3rd loan)
Conditions based on prior actions completed in the preceding period
Board Approval Required (SAD)

Phase 4
4th Tranche Operation (4th Loan)
Conditions based on prior actions completed in the preceding period
Board Approval Required (SAD)

Essential Information:
- Multi-year program approved upfront by the Board
- Subsequent loans/grants in the series will be approved by the Board
- Prior actions are actions that have taken place in advance of the loan
- Triggers are expected prior actions for subsequent operations
- Triggers are indicative & offer the flexibility to accommodate the unpredictability and uncertainty of complex policy reforms
- Separate loan agreement is signed at each phase
- PCR done at end of multi-year framework covered by PAR
- A full PCR is prepared upon completion of the entire program
Programmatic Tranches is a single loan operation but with multiple tranche disbursement arrangements. All tranche-release conditions approved upfront by Board, to include satisfactory performance of PAF. Tranche-release conditions could be fixed or variable depending on the design of the PBO. Tranche disbursements are based on satisfactory performance of loan conditions. Board approval of tranche release is not required unless there are major shifts in performance, then a Board waiver will be required. A full PCR is prepared upon completion of the program.
COST IMPLICATIONS

1. **Launch of Policy:** The costs involved in the launch of the Policy will include the recruitment of consultancy services for the preparation of the Implementation Guidelines and the revision of business processes for PBOs, estimated at UA 60,000. The budget for this assignment will be covered under the Operational Resources and Policies Department. Dissemination of this Policy will be integrated into other field missions of the Operations Complexes.

2. **Capacity Building:** The PBO Policy is fine-tuning the mechanisms through which the Bank delivers its PBO resources. The proposals in this Policy will help the Bank Group to improve, *inter-alia*, on its policy dialogue and analytical capacity at moderate costs. In this regard, costs related to strengthening the Bank Group’s capacity to deepen its leadership on PBOs include the following:

   - **Training:** Training is the only substantive additional cost which the Bank would incur in the implementation of the PBO Policy. Staff will be trained on, *inter alia*: (i) good practice in PBO design and implementation as espoused in this policy and the Implementation Guidelines; (ii) how to conduct and use existing analytical work essential for the Bank Group’s use of PBO instruments, including PFM diagnostics (e.g., fiduciary risk) and macroeconomic policy framework assessment, risk analysis, social and poverty assessments, including gender analysis; and (iii) how to engage in high-level policy dialogue, including continuous sector level dialogue. The initial cost of training over a 3-year period is estimated at UA 360,000 (UA 120,000 per year) based on training 80 staff per-year, including one staff from ten field offices, in Tunis for five days.

   - **Staffing:** The Policy does not envisage an increase in staffing since the entire resource envelope for PBOs is not anticipated to increase with this Policy. In this regard, Sector Departments will utilize existing staff to design, implement and evaluate PBOs. Staff will be provided necessary training. If the Bank Group resource envelope increases for PBOs in the future, the Bank will assess the staffing requirement as proportional to the volume of anticipated PBOs, which will then be subjected to the Board for approval within the context of the regular annual budget process.

   - **Knowledge Generation:** ESWs are an integral part of PBOs, as they provide critical information to utilize PBO instruments and engage in quality dialogue with RMCs. The costs of doing relevant ESWs are covered within the Bank Group’s Knowledge Management Strategy managed under the Chief Economist Complex and the non-lending work program of the operational and regional Departments. The Bank’s Procurement and Fiduciary Risk Department has the mandate to assess country systems, including those essential for PBOs, using existing diagnostic tools such as Public Expenditure and Financial Accountability (PEFA), Fiduciary Risk Assessments (FRA) and Country Procurement Assessment Reviews (CPARs).

   - **Role of Field Offices:** The costs of enhancing the role of field offices to engage in high quality strategic policy dialogue and chairing budget support groups relate primarily to: (i) the cost of staffing which is anticipated to be covered under the context of the Decentralisation Road Map; and (ii) training (see above). There is minimal additional cost envisaged where the Bank is to

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60 The budget includes cost of venue, two trainers, subsistence and per-diem for 7 (including 2 trainers and 5 field office staff). The budget is based on 2011 Training cost on Public Financial Management organized by the Bank’s Operations Sector Vice Presidency (OSVP).
host the chairmanship of the yearly rotating budget support groups in countries with field or regional offices. Such activities are usually budgeted for under the administrative budgets of field and regional offices or trust fund resources could be sought for such purposes.