

**CARIBBEAN DEVELOPMENT BANK**



**MANAGEMENT RESPONSE TO THE EVALUATION OF  
POLICY-BASED OPERATIONS (2006 – 2016)**

**March 2018**

## **1. INTRODUCTION**

1.01 The Evaluation Report is comprehensive in its coverage, providing a good description of the evaluation methodology and the extent of initiatives by the Caribbean Development Bank (CDB). The document also includes a list of 25 findings from all lines of inquiry. The objectives of the study are clearly set out, and these objectives are appropriate in their coverage. The analytical framework – the Theory-Based Evaluation – is appropriate and is clearly described. The theory of change (TOC) of the Policy-based Loan (PBL) instrument in CDB is well-specified, as is the underlying theory of social change (theory of planned behavior) that underpins the CDB approach and the theory of action (case management) that is used to activate TOC.

1.02 The findings provide very useful perspectives on the utilisation of the PBL instrument over the review period. However, there are some cases where the experience of CDB staff does not match that described in the document. Additionally, in some instances, reference is made to older procedures documentation that has been superseded by more recent documents.

## **2. FINDINGS**

2.01 The findings spanned four areas: (a) the need for the PBL Programme; (b) the rationale of the Programme; (c) the relevance of the Programme and local priorities; and (d) PBL design and implementation process. The main findings are that:

- (i) there continues to be a strong need for the PBL instrument;
- (ii) CDB officials and most lenders understand the rationale of the PBL Programme in different ways;
- (iii) there were differences in view between CDB and the Borrowing Member Countries (BMCs) regarding the role CDB could play that includes PBLs and technical assistance (TA);
- (iv) the application and review process is not clearly stated. Transparency could be improved. The quality of applications against the review criteria could not be assessed;
- (v) there was some consistency between the reform priorities indicated in the PBLs and the CDB Country Strategy Papers. However, PBLs did not pay enough attention to local capacity constraints to deliver the results expected;
- (vi) alignment of CDB's PBLs with other multilateral development bank instruments improved over time. However, the risks associated with harmonisation have not been adequately assessed;
- (vii) in most PBLs, objectives were broadly scoped to address economic reforms. At times, objectives were repeated in subsequent operations demonstrating some consideration of a longer-term strategy of reform;
- (viii) statement of expected outcomes, measurement and risk mitigation strategies could be improved. Without clearly-stated outcomes and measurement approaches, target setting is difficult, which may compromise verification of results achievement. There was also weak alignment between outcome statements and prior actions;

- (ix) TA has improved, over time. However, TA offered by CDB is considered expensive by BMCs and could be improved to address a wider range of governance reforms;
- (x) BMC respondents believe that a menu of PBL instruments is needed to support local reform efforts;
- (xi) funds were usually disbursed efficiently, in a timely way;
- (xii) monitoring of PBL expected results could be improved. Monitoring tended to focus on achievement of prior actions, rather than reform results. Completion of reports was often beyond the capacity of BMCs;
- (xiii) BMC respondents indicated that the probability of successful completion of PBL prior actions and reforms is increased when a senior local champion is identified and provided with the resources and authority to act;
- (xiv) a number of indicators across all PBLs measured outcomes and could not be attributed to the performance of the PBLs. The clarity of the indicators could also be improved to provide evidence of contribution rather than attribution;
- (xv) the most notable short-term outcome across all PBLs was that BMCs were able to pay down short-term debt. That said, attribution to the PBLs of reducing debt-Gross Domestic Product ratios cannot be stated with confidence. PBLs were observed to trigger key short-term reforms in deficit management and revenue collection;
- (xvi) BMC respondents indicated that the value of PBLs is that they trigger reforms over the short term. While several “outcomes” are more aptly defined as outputs, there are nonetheless some notable short-term outcomes;
- (xvii) few medium-term effects or outcomes were identified that could be clearly attributed to the PBLs. However, BMC officials indicated that the prior actions may have contributed to improved economic and social programme performance over time; and
- (xviii) a longer-term value of the PBLs may be a shift in attitude regarding reform agendas. There is greater acceptance among BMCs for ongoing and effective reforms.

2.02 Management of CDB generally concurred with the foregoing findings. Specifically, there is a recognition that the PBL remains an important instrument in the suite of CDB instruments.

2.03 The Report generally concludes that the PBO instrument is relevant to the needs of BMCs. This relevance is most intense during times of crisis, which can not only expose the need for critical reforms to build resilience and improve development impacts, but are also the times of greatest need by BMCs. The Report also concludes that there can be some improvement in the design, monitoring and implementation process. Some of these steps have been taken, but more needs to be done to ensure not only that the contribution of the instrument to the development process is enhanced, but that contribution is recorded clearly.

2.04 As noted by the Report, some PBLs were marked by outcomes that were at too high a level, suggesting that improvements were needed in the Results Monitoring Framework. There have been improvements in this regard, as the application of the principles of Managing for Development Results has been deepened with the recruitment of a Results Advisor.

2.05 This notwithstanding, some of the findings do not match the way in which PBLs have been developed, designed, and negotiated. Following the request from BMCs, PBL discussions begin with a stock-taking exercise between country officials and CDB analysts to determine the nature, extent, and expected impact of reforms that are in train in country. There is also a discussion about the ongoing and proposed TA being provided to implement these reforms. This exercise is especially important given the strong partnerships between CDB and entities such as the Caribbean Regional Technical Assistance Centre, which was established as a project by the regional development partners, including CDB, to provide TA in specific areas that are complementary to the development work of these partners.

2.06 During the stock-taking process, there are also discussions about relevant reforms that are deemed appropriate. Care is taken to ensure that all reforms are embraced at the national level, and that the capacity to implement is in place. For the most part, therefore, PBL reforms are exclusively those that are already in train or planned by countries. Many of these reforms have been agreed at the regional level and TA is being provided, or proposed, by dedicated agencies or partners. Examples of this include the Value-Added Tax and the Automated System for Customs Data Acquisition upgrades, two sets of reforms that have been included in CDB's PBLs. As a rule, CDB staff meet with finance and planning ministry officials, and the implementing agency representatives identified by those ministry officials. The stock-taking exercise is strongly underpinned, therefore, by country ownership and development partner harmonisation, recognising the network of partners providing various forms of TA to BMCs.

2.07 Implementation at times has been slow in some BMCs. This affects a number of areas, including the implementation of key reforms. Empirical evidence suggests that implementation can be improved through a number of steps, including strengthening monitoring and accountability systems at the country level – identifying a focal point. In this regard, CDB has recognised that those reform programs with a designated in-country champion are implemented more effectively. It is in light of this that CDB has been championing the establishment of implementation delivery mechanisms to focus on key reforms within BMCs, which could form the basis of any policy-based lending that CDB undertakes.

2.08 This notwithstanding, the findings demonstrate the need for better and more organised documentation of the negotiation process.

2.09 Management generally agrees with the recommendations of the Evaluator, some of which have already been implemented by CDB. Management's more specific comments with respect to each recommendation are set out in the attached Matrix.

Recommendations	Accepted/ Accepted but Modified/ Rejected	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)	Revised Target Date (Y/M/D)
<p>The Caribbean Development Bank (CDB) should review its practice of “Management for Development Results” (MfDR) in the Policy-Based Loan (PBL) programme. It should ensure that its design process respects good MfDR practice, with clearly stated expected outcomes and SMART indicators. The robustness of the Results Framework should be a primary criterion for quality at entry. Where necessary, staff responsible for PBL design and monitoring should have access to training in MfDR techniques, as well as occasional expert advice from a results specialist.</p> <p>A corollary of more carefully stated results frameworks would be more tailored risk mitigation strategies. To date, such strategies have tended to be generic across PBLs. They should rather be more closely matched to the specific circumstances of the national context and reform programme.</p>	<p><b>Accepted.</b></p> <p>The Results Monitoring Frameworks have been improving, especially since the recruitment of a results specialist by CDB. All staff in the Operations Area undertake training in MfDR as part of the orientation process.</p> <p><b>Accepted.</b></p> <p>The Operations Area will continue to work with the Office of Risk Management (ORM) to ensure that risk mitigation strategies are specific for each intervention.</p>	<p>CDB will continue to provide training to all new recruits in the Operations Area.</p>	<p>Corporate Policy Strategy Division.</p> <p>Economics Department (ED) /ORM.</p>	<p>As required.</p> <p>Ongoing.</p>	
<p>Taking account of: (a) the limited size of its PBLs; (b) Borrowing Member Countries (BMC) priorities and its own Country Strategy; and (c) with an agreed longer-term reform programme in mind, CDB’s policy-based lending should focus on a limited number of key outcomes, with prior actions that are causally linked to them. This focus should ideally be maintained over time, with prior actions in successive PBLs building incrementally on one another.</p>	<p><b>Accepted.</b></p>		<p>ED</p>	<p>Ongoing.</p>	

Recommendations	Accepted/ Accepted but Modified/ Rejected	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)	Revised Target Date (Y/M/D)
<p>National ownership and leadership are indispensable to the success of development reform programmes. CDB should facilitate these to the greatest extent possible through its engagement with BMC's in PBL design and implementation. This requires consultation with a sufficient breadth of national stakeholders, at both leadership and implementation levels, to gain commitment and follow through on reform objectives and prior actions. A good practice to be encouraged is designation of a "champion" from the BMC's public sector for implementation of targeted reforms.</p>	<p><b>Accepted.</b></p> <p>Country ownership has always been prioritised in the course of designing and negotiating PBLs. During the PBL design phase, CDB staff engages with Senior Government Officials and technical staff in the ministries of finance and planning, as well as in key implementing agencies. Generally, reforms proposed for inclusion in the PBLs are those that are already at some stage of consideration or preparation in country. The PBL appraisal and design teams consult with both coordinating and implementing agencies to properly assess country ownership, progress, implementation schedule, and likely impact. In countries where there is a designated country focal point coordinating, monitoring and reporting on progress of the reform process, implementation has been more successful.</p>	<p>CDB will continue to engage finance/planning ministries and implementing agencies. Within the last two years, CDB has been preparing aide memoires documenting agreement between CDB and country officials about the reform milestones, together with the country officials who were met during PBL missions.</p> <p>CDB will require the identification and appointment of a country focal point for PBLs with terms of reference.</p>	<p>ED/Projects Department (PD)</p>	<p>Ongoing.</p>	

Recommendations	Accepted/ Accepted but Modified/ Rejected	Commitments/Actions	Responsi bility Centre	Target Completion Date (Y/M/D)	Revised Target Date (Y/M/D)
<p>Small economies experience serious capacity constraints in attempting to implement reform programmes. These need to be anticipated and responded to as part of an effective PBL programme. Relative to other Multilateral Development Banks, CDB has an intimate understanding of the contexts and constraints of its BMCs. Yet there has been limited needs analysis or uptake of CDB's technical assistance (TA) in connection with its PBLs. CDB should investigate the reasons for this, ensure that potential TA requirements are well analysed at the design stage, and flexibly offered during implementation.</p>	<p><b>Accepted, but Modified.</b></p> <p>The consultation process usually includes an assessment of the stage of development of reforms, the assistance that the BMC is receiving with respect to reforms, and other associated needs. There is a need to place more emphasis on ensuring that TA needs are sufficient to meet the objectives of country reform programmes. TA is provided as required.</p>	<p>CDB will continue to engage BMCs with a view towards identifying TA needs. Where necessary, CDB will seek to provide TA in advance of any intervention and improve the supervision of active interventions to ensure that the necessary TA is provided during the implementation phase.</p>	<p>ED/PD</p>	<p>Ongoing</p>	
<p>Different countries find themselves at different stages of readiness for PBL-supported reform programmes. While the 2013 Revised Framework for policy-based lending introduced an appropriate emphasis on placing loans within a longer-term reform context (through the programmatic series approach), there is still sentiment that multi-tranche PBLs may be well suited to BMCs requiring more structured and predictable prior actions. CDB should ensure that the right PBL instrument is matched to each reform context.</p>	<p><b>Accepted, but Modified.</b></p> <p>This recommendation is based on a finding that the 2013 PBL framework included a policy change that discontinued the use of multi-tranche PBLs. In paragraph 7.26 of the Framework guidelines, it is stated that policy-based operations can be multi-tranche or programmatic, depending on staff assessment of risk management issues.</p>	<p>CDB will continue to use appropriate instrument type for the country circumstance.</p>	<p>ED/PD</p>	<p>Ongoing</p>	

Recommendations	Accepted/ Accepted but Modified/ Rejected	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)	Revised Target Date (Y/M/D)
<p>Monitoring and completion reporting are important parts of the effective implementation and accountability of the PBL Programme. CDB should ensure that these tasks are consistently carried out with a results focus for all PBLs. This should go beyond verifying that prior conditions have been met, to assessing the extent to which these actions are contributing to reform outcomes. CDB should also consider extending monitoring efforts beyond the time frame of PBL disbursements. The outcomes of interest are after all medium and longer-term reforms, and CDB will wish to track these as part of its overall country strategy process.</p>	<p><b>Accepted.</b></p>	<p>CDB will complete outstanding Project Completion Reports (PCRs).</p> <p>Supervision reports will place greater emphasis on results. A framework for tracking PBL outcome indicators has been adopted.</p> <p>All PCRs will be completed within the required time frame (within 12 months of final disbursement).</p> <p>CDB recognises that the negotiation, design, appraisal, supervision and final reporting of PBLs is time and effort intensive. The operations area proposes that all new PBLs will be negotiated designed, appraised, supervised and reported on by a team of economists rather than just one economist. The team will be made up of two economists who will work on all PBLs alongside the country economist for the country that the PBL is being prepared for. This will ensure that all entire PBL process from negotiation to final completion report will be of a consistent quality.</p>	<p>ED</p>	<p>30 June 2018.</p> <p>As required.</p> <p>As required.</p>	

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**CARIBBEAN DEVELOPMENT BANK**



**EVALUATION OF POLICY-BASED OPERATIONS (2006 – 2016)**

**SUMMARY REPORT**

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**OFFICE OF INDEPENDENT EVALUATION  
DECEMBER 2017**

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We also wish to express our appreciation to the staff of the Economics Department of CDB, a primary stakeholder in this evaluation, for facilitating data collection when asked, and for providing useful feedback during validation processes. This was under the direction of Dr. Justin Ram, Director Economics, and Mr. Ian Durant, Deputy Director.

Many were interviewed, sometimes on more than one occasion, during the conduct of this evaluation. Our thanks to the Governors, Directors, country officials, civil society members, and numerous CDB staff who willingly gave their time and shared their views during this exercise.

Finally, recognition is due to the Independent Evaluation Group of the World Bank for offering to peer review this evaluation. The comments and suggestions of Mr. Lodewijk Smets and Ms. Xiaolun Sun of IEG were well appreciated by the evaluation team.

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## ABBREVIATIONS

APEC	Audit and Post-Evaluation Committee
BMC	Borrowing Member Country
CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
CSP	Country Strategy Paper
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
IADB	Inter-American Development Bank
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDB	Multilateral Development Bank
OECS	Organisation of Eastern Caribbean States
OIE	Office of Independent Evaluation
PBL	Policy-Based Loan
PCR	Project Completion Report
PSR	Project Supervision Report
TA	Technical Assistance
TBE	Theory-Based Evaluation
ToC	Theory of Change
USD	United States dollar
UWI	University of the West Indies
WB	World Bank

## EXECUTIVE SUMMARY

### Background

1. The Caribbean Development Bank (CDB) introduced policy based lending in 2006, and has since approved nearly \$550 million (mn) in such loans to 12 of its Borrowing Member Countries (BMCs). The stated aim of Policy-Based Loans (PBLs) is to “...*address complex medium-term structural, social and institutional issues that are essential to the attainment of sustainable development and poverty reduction*” and to “...*support the implementation of policy reforms and institutional changes aimed at improving the effectiveness of public policy.*”<sup>1</sup>

2. This evaluation assesses the Bank’s experience with the PBL instrument over the period 2006-2016. As directed by the Terms of Reference, it examines: need for and relevance of the PBL program; design, implementation and results achievement; and looks for areas of potential improvement. To do this, it employed a theory-based approach. This involved positing an overall Theory of Change (ToC) for the PBL program (validated with stakeholders), and testing the assumptions that lie behind it.

3. Extensive evidence was gathered to assess how the PBL program has performed in practice. Case studies examined PBL loans in Barbados, Jamaica, Grenada, and St. Vincent and the Grenadines. A meta-analysis of PBL experience at other multilateral development banks (MDBs) was conducted, as well as extensive interviews with BMC and CDB officials, and analysis of secondary (including macroeconomic) data.

### Findings and Conclusions

#### *Need, Relevance, Rationale*

4. That MDB lending has been important to BMCs to address fiscal pressure and debt management, as well as to encourage economic and social sector reforms, is not in dispute. Different parties however put emphasis in different places. Borrowers have tended to be more driven by short-term fiscal pressure, particularly in the aftermath of the 2008 financial crisis. PBL support played a role in helping some of them through that period, and at times they agreed to reform programs that they did not entirely buy into. On the other hand lenders including CDB, while recognising fiscal exigencies, have understood the PBL to be primarily an instrument that provides the incentive to implement reforms. They have at times required large numbers of “prior actions’ from BMCs as conditions of PBL support.

5. To some extent this difference in perspective has to do with sequencing: in one view relieving fiscal pressure first to allow the space to eventually undertake reforms; and, in the other adopting reforms that will eventually help open fiscal space. While these views can co-exist in the broad space of acknowledged need for PBL lending, their differences do have implications for the expectations and approach to PBL negotiations of the respective parties.

6. A number of MDBs and other donors bring significant funding to policy-based lending in the region, including the World Bank (WB), the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB). There was evident reflection among respondents regarding the appropriate role and value added of CDB among these larger players. They alluded to more detailed understanding of BMC contexts, closer working relationships, and potential for brokering harmonised reform packages that included non-economic governance elements.

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<sup>1</sup> A Framework for Policy-Based Operations, CDB, 2013.

## *Planning and design*

7. The quality of the process by which borrowers and lenders come to an agreement on the design of an intended reform program is an important predictor of eventual success. The evaluation observed that in the first generation of PBLs, there was a perceived imbalance in negotiating leverage between CDB and borrowers (favouring the former). Ownership and commitment by BMCs to prior actions and expected reform outcomes, were as a result sometimes less than complete. This was compounded in cases where CDB's consultation did not involve a sufficient range of stakeholders, particularly ones who would either have a role in implementing reforms, or would be affected by them. Not hearing these views at the outset came at the cost of lack of buy-in or even resistance to intended reforms during implementation. More recent PBL design processes have performed better in this regard however.

8. Apart from the process of arriving at a design, the actual nature and number of prior actions and expected reform outcomes are important determinants of effectiveness. Again, it was observed that there was an evolution from earlier to more recent PBLs. Pre-2013 PBLs tended to require large numbers of prior actions across multiple sectors, often lacking clear causal linkage to the higher level expected reform outcomes. BMCs felt that prior actions did not always reflect national reform priorities, and that the cost of delivering on them sometimes exceeded the value of the PBL on offer. More recently there have been examples of PBLs with streamlined prior actions in fewer areas, better calibrated to the scale of assistance being offered, and more likely to be achieved. There was also some cursory evidence of successive PBLs building on earlier efforts, with prior actions requiring incremental progress from earlier to later loans.

9. Assessing at the outset whether borrowers have the capacity to implement intended reforms is a necessary element of good PBL planning. Providing technical assistance (TA) responsively during implementation to address bottlenecks is likewise important. To date, this has not been an area of strength for CDB.

10. Harmonisation of CDB PBLs with those of other MDBs became stronger over the evaluation period. An unanticipated consequence, which may merit consideration going forward, is that closely synchronising CDB's prior actions with those of other lenders limits somewhat the Bank's flexibility to tailor its own offerings. Such tailoring could grow out of CDB's particular understanding of BMC context, or its interest in promoting reforms focussed in non-economic areas.

## *Implementation*

11. The timeliness of funds disbursement under the PBL mechanism was efficient. That said, there were some instances of tranche payment in the absence of all prior actions being met (which is likely related to earlier findings regarding numerous conditions and national capacity constraints). CDB's monitoring of PBLs was inconsistent. Project supervision and completion reports were sometimes missing, and monitoring was more oriented to verifying completion of prior actions than assessing progress towards reform outcomes. Evidence was not always available to corroborate Project Completion Report (PCR) statements.

12. The quality of PBL results frameworks was not optimal. The linkage between prior actions (outputs), and economic/sectoral/institutional reforms (outcomes) was not always clear. Proposed indicators and targets were not necessarily good measures of the outcomes with which they were (or should have been) associated. BMCs lacked capacity to report on the range of expected results. Statements of risk tended to be generic across PBLs, missing somewhat the need for mitigation strategies specific to each PBL's expected outcomes and national context.

13. The revised framework document of October 2013 placed renewed emphasis on the longer term reform orientation of policy-based lending, and the value of programmatic PBLs. At the same time, there are varying stages of readiness for reform implementation across the region, and a menu of PBL instruments, including multi-tranche ones, may be needed to respond to different situations.

#### *Results achievement*

14. The majority of PBL prior actions were reported to have been met. In the 4 case study countries for example, 125 of the 160 planned prior actions were reported to have been completed. As noted above, regarding PCRs, corroborating evidence was not always available.

15. Among short-term outcomes achieved were:

- Debt management improved;
- Fiscal space created that allowed BMCs to bolster social program reforms or reduce economic stress on individuals and families;
- Conditions for investment improved to bolster key industries (such as tourism, for example reducing wait times at border crossings, which could be attributed in part to PBLs);
- Critical management systems such as audit, budgeting and planning improved, contributing to increased public sector management efficiency.

16. Because of the number of causal factors in play, including support from other PBL lenders as well as global economic events, it is difficult to attribute medium-term outcomes directly to CDB lending. Nonetheless, BMC officials across all case studies indicated that a coordinated, targeted, and ongoing program of reform supported by lenders such as CDB ensures momentum that leads to improved economic and social program performance. For example, Jamaican respondents indicated that its 2008 PBL was, “a critically important intervention in Jamaica, and with the support of other MDBs helped to identify first generation structural reforms on which the recent fiscal gains have been premised” (See pg. 40, Appendix E). Such comments were common especially in the validation research phase of the evaluation.

17. Generally however, it has not been feasible for this evaluation to gather a sufficient amount of directly attributable evidence to support statements of causal linkage between CDB’s PBL support and higher level medium-term outcomes. This is a common constraint in PBL assessment across MDBs, although as mentioned above an improvement in CDB’s specification, measurement, monitoring, and reporting on results would help.

#### **Summary Comments and Recommendations**

18. Over the 10 years since introduction of CDB’s PBL lending, there has been an evolution in practice that reflects the Bank’s learning and experience in managing the instrument, and observation of how other MDBs do so. The loans have addressed an evident need among BMCs.

19. The findings and conclusions of this evaluation, based on evidence generated from document reviews, documented case studies, and a wide range of interviews, suggest that several key factors increase the likelihood of PBLs achieving their desired results. These are:

- Clear objectives and results logic, with indicators and targets that can be measured and verified;
- Selective focus on a manageable number of expected reform outcomes;
- Agreement on a limited number of prior actions that are clearly linked to those outcomes;
- Good understanding of external risks, and elaboration of mitigation strategies;

- An engagement process with BMCs that engenders ownership and commitment on the part of borrowers;
- A menu of PBL options that offers the right instrument calibrated to borrowers' reform readiness;
- An understanding of national capacity constraints and, where needed, provision of affordable TA to address them;
- Designation of an identified champion in the national public service with responsibility and authority for achieving reform results;
- Consistent monitoring to identify when conditions are met, and the degree of progress towards reform outcomes

20. Although this evaluation has found that CDB's PBLs are increasingly taking account of these factors, this has not universally been the case. Effort is needed to consolidate the positive trend. To that end, the following recommendations are offered:

1. CDB should review its practice of "Management for Development Results" (MfDR) in the PBL programme. It should ensure that its design process respects good MfDR practice, with clearly stated expected outcomes and SMART indicators. The robustness of the results framework should be a primary criterion for quality at entry. Where necessary, staff responsible for PBL design and monitoring should have access to training in MfDR techniques, as well as occasional expert advice from a results specialist.

A corollary of more carefully stated results frameworks would be more tailored risk mitigation strategies. To date, such strategies have tended to be generic across PBLs. They should rather be more closely matched to the specific circumstances of the national context and reform programme.

2. By taking account of: (i) the limited size of its PBL loans; (ii) BMC priorities and its own Country Strategy; and (iii) with an agreed longer term reform program in mind; CDB's policy based lending should focus on a limited number of key outcomes, with prior actions that are causally linked to them. This focus should ideally be maintained over time, with prior actions in successive PBLs building incrementally on one another.
3. National ownership and leadership are indispensable to the success of development reform programmes. CDB should facilitate these to the greatest extent possible through collegial engagement with BMC's in PBL design and implementation. This requires consultation with a sufficient breadth of national stakeholders, at both leadership and implementation levels, to gain commitment and follow through on reform objectives and prior actions. A good practice to be encouraged is designation of a "champion" from the BMC's public sector for implementation of targeted reforms.
4. Small economies experience serious capacity constraints in attempting to implement reform programmes. These need to be anticipated and responded to as part of an effective PBL programme. Relative to other MDBs, CDB has an intimate understanding of the contexts and constraints of its BMCs. Yet there has been limited needs analysis or uptake of CDB TA in connection with its PBL loans. CDB should investigate the reasons for this, ensure that potential TA requirements are well analysed at the design stage, and flexibly offered during implementation.
5. Different countries find themselves at different stages of readiness for PBL-supported reform programmes. Although the 2013 revised framework for PBL lending introduced an appropriate emphasis on placing loans within a longer term reform context, (through the

programmatic series approach), there is still sentiment that multi-tranche PBLs may be well suited to BMCs requiring more structured and predictable prior actions. CDB should ensure that the right PBL instrument is matched to each reform context.

6. Monitoring and completion reporting are important parts of the effective implementation and accountability of the PBL programme. CDB should ensure that these tasks are consistently carried out, with a results focus, for all PBLs. This should go beyond verifying that prior conditions have been met, to assessing the extent to which these actions are contributing to reform outcomes. CDB should also consider extending monitoring efforts beyond the timeframe of PBL disbursements. The outcomes of interest are medium and longer-term reforms, and CDB will wish to track these as part of its overall country strategy process.

## 1. PURPOSE AND SCOPE OF THE EVALUATION

### 1.1 Purpose of the Report

This evaluation report summarises the findings of an evaluation of CDB’s Policy Based Lending Programme. The evaluation was commissioned by the Office of Independent Evaluation in spring 2015.

The evaluation is aligned with the following CDB strategic objectives: (a) promoting good governance (SO 2); and; (b) Enhancing organisational efficiency and effectiveness (SO 3).

The evaluation contributes to several CDB corporate priorities, including:

1. Improved fiscal and debt management;
2. Strengthened evidence-based policy making;
3. Strengthened results measuring, monitoring and reporting; and
4. Knowledge management support.

### 1.2 Scope of the Report

The evaluation examined CDB’s Policy-Based Lending Programme for the period 2006 to 2016. CDB amended its policy framework and operational guidelines for the PBL programme in 2013. As such, the evaluation accounts for this shift in policy, and sought evidence that change occurred in the management, process, and observed effects.

Questions of interest included when and under what circumstances a PBL is the most appropriate instrument to assist BMCs, as well as the extent to which PBLs are helping to improve governance, macroeconomic management, and sustainable development. The evaluation examined data sources from various jurisdictions and institutions to understand comparative experiences, and collected primary data on the process and effects of CDB’s PBLs.

### 1.3 Objectives of the Evaluation

The evaluation’s objectives as stated in the terms of reference were to:

- Assess the need for the PBL programme;
- Assess the relevance of the PBL programme to BMCs;
- Assess the achievement of results for BMCs;
- Assess the design and implementation of the PBL programme;
- Assess the extent to which the PBL compares with international experience; and,
- Assess ways in which the programme can be improved to support CDB’s strategic objectives.

### 1.4 General Evaluation Approach

This evaluation utilised a Theory-Based (TBE) approach. In the circumstances, this was considered the most effective way of validating the programme’s rationale, purpose, processes and effects. A TBE examines the programme in question’s Theory of Change (ToC), and gathers evidence to ascertain whether what was planned in fact worked out in practice. It does this by deconstructing the ToC into a series of “if ... then” statements that constitute the programme’s logic chain. For example, “if” a certain activity is carried out in a prescribed manner, “then” a certain output will result, (and likewise up the results chain). These “if ... then” statements are referred to as the “assumptions” of a ToC, and it is the job of the evaluator to gather evidence from the execution of the programme that will prove or disprove whether these

assumptions worked out in practice. A more detailed explanation of the PBE, as well as the ToC that was reconstructed by the evaluators for the PBL Programme, is set out in **Appendix A**.

*It is important to remember that throughout this report, where “assumptions” are referred to, it is in the context of evaluators testing the extent to which the “if... then” statements of the ToC occurred as intended in the programme’s implementation.*

There are several possible ways to understand the design and implementation of the PBL program, and the ToC reconstructed by the evaluators was believed to be representative of most respondents’ understandings of the rationale and purpose of the programme as observed over time. A more detailed summary of the evaluation approach and methodology appears in Section 2 of this report.

The evaluation study proceeded in three phases:

1. A comparative literature review was conducted in 2015 and a report submitted and approved in May 2015 that assessed assistance provided through budget support and PBLs across a number of MDBs. The paper, appended to this report (**Appendix B**) summarises in detail the results of this comparative literature review of CDB and partner institutions;
2. An evaluation plan was crafted in the fall of 2015, and four BMCs were selected for in-depth case studies of their experience with the CDB PBL programme. The four countries were: Barbados (**Appendix C**), Grenada (**Appendix D**), Jamaica (**Appendix E**), and St. Vincent & The Grenadines (**Appendix F**). Work on the cases was initiated in the winter of 2016 and first drafts completed in the summer of 2016. A preliminary findings report was submitted to OIE in July 2016 for review. The report was updated in October 2016.
3. Given that several of the PBLs were in-progress for the selected case study countries, it was decided to undertake additional work on the cases as the newer PBLs were coming to completion. This third phase was initiated in the spring of 2017, and included a validation of existing findings from Phase 2. CDB and country officials were interviewed during the Bank’s Annual Meeting in May 2017. This updated the findings from the case studies and preliminary report of Phase 2. The finalized case studies and main report were completed in November 2017.

## 1.5 Limitations of the Evaluation

A critical objective of the evaluation was to assess the effects of PBLs at the level of BMC implementation. Although the evaluation used various primary and secondary evidentiary sources, it could not count on the availability or reliability of local data *a priori*. Only through the conduct of case studies could data sources be determined reliable enough to use in the formulation of findings. As such, one main limitation of the report was the availability of data on the effects of BMC reform efforts and capacity building. The evaluation had to rely on CDB and BMC reporting, which could not always be validated through other data collection instruments.

## 1.6 Organisation of the Report

The report is organised into several sections. Section 2 provides greater detail on the approach of the evaluation, and its data collection methods. A more fulsome explanation of the evaluation approach can be found in Appendix A.

Section 3 provides background on CDB’s PBL Programme, including a discussion of its rationale and relevance as a tool to improve local governance, and ultimately to support small and vulnerable Caribbean

economies. This section also provides background on the number of PBLs approved between 2006 and 2016, and the amounts of such loans.

Section 4 provides findings of the evaluation based mainly on the results of four case study countries: Barbados, Grenada, Jamaica, and St. Vincent & The Grenadines. Dedicated discussions were also held with CDB and other officials involved with the PBL programme, which provided additional evidence for the findings. As well, the Phase I report (appendix B), which provided a meta-analysis of PBL-type programmes across MDBs, was drawn upon. The four country case studies are provided in appendices C to F.

Section 5 provides the main conclusions of the evaluation that can be linked to the Section 4 findings. Conclusions provide the evaluation's overall assessment as to whether the ToC, and accompanying action theories hold. It makes conclusions based on whether assumptions along the causal pathways proved out in practice, given the evidence. A general conclusion is then offered regarding the extent to which the CDB PBL Programme accomplished its stated purpose based on the evidence available.

Section 6 offers recommendations for improved execution of the PBL Programme.

## 2. EVALUATION APPROACH AND METHODOLOGY

### 2.1 Evaluation Approach

The evaluation used a theory-based approach to assess the extent to which the CDB PBL Programme created the conditions to support BMCs in meeting their development goals. Causality can be inferred from the following evidence:

- The intervention is based on a reasoned ToC: the results chain and the underlying assumptions of why the intervention is expected to work are sound, plausible, and agreed to by key players;
- The activities of the intervention were implemented; and
- The ToC is verified by evidence: The chain of expected results occurred, the assumptions held, and the (final) outcomes were observed.

External factors (context) influencing the intervention are assessed, and a determination based on evidence to show such factors did not make a significant contribution. If external factors did play a significant role, their contribution to the ToC is explained and recognised. A general explanation of TBE is provided in *Appendix A*.

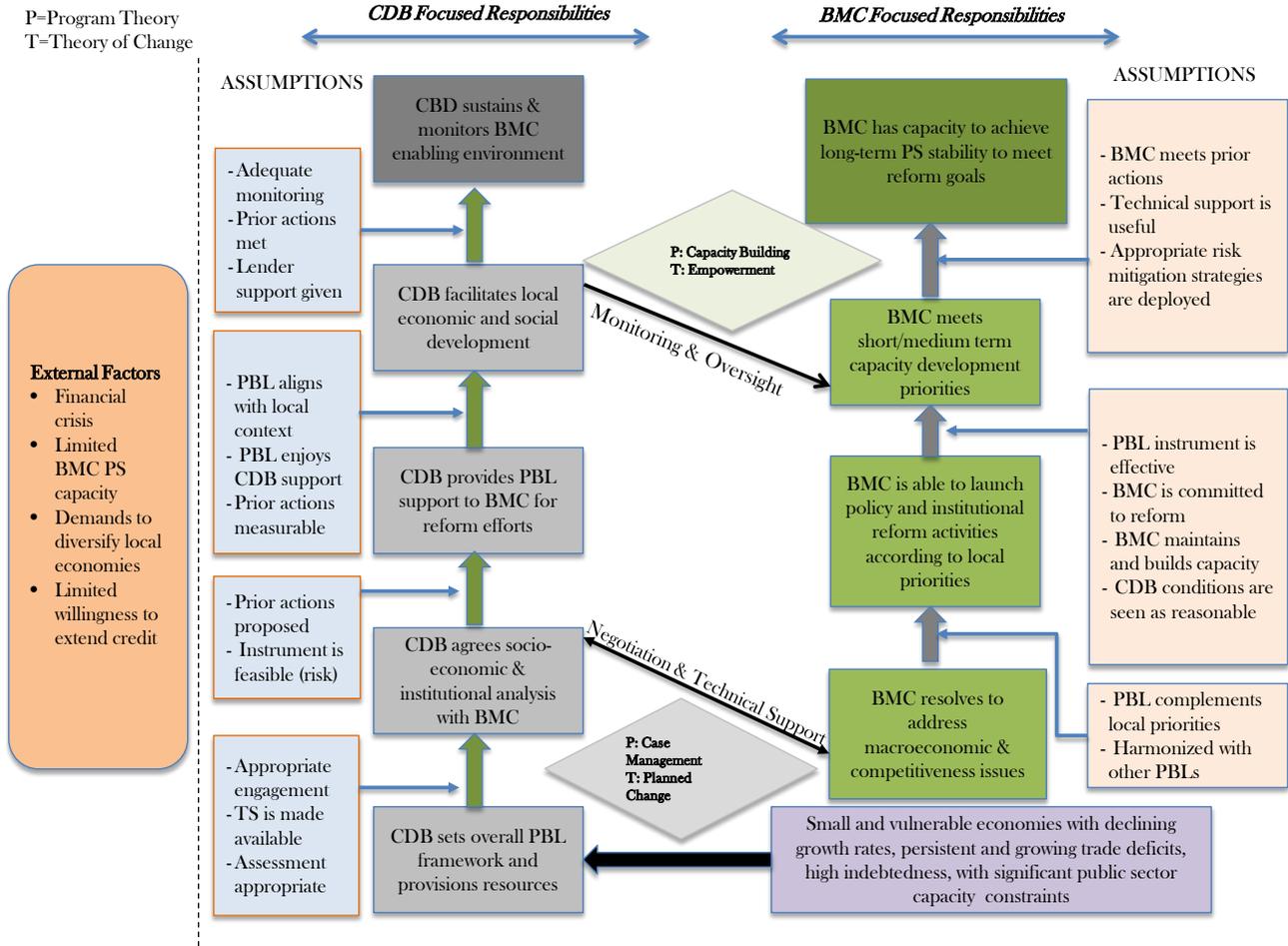
The following steps were followed in the design and conduct of this TBE, with the timeline associated:

**TABLE 1: THEORY-BASED EVALUATION OF THE CDB PBL PROGRAMME**

Steps in the Evaluation Project	Timeline	
	Phase 1	Phase 2
1. Gather detailed background information on the programme	Sept 2015	
2. Determine the beneficiaries of the programme	Sept 2015	
3. Create evaluation design, including ToC	Oct 2015	May 2017
4. Validate the ToC with beneficiaries	Nov 2015	May 2017
5. Establish indicators for all assumptions	Nov 2015	May 2017
6. Gather data and come to findings on each assumption	Jan-Apr 2016	May-June 2017
7. Validate findings with beneficiary groups	May 2016	June-Aug 2017
8. Come to conclusions on assumptions holding and validate		Aug-Oct 2017
9. Prepare and submit the final evaluation report		Nov 2017

Figure 1 shows the ToC that was developed in consultation with CDB and BMC officials. The ToC was developed in two phases: 2015 evaluation planning; and, 2017 when a validation exercise was carried out on the findings to date. The 2015 version can be found in *Appendix B*.

**Figure 1: Theory of Change – CDB PBL Programme**



A ToC model depicts the change desired from an intervention. Figure 1 shows that the desired outcome of CDB’s PBLs programme comprises two parts: the conditions set out by CDB; and, the conditions actually implemented by BMCs. In other words, CDB has created the PBL initiative to enable BMC governance reforms that would otherwise be less likely to occur. Specifically, PBLs are intended to assist “small and vulnerable economies with declining growth rates, persistent and growing trade deficits, and high indebtedness, with significant public-sector capacity constraints”. To support such economies, CDB prepares funding contracts with conditions (as shown in Section 3) negotiated with borrowers to address policy-based reforms. CDB assesses whether BMCs are carrying out the conditions of these contracts through regular monitoring and oversight as shown by the cross arrows between the two causal pathways. For their part, BMCs accept the conditions contained in those contracts with the long-term objective of ensuring macroeconomic stability and public capacity to meet their development goals.

In Programme Theory literature, the change theory (see *Appendix A*) that best explains whether CDB can create such conditions is called “planned behaviour.” This theoretical framework suggests that if CDB creates a standardised application, review, and implementation process for its PBL programme, and there is a clearly stated need and rationale for the PBL intervention, then borrowers will utilise the program to buttress their own reform efforts and prevent breakdowns or crises in their local governance systems. For

their part, BMCs will not successfully effect the reforms unless conditions are built that maximise their room or flexibility for programmes of reform based on their own identification of needs. Such flexibility provides the local confidence and commitment needed to respect PBL agreements.

The second major element of a ToC model to be tested is how such change will be activated through specific programmatic activities or programmes. For its part, CDB must ensure that all applications under the PBL initiative are adjudicated fairly, that contracts are built that serve the best interest of the borrower, and that they do not place too heavy a burden on borrowers to implement. As such, in order to activate a “planned behaviour” ToC, CDB has created a case management approach that establishes an application process that is fair, predictable, feasible and monitorable. *Appendix A* describes more fully what a case management programme would look like for an effective programme. For BMCs, an empowered local government would use the flexibility contained in the CDB PBL programme for a reason. According to BMC respondents, the main point of using a PBL is to help create the capacity needed to build and sustain institutions, programmes and processes for better governance. In this regard, better and more effective governance is instrumental for achieving local development goals. The evaluation ultimately wished to know whether in fact public sector capacity was being improved to prevent breakdowns in programme and service delivery. To this end, PBLs are regarded as a dedicated vehicle for improving national governance as they target needs that might not otherwise be addressed given resource constraints.

As explained earlier, a key element of a ToC is the set of “if ... then” assumptions along the causal pathways. Table 2 provides a summary of these assumptions grouped according to programme design, appropriateness of the conditions, and observed effects.

Assumptions are tested through evaluation research instruments, which are described in Section 2.2.

**TABLE 2: ASSUMPTIONS TO TEST**

<b>Category</b>	<b>CDB-focussed Assumptions</b>	<b>BMC-focussed Assumptions</b>
Relevance of the PBL Programme	<ul style="list-style-type: none"> <li>• Appropriate support is offered</li> <li>• Instrument is harmonised</li> <li>• Prior actions negotiated</li> <li>• PBL aligns with local context</li> <li>• Assessment is appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• PBL complements local priorities</li> <li>• PBL is harmonised with other PBLs</li> </ul>
Appropriateness of Conditions	<ul style="list-style-type: none"> <li>• Behaviour expectations are clearly expressed</li> <li>• Conditions of support are met (CDB carries out its responsibilities)</li> </ul>	<ul style="list-style-type: none"> <li>• Access to technical support is appropriate</li> <li>• Investments in capacity building are enabled</li> <li>• Appropriate risk mitigation strategies are deployed</li> </ul>
Observable Effects	<ul style="list-style-type: none"> <li>• Funds are timely/Processing of contracts works well</li> <li>• Monitoring framework in place</li> <li>• CDB implementation conditions are appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Prior actions and other conditions are met</li> <li>• Reforms are seen as useful and sustainable</li> <li>• BMCs maintain and build on expertise</li> </ul>

## 2.2 Evaluation Methodology

The evaluation asked specific test questions for each set of CDB and BMC assumptions. In theory-based evaluation, assumptions are examined in sequence along the causal pathway(s) and a determination through evidence is made regarding whether each holds or does not hold. Where breakdowns may have occurred. If key or important assumptions do not hold in the change theory, then it is probable that effectiveness of the programme will be impaired in some way.

Various data gathering instruments were used that allowed the evaluators to seek information on each of the assumptions presented in Table 2. To guide data collection, key questions were devised according to three main evaluation criteria, and tested with various CDB and BMC respondents, which are presented in Table 3.

**TABLE 3: ASSUMPTIONS TESTS BY EVALUATION CRITERION**

<b>Assumptions Tests</b>	
<b>1: Relevance of the PBL programme</b>	<ol style="list-style-type: none"> <li>1. Does the CDB PBL programme support country objectives for reform?</li> <li>2. Is the design of the CDB PBL programme appropriate?</li> <li>3. Is the CDB PBL programme relevant given alternative programmes available to BMCs?</li> </ol>
<i>If the first set of assumptions hold, examine the next questions.</i>	
<b>2: Appropriateness of the Conditions</b>	<ol style="list-style-type: none"> <li>1. Is there an appropriate match between the conditions outlined in the PBLs, and the priorities of BMCs?</li> <li>2. Are the conditions calibrated to the capacity limitations of the BMCs?</li> <li>3. Does the benefit of implementing the conditions outweigh the costs of using the PBL?</li> <li>4. Is technical support offered and appropriate?</li> </ol>
<i>If the first and second set of assumptions hold, examine the next questions.</i>	
<b>3: Observable Effects</b>	<ol style="list-style-type: none"> <li>1. Is there an appropriate monitoring strategy for the programme?</li> <li>2. Are there observable effects that can be attributed to the programme?</li> <li>3. Are there improvements that can be made to the programme?</li> </ol>

The evaluation tested the assumptions through two main lines of inquiry:

- Interviews, focus groups and document reviews with CDB officials (CDB focused responsibilities element); and,
- Four in-depth case studies of BMCs that had experience with implementing PBLs (BMC focused responsibilities: Barbados, Grenada, Jamaica, St. Vincent & The Grenadines).

The first line of inquiry, interviews and focus groups with CDB officials, was carried out in two parts. The first set of interviews and focus groups was conducted in the fall of 2015 and winter of 2016. A second set of validation interviews and focus groups was carried out in May and June of 2017. Total interviews and focus groups for CDB officials is presented in Tables 4 and 5. A complete list of Phase 1 and 2 interviews is contained in *Appendix H*.

**TABLE 4: TOTAL INTERVIEWS WITH CDB OFFICIALS PHASES 1 AND 2**

<b>Officials</b>	<b>Phase 1: 2015-16</b>	<b>Phase 2: May-June 2017</b>
CDB Board of Directors	23	4
CDB OIE	5	3
CDB Managers	5	3
CDB Analysts	6	6
<b>Totals</b>	<b>39</b>	<b>16</b>

Note: CDB Board of Directors and OIE interviews were conducted individually, and covered all the PBLs, as well as specific attention to each set of country PBLs in Phases 1 and 2.

**TABLE 5: FOCUS GROUPS WITH CDB OFFICIALS PHASES 1 AND 2**

<b>Officials/Purpose</b>	<b>Phase 1: 2015-16</b>	<b>Phase 2: May-June 2017</b>
OIE (Planning)	2	
Managers (Validation)	1	
Analysts (Planning)	1	
Analysts (Validation)		1
<b>Totals</b>	<b>4</b>	<b>1</b>

Documentary evidence was reviewed over the two phases, including:

- Phase 1 meta-analysis;
- Economic data from CDB, IMF, WB, and the case study BMCs;
- CDB appraisal reports (ARs), country strategy papers (CSPs), country performance assessments (CPAs), previous PBLs;
- CDB implementation documentation (e.g. project supervision reports (PSRs), PCRs, project completion report validations (PCVRs));
- MDB reports, papers, and PBLs; and,
- Other documentation (e.g., sectoral studies, community-based reports, private sector reports).

The second line of inquiry, BMC case studies, was carried out in two parts. The primary research on the case studies was carried out in Phase 1 (Fall of 2015 to Summer of 2016), and a validation of findings was carried out in Phase 2 (May – June 2017). Both phases drew on interviews, focus groups (Phase 1), and document reviews. The total number of interviews by country case is provided in Table 6.

**TABLE 6: TOTAL INTERVIEWS WITH BMC OFFICIALS IN CASE STUDIES AND VALIDATION (PHASE 2)**

Officials	Barbados		Grenada		Jamaica		SVG	
	Ph.1	Ph.2	Ph.1	Ph.2	Ph.1	Ph.2	Ph.1	Ph.2
Finance Officials	8	2	15	2	15	2	3	2
Senior Programme			7	1	4		7	
Pgm. Analysts			4		4		1	
Other	8	1	1		1		5	
<b>Totals</b>	<b>16</b>	<b>3</b>	<b>27</b>	<b>3</b>	<b>24</b>	<b>2</b>	<b>16</b>	<b>2</b>

One focus group was held in the planning stage for each country, for a total of four focus groups in the fall of 2015.

Several types of documents were reviewed in the country-level case studies:

- Economic data from CDB, IMF, World Bank, and the case study BMCs;
- CDB ARs, country strategy papers (CSPs), CPAs, previous PBLs;
- CDB implementation documentation (e.g. PSRs, PCRs, PCVRs);
- Various case study BMC documentation (e.g. reform plans, poverty assessments);
- MDB reports, papers, and PBLs; and,
- Other documentation (e.g., sectoral studies, community-based reports, private sector reports).

### 3. PROGRAMME PROFILE: CDB PBL PROGRAMME

#### 3.1 Description of Policy-Based Loan Initiatives<sup>2</sup>

PBLs are instruments used to provide flexible support for institutional and policy changes.<sup>3</sup> These loans could be issued to support macro-economic policies or adjustments, progress in a specific sector, or improvements in subsector government institutions (e.g. Ministry of Housing as a subsector government institution supporting the social sector). They could also be issued at the national level or at various regional levels. According to CDB, PBLs “are expected to incentivise these reforms and ensure that the reforms themselves are well-designed and implemented so that the ultimate objectives are more likely to be achieved.”<sup>4</sup>

While PBLs were originally used by IFIs as financing vehicles to help manage economic shocks, they eventually became instruments for poverty reduction, social and structural reforms, and capacity building.<sup>5</sup> The current objectives of PBLs are (a) to support policy change by ensuring an incentive for

<sup>2</sup> See Appendix B, Section 2 for greater detail on the definition and use of PBLs.

<sup>3</sup> Multilateral banks have their own terminology as it relates to PBLs. At the IMF, PBLs are called “arrangements” with a distinction made between short-term (standby) and medium-term instruments. The World Bank originally referred to PBLs as adjustment operations. More recently, the World Bank changed its lending framework for PBLs and now refers to these products as development policy loans. The African Development Bank (AfDB) refers to PBLs as adjustment operations. PBLs at the Asian Development Bank (AsDB) are referred to as programme lending, while the Inter-American Development Bank (IADB) uses the term policy-based loans. (Caribbean Development Bank, “Policy Paper: A Framework for Policy-Based Lending,” Paper DB, 72/05, 218th Board of Directors Meeting, 13 October 2005).

<sup>4</sup> CDB, “Assessment of the Effectiveness of the Policy-Based Lending Instrument,” 2012, p 3.

<sup>5</sup> CDB, “Policy Paper: A Framework for Policy-Based Lending,” Paper DB, 72/05, 218th Board of Directors Meeting, 13 October 2005.

implementation, (b) increase the capacity of a country to manage its own policy reform and institutional change processes by reducing transaction costs and providing TA and resources, and (c) support sustainable economic growth and poverty reduction by helping to address the medium-term structural, social and institutional issues.<sup>6</sup> With these goals, PBLs are expected to help improve the country's fiscal situation, its capacity to compete through trade and investment, make debt more manageable, and improve the government's public financial management systems.<sup>7</sup> PBLs are preferred to other loan instruments due to the lack of procurement requirements, simplified contractual clauses, and quick disbursement mechanisms.<sup>8</sup>

### 3.2 CDB Policy-Based Loan Programme Profile

CDB introduced PBLs in 2006,<sup>9</sup> as a means to influence the process of social and economic development. The Bank's PBLs are meant to provide resources to support improvements in public sector management of the development process by BMC governments, enhance the results of all government activity, and intensify CDB's efforts to improve its development effectiveness and responsiveness to its BMCs.<sup>10</sup> In general, there are five priority areas in which PBLs are perceived as appropriate lending instruments: fiscal and debt sustainability; disaster risk reduction; development of a proactive trade agenda; sustainable poverty reduction; and, improvement of the quality and effectiveness of human resources. CDB's Strategic Plan (2010-14) sought to broaden the development impact of the Bank and thus has added the following to the PBL's expected outcomes: gender; socio-economic conditions and economic growth; institutional development; technology enhancement; environmental issues of climate change; and, citizen security.

The Bank's PBLs are appraised and prepared by the Bank's Operations area, led by the Economics Department with input from sector specialists, reviewed by the Loans Committee, and approved by the President for submission to the Board of Directors.

PBLs are disbursed in line with agreed conditions or policy reforms between the Bank and the BMC. The reform must be consistent with the Country Strategy Paper. Other requirements for disbursement of a PBL are country ownership, a national commitment to the reform agenda, and the presence of a macro-economic framework deemed to be appropriate by CDB's experts.

In July 2013, CDB revised the 2006 Framework as follows:

*"PBOs are structured to address complex medium-term structural, social and institutional issues that are essential to the attainment of sustainable development and poverty reduction. The term PBO is used to characterise the provision of financial support, whether in the form of loans, grants or guarantees to Governments to support the implementation of policy reforms and institutional changes aimed at improving the effectiveness of public policy."*<sup>11</sup>

The revised Framework also distinguishes between different types of PBOs (paragraph 4.01), namely Macroeconomic, Sector, Crisis Response and Regional Public Goods PBOs. This latest version of the Framework and Operational Policy and Guidelines were instituted as of October 2013.

PBLs represent an important lending instrument for CDB to support the various reform processes underway in BMCs. At the height of the recent financial crisis, CDB experienced an upsurge of interest

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<sup>6</sup> DaCosta, Michael, "Policy-Based Loans by CDB, 2006 – 2009: An Assessment," 2010.

<sup>7</sup> Ibid.

<sup>8</sup> Inter-American Development Bank, "The Evaluation of the New Lending Framework, 2005-2008," 2008.

<sup>9</sup> See: Framework for PBLs (BD 72/05) and the associated Operational Policy and Guidelines, March 2006.

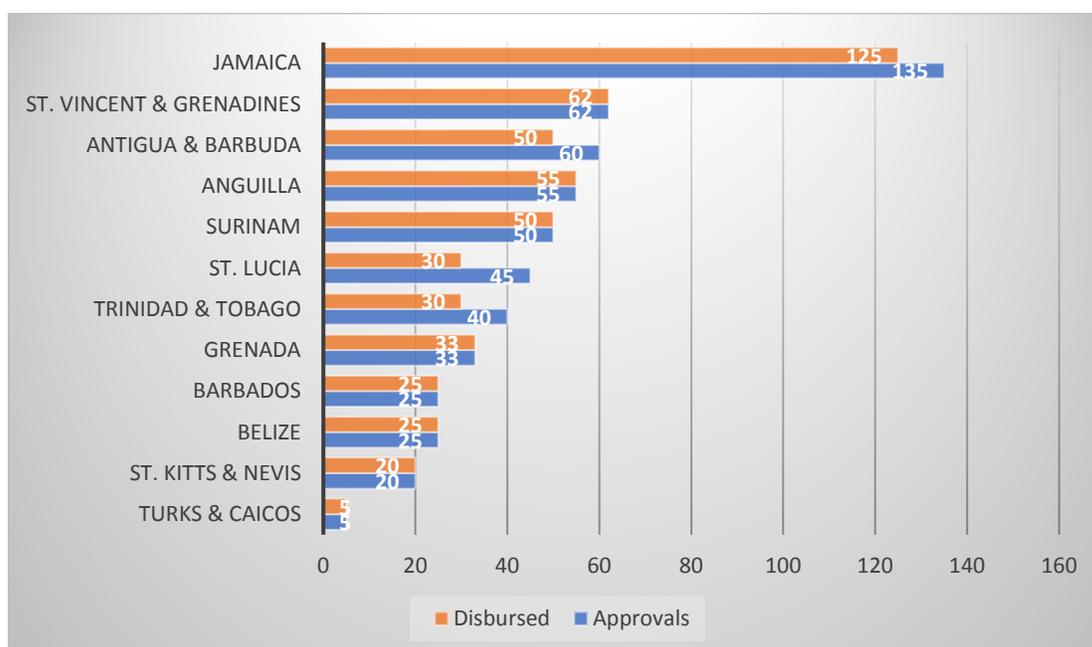
<sup>10</sup> CDB, "Policy Paper: A Framework for Policy-Based Lending, Paper DB, 72/05, 218<sup>th</sup> Board of Directors Meeting," 13 October 2005.

<sup>11</sup> Revised Policy on PBLs, CDB. Paragraph 2.01.

in PBLs. Approvals increased from USD67 mn in 2009 to USD132 mn in 2010. At that time, CDB’s original portfolio limit of 20% for PBLs was reached, and no additional PBOs were approved in 2011, 2012 and 2013. After several Board deliberations the portfolio limit was increased to 30% “of the aggregate amount of all loans and guarantees (Special Funds Resources and Ordinary Capital Resources) outstanding at the date of approval.”<sup>12</sup> In addition, three PBLs for Grenada, Jamaica and Trinidad and Tobago, respectively, were approved in 2014 for a total amount of USD85 million.

Figure 2 shows the total value of approved PBLs by BMC as at December 2016. Thirteen of nineteen BMCs have used the PBL instrument. Jamaica, St. Vincent & the Grenadines, Antigua & Barbuda, and Anguilla, account for a total of USD312 mn, or 54 percent of all funds allocated for PBLs. The average value of the PBL loan to all countries is USD27.5 mn. *Appendix G* lists all PBLs between 2006 and December 2016. It indicates that a total of almost USD550 mn has been approved to date, and that USD507 has been disbursed representing 91.5 percent of approved funding.

**Figure 2: PBLs Approvals/Disbursed by Country (USD millions) – 2006-2016<sup>13</sup>**



<sup>12</sup> Minutes of the 258<sup>th</sup> BOD meeting, page 10.

<sup>13</sup> Source: CDB, Economics Division, 2015 data.

## 4. FINDINGS

The following presents the summary findings from all lines of inquiry: comparative report (2015); phase 1 case studies, including interviews with various CDB officials (2015-16); and, phase 2 findings validation (2017). Although most weight is placed on the case studies, general interviews on the relevance and performance of the PBL programme are also used to triangulate evidence from the cases. Findings are organised by the main evaluation criteria. As well, the assumptions tests have been organised to reflect evidence regarding the extent to which the ToC (Appendix A) proved to hold, and where strengths and weaknesses in that theory may be found.

### 4.1 Relevance of the Policy-Based Loan Programme

The findings under “relevance” address the first tier of assumptions along the CDB-focused responsibilities causal pathway, and the first tier assumptions along the BMC causal pathway. These findings can be grouped under the following headings:

- Need for the PBL Programme;
- Rationale of the PBL Programme;
- Relevance of the PBL Programme and Local Priorities; and,
- PBL design and implementation process.

#### 4.1.1 Need for the Policy-Based Loan Programme

***Finding 1:*** *There is a current and ongoing need for the PBL Programme.*

The evaluation found that respondents consider the 2005 statement of needs set out by CDB to be ongoing and persistent. The loans are regarded as a means to support governments in their efforts to develop policies, manage policy reform and institutional change, and ultimately support economic development and poverty reduction. Such an offering was consistent with other multilateral development banks (MDBs) at the time, and continues to be used today. PBLs are considered to be a tool that provides flexible support for making institutional and policy changes in support of multi-sector, sector, or subsector initiatives.

PBLs demonstrated particular value after the 2008 financial crisis, when many Caribbean countries were reeling from increased debt, diminishing reserves, and high pressure from external agents to improve economic efficiency. CDB, along with other international financial institutions provided much needed fiscal and technical support to maintain macroeconomic balance in the short term. The case studies indicated that such needs persist, and that CDB plays a crucial role in addressing them.

The question that arose consistently in all lines of inquiry, however, was the definition of need at present. According to the ToC, the need is defined as: “Small and vulnerable economies with declining growth rates, persistent and growing trade deficits, high indebtedness, with significant public sector capacity constraints.” Several “challenges” are identified in this general statement of need, each with separate potential solutions that could be used to address them. In this respect, most BMCs focus mainly on the need to address short-term debt management in times of crisis, whereas lenders and most CDB officials see the need to support governance and sustainable development reforms so as to lessen the frequency of short term fiscal crises, along the lines of the originally stated objectives. Regardless of which of these needs to focus on, all respondents regarded the needs as ongoing and persistent.

#### 4.1.2 Rationale of the Policy-Based Loan Programme

Rationale refers to both the implicit and stated purposes of the programme in response to the current and ongoing needs of BMCs. Rationale can be expressed through CDB program objectives, planning documents, or shared understandings.

**Finding 2:** *There are differences in understanding of the rationale for the PBL programme among CDB officials and Borrowers.*

The rationale of the programme as stated through the ToC is, “BMC has capacity to achieve long-term public sector stability to meet reform goals.” The evaluation found that although there was convergence around the need for the programme, there were expressed differences as to how CDB through its PBL programme ought to support BMCs to create public sector capacity.

The essential difference regards whether the programme addresses short term fiscal needs, or takes the long view focused on sustainable policy change. Respondents could not agree whether the purpose and contribution of the PBLs was addressing short-term fiscal needs to create the room necessary to support reforms, or whether it ought to leverage a longer term and sustainable process for capacity-building and policy change.

For many CDB managers and Directors, the rationale of the programme is to assist BMCs that are experiencing short-term fiscal pressure. Requests for liquidity support present an opportunity to identify and obligate BMCs to undertake essential reforms to local governance and public administrative systems that could reduce the probability of short-term fiscal crises being repeated. The focus in the first instance though is dealing with the fiscal issues, and identifying prior actions that will trigger the flow of funds. Analysts and other CDB respondents, however, posed questions regarding this liquidity focused rationale, suggesting that longer term reforms should first be agreed on, and then prior actions selected to set them in motion. They observed that this lack of clarity leads to some confusion in the negotiation of PBLs.

So the first view sees the programme as responsive to debt and fiscal pressure. The implication is that PBLs should be constructed with a focus on prior actions or conditions for the use of the loan. The second view sees the programme as an investment in planned and ongoing reform over time. The implication is that the loans should begin with an agreement on country strategy objectives, with a focus on specific objectives to meet over some negotiated timeframe. The identification of objectives would then be the basis upon which prior actions are identified. In other words, the first view supports a short-term remedy to a crisis situation, whereas the second emphasises a longer-term strategy of coherent reform.

**Finding 3:** *There were differences in view among CDB and BMCs regarding the role CDB could play, including with its PBLs and TA.*

The evaluation found that there was a difference in view regarding the role CDB could play in national reform efforts over the longer term. Although some BMCs regard PBLs as a vehicle to resolve short-term fiscal and perhaps governance issues, the larger question raised by respondents was how to engage and maintain reforms that extend beyond the prior actions contained in PBLs. Is there a continuing role for CDB in the overall reform effort of BMCs? Is the PBL to support and develop short-term development and capacity, or is to be a catalyst for longer term change? Several CDB and BMC respondents indicated that a key challenge is to build commitment to the change effort, and to encourage attention to implementing the prior actions. The 2013 revision to the PBL framework was intended in part to facilitate local support for reform by providing funding incentives in the absence of conditions associated with tranches. Respondents appeared committed to the fact that CDB ought to play a role in reforms and sustainable development. The

question raised by interview respondents especially during phase 2 of the research was how to best accomplish that through the vehicles available, including PBLs.

#### 4.1.3 Relevance of the PBL Programme and Local Priorities

Relevance as an evaluation criterion refers to the extent to which the program is regarded by recipients as useful in addressing their needs.

**Finding 4:** *Although it is recognised that PBLs respond in general to BMC needs for support in dealing with both short term fiscal and longer term reform challenges, views on the strength of the programme’s relevance vary depending on the emphasis respondents place on either the fiscal relief or longer term reform objectives. As well, questions regarding the best role for CDB relative to other lenders arise.*

In general terms, various respondents in all categories discussed the relevance of the PBL programme in terms of how the programme is differentiated from other CDB products, and offerings by other MDBs in the region. The evaluation found that there was a divergence of views regarding the relevance of the PBL program, which could in part be explained by the above noted lack of agreement on rationale for the program. Various perspectives included:

- CDB is a relatively small actor in the network of MDBs in the Region, and therefore has limited reach and influence over national governance changes;
- CDB product offerings to support governance change are limited;
- Technical support offered by CDB is regarded as an added expense, or as not useful relative to other offerings by MDBs;
- CDB has limited capacity or willingness to coordinate governance change. The PBL is regarded as a short-term instrument, when reform requires a longer view.

Each of these perspectives speaks to a lack of shared understanding on the role of PBLs.

Several PBLs were approved before 2013 to address fiscal debt crises under the argument that governance and policy change would result. After the revised PBL framework in 2013, there appeared to be greater coalescing of view on the PBL’s role in supporting policy change, but it was also the case that BMCs needed injections of funding to buffer diminishing reserves. Although some CDB analysts argued that the change in framework was needed to clarify the purpose of PBLs, there remained pressure from BMCs to approve the applications for short term fiscal reasons. As such, stating the PBL’s purpose as supporting policy and governance change was regarded by CDB analysts, and to a large extent by BMC officials, as a hoop to jump through in order to access much needed liquidity.

The evaluation also found an ongoing and persistent debate among all respondents about the relevance of the CDB PBL programme relative to other MDBs in the region. The larger actors such as the World Bank and IDB offer much larger sums of cash. The “value added” by CDB in this mix of actors was a source of much discussion. For many CDB respondents, it was the much closer relationship with borrower countries that the Bank has. However, it was also acknowledged that such relationships are under-utilised. It was offered by many CDB respondents and BMC officials that CDB could play a greater brokering role among MDBs to bring a targeted strategy to national reform initiatives.

CDB offers other products and services such as loans for infrastructure, human resource development and education, agriculture and rural development. For many CDB respondents, these could be used more deliberately to complement PBLs. The latter could assume a more strategic visioning role and support focused reforms, while other products could be applied to BMC-identified areas of specific need.

In summary, the understanding of rationale of the programme is not entirely shared by the various actors in the CDB network, and this affects their perception of the strength of relevance. There are those within CDB who regard the programme as supporting national reform efforts; those in BMCs who see the value of PBLs to address short term fiscal relief; and, those who see its value as propelling reforms. There also appears to be some discussion internal to CDB that its role ought to be restricted to macroeconomic and competitiveness reforms, while BMCs regard such effort as under-utilising its “soft power” in the region to promote better governance.

#### **4.1.4 PBL Design Process**

Assessment of the PBL design process included testing those assumptions regarding the appropriateness of: country assessment process; application and review process; prior actions and review process; and TA proposal process.

##### ***CDB Focused Responsibilities***

***Finding 5:*** *CDB engagement with BMCs on the development of PBLs improved over time. However, there is concern that the process is sometimes too top-down, at the expense of buy-in at levels needed to drive implementation.*

The evaluation found that overall engagement with BMCs improved over time from the perspective of CDB officials. Appropriate steps were identified by CDB analysts to include as many BMC officials and stakeholder interests as possible. From CDB’s point of view, every effort was made to include local input in the country assessment processes, and in the negotiation of technical support. CDB analysts indicated that earlier iterations of PBL negotiations tended to focus mainly on macroeconomic data with some regard for social programme information and attention to poverty reduction, but this was not consistent in all cases. The PBL assessment process (e.g., country assessment, application review) tended to be CDB-driven in earlier iterations of the programme, but featured more engagement over time. In overall terms, CDB officials were satisfied with efforts at engagement.

From the perspective of BMCs, however, the evaluation found that country assessments could have taken stronger account of local circumstances and priorities in reform design. PBLs were designed, in their view, as prescriptions to resolve specific problems without reference to nationally identified reform objectives. Prior actions were seen to be crafted in a top-down fashion that sometimes ignored country preferences or capacity to engage with certain reforms.

It was also reported that CDB engaged more national officials in later iterations so as to improve senior bureaucratic commitment to the reform efforts. Some CDB and several BMC officials indicated that engagement efforts remain driven by the CDB rather than BMC decision-makers.

***Finding 6:*** *The application and review process is not clearly stated. Transparency could be improved. Quality of applications against the review criteria could not be assessed.*

The evaluation found that there is no apparent application and review process for PBLs. Therefore, the evaluation could not make any determination as to whether established processes were appropriate or being followed. Information on the processes was requested at more than one stage in the evaluation, but no documentation was presented. In the absence of such written procedures and review criteria, some BMC officials indicated that there may be the perception that PBLs were not treated consistently. As well, it was not possible to determine whether the quality of applications received from BMCs improved over time. Despite the lack of apparent procedures, CDB respondents indicated that PBLs were reviewed in a timely way, which was substantiated through the feedback from BMC respondents.

**Finding 7:** *The need for and design of TA was not always adequately considered, thereby reducing the probability that conditions could be met.*

The evaluation found that TA was not always appropriately considered at the time of negotiating the PBLs (according to CDB analysts). Given the high-level nature of the outcomes stated in logic frameworks, and the nature of prior actions and conditions, there was often a mismatch between the results expected and the level of assistance required to satisfy the conditions. It was found that while some TA was usually offered to BMCs in the negotiation of the PBLs, the overall level of support needed was not always adequately considered in the design of the PBLs.

### ***BMC Focused Responsibilities***

**Finding 8:** *There was some consistency between the reform priorities indicated in the PBLs and the CDB country strategy documents. However, there was concern that the PBLs did not pay enough attention to local capacity constraints to deliver the results expected.*

The evaluation found that over time PBLs were more relevant and reflective of local reform priorities. BMC officials indicated in all of the case studies that CDB was responsive to local needs for assistance, and for contributing to reforms outlined in country strategy papers. It was found that in all cases CDB was better able to align reform conditions to local circumstances in later PBLs versus earlier ones. Although earlier PBLs (i.e., 2008-2012) were well researched by CDB analysts, the outcomes identified were regarded as overly optimistic. In other words, local capacity constraints were not always considered in the design of PBLs. BMC officials indicated in all of the cases that local capacity remains a challenge, and that it is not difficult to overwhelm local bureaucracies especially when combining various PBLs from more than one MDB.

The evaluation also found that consultation with BMC officials could be improved to appreciate national contexts and conditions in the design of PBLs. For example, SVG officials consistently argued that consultation between CDB and decision-makers to understand local capacity constraints could have been improved. Although progress has been made in overall terms, several BMC officials across the case studies indicated that a combination of upper and middle level bureaucrats should be consulted to obtain a true picture of local capacity, and the ability to meet the timelines expected in the PBLs.

**Finding 9:** *Alignment of CDB PBLs with other MDB instruments improved over time. However, the risks associated with harmonisation have not been adequately assessed.*

The evaluation found that early PBLs tended to be negotiated in isolation of other MDBs, whereas later ones were observed to have been negotiated with other MDB instruments in mind. Each of the case studies indicated greater effort in recent PBLs to harmonise with the IDB and IMF in particular. However, BMC officials indicated that although such harmonisation in the design of PBLs reduces demands on limited capacity at the country level, the design process tended to be highly favourable to the MDBs, including CDB. Meetings were usually called between representatives of the MDBs to identify solutions to address BMC challenges. Again, such coordination was identified as positive by BMCs, except that the solutions were often imposed and argued to be in the best interests of the country in question. As such, a common concern expressed by BMC respondents was that the decision process at the design stage tends to give more weight to MDB considerations than to the borrowers. That is, there was an observed power differential that privileged MDBs.

Equally important, BMCs highlighted the real challenge of “reform fatigue” in the design of the PBLs. The current assumption is that with greater harmonisation, the probability for reform fatigue will be reduced as

there is greater unity of purpose behind the PBLs. A concern raised by CDB respondents, however, is that with such unity of purpose, the impact of slippage in meeting the targets would increase, especially since all PBLs would be dependent on each other's timeline expectations for completion of prior actions. A few senior CDB officials indicated that sequencing within and between PBLs becomes all the more important, but that such sequencing depends on proper identification and feasibility assessments of the identified outcomes.

## 4.2 Appropriateness of the Conditions

### 4.2.1 Prior Actions Negotiations Process

Findings regarding the prior actions negotiations process refers to the manner in which prior actions were identified, and the extent to which parties to the negotiations believed the process was appropriate and fair.

***Finding 10:*** *There was considerable improvement in the negotiations process of PBL objectives and prior actions over time. Consultation with a wider representation of BMC and MDB officials was apparent in recent PBLs.*

The evaluation found that CDB officials made a greater effort to include a wider array of local officials and other stakeholders in the negotiation of PBL objectives and prior actions after 2011. There was also greater willingness on the part of CDB to identify and approve reforms (objectives) in national strategy documents and identified by local stakeholder groups and officials. In this regard, the negotiations process was regarded by CDB respondents as being more participatory, thereby ensuring commitment to the objectives and prior actions identified in the PBLs. In addition, there is evidence that CDB attempted to coordinate its efforts in the identification of appropriate prior actions with other MDBs, and brought this awareness of other negotiations processes (as per previous findings) to the negotiation table.

For their part, BMCs did not always regard the negotiations process as fair. Two key points were offered to substantiate this position. First, given that BMCs are often in crisis management mode when approaching CDB, it was argued that the Bank imposed objectives and prior actions, and the BMC had little leverage to negotiate. However, the evaluation found considerable evidence to suggest that CDB officials showed a willingness to incorporate objectives and prior actions that were being undertaken already, or were close to completion especially in more recent PBL negotiations.

Second, several BMC respondents across all case studies indicated that consultations and negotiations tended to take place with top public service officials and Ministers in central ministries such as Finance. When BMC respondents were asked by the evaluation whether other officials were excluded from the negotiations, there was no consensus view. Based on the number of PBLs negotiated and a review of various CDB documentation, the evaluation could not find evidence that the negotiations process was exclusionary. When CDB respondents were asked the same question, it was their consensus view that it was the responsibility of the BMCs to determine who was to be party to the negotiations.

## 4.2.2 Appropriateness of the Objectives and Prior Actions

**Finding 12:** *In most PBLs, objectives were broadly scoped to address economic reforms. At times, objectives were repeated in subsequent operations demonstrating some consideration of a longer-term strategy of reform.*

Almost all respondents in all lines of inquiry indicated that PBLs were broadly scoped, especially earlier ones. This contributed to a lack of clarity on the part of BMCs as to where to focus their energies. In this regard, almost all respondents indicated that clear expectations are difficult to define when BMCs are tasked with multiple objectives and myriad prior actions (see Finding 13). This supports earlier findings (see Findings 1, 2, 4) related to the ongoing need, rationale and relevance of the PBL programme, whereby there is disagreement regarding the essential purposes of the program. Such disagreement and lack of focus is reflected in objectives statements that are far reaching without a clear sense as to how, if met, they will contribute to better governance and social programme capacity. Table 7 provides a general summary of the number of country strategic goals, ongoing CDB country strategy paper objectives, and PBL strategic objectives contained in PBLs. Each of these is spelled out in detail in the case studies. Examples from the case studies of the scope of PBL objectives include:

- Improved public financial management;
- Improved expenditure and policy management;
- Improved investment climate;
- Institutional reforms to the management of NBFIs;
- Sustainable poverty reduction;
- Promote fiscal sustainability through the control of public sector balances and debt;
- Increasing revenue collection.

Although these PBL objectives are further compartmentalised in the prior actions by tranche, many of those are also stated in broad terms without the benefit of clear timeframes for implementation.

**TABLE 7: SUMMARY OF PBL OBJECTIVES BY CASE STUDY**

Country/Objectives	Country Goals	CDB Objectives	PBL Objectives	Totals
<b>Barbados</b>				
2010 PBL	6(5)	5	4	15
2012 PBL	6	5	4	15
<b>Grenada</b>				
2009 PBL	12	15	7	34
2014 PBL	4 (15)	4	4	12
<b>Jamaica</b>				
2008 PBL	4 (15)	6	3	13
2014 PBL	4 (15)	4	3	11
<b>SVG</b>				
2009 PBL	5	4	6	15
2010 PBL	5	4	4	13
<b>Totals</b>	<b>46</b>	<b>47</b>	<b>35</b>	<b>128</b>

\*Parentheses indicate number of sub-objectives.

Closer examination of stated PBL objectives by case study reveals that, especially in earlier PBLs, they aimed at several country goals. More recently however there has been a greater attempt to concentrate on specific country goals. For example, the 2014 Jamaica PBL concentrated on economic prosperity by improving the business environment and fiscal out-turns. Although still stated broadly, the objectives were economic in nature as opposed to addressing social or environmental change as well.

The evaluation found that many objectives tended to be repeated from one PBL to the next. Table 8 shows in broad terms the number of PBL objectives assessed in Table 7 that appear closely related or repeated almost precisely. It is unsurprising that country goals and to some extent CDB objectives would be repeated as this suggests an ongoing programme of reform, and coherence between PBLs. It would be expected that the nature of PBL objectives, and their associated priority areas for attention would shift over time as gains are made or as reforms took hold. In this respect, there is evidence to suggest that gains are being made over time regarding BMC reform agendas based on progress against the prior actions. The instrument, therefore, is showing that progress can be made and that the prior actions have built on one another incrementally over time.

**TABLE 8: NUMBER OF PBL OBJECTIVES REPEATED**

Country/Objectives	Total All PBL Objectives	Total Repeated Objectives	Percentage
<b>Grenada</b> 2009 to 2014 PBL	11	6	55%
<b>Jamaica</b> 2008 to 2014 PBL	6	4	66%
<b>SVG</b> 2009 to 2010 PBL	10	6	60%
<b>Totals</b>	<b>37</b>	<b>16</b>	<b>59%</b>

Although the tables cannot be taken as definitive, the evaluation found that most PBL objectives tended to address matters of economic growth, and focused on governance reforms that could facilitate economic prosperity. In this sense, the PBLs targeted improving economic prosperity and growth under the assumption that such reforms would lead to poverty change. In more recent PBLs, objectives of social change such as improving education systems were identified and prior actions instituted.

**Finding 12:** *The number of economic prior actions for BMCs to address over short time periods remains a challenge. BMCs invariably reported that the prior actions ought to link better to national reforms.*

A common area of concern for most CDB and BMC respondents was the number and scope of prior actions included in PBLs. CDB analysts and BMC respondents consistently indicated that not only were there too many prior actions in the PBLs, there was also little observed coherence other than a “wish list” on the part of the negotiating parties to propel any degree of change that might result. This finding was considered particularly applicable to earlier PBLs. However, although CDB analysts indicated that there was a greater sense of focus in more recent PBLs, the concern remained that there was limited cohesion, and no means to advise BMCs as to how to target their efforts given limited capacity considerations. Table 9 provides a count taken from each of the case studies of the total prior actions by PBL. It shows some reduction in their number over time, but their scope and depth are often significant, requiring extensive effort to address.

**TABLE 9: TOTAL PRIOR ACTIONS BY CASE STUDY BY YEAR BY TRANCHE**

Country/Tranche	1	2	3	Totals
<b>Barbados</b>				
2010 PBL	11			<b>11</b>
<b>Grenada</b>				
2009 PBL	15	18		<b>33</b>
2014 PBL	7	-		<b>7</b>
<b>Jamaica</b>				
2008 PBL	13	15	11	<b>39</b>
2014 PBL	12	11		<b>23</b>
<b>St. Vincent &amp; Grenadines</b>				
2009 PBL	9	14		<b>23</b>
2010 PBL	6	7		<b>13</b>
<b>Totals</b>	<b>84</b>	<b>65</b>	<b>11</b>	<b>149</b>

\*: Denotes post-disbursement conditions

CDB officials contended that most prior actions tend to be specific, and were already being implemented as part of a BMC's programme of reforms at the time of negotiation. Those relating to instituting legislation, or amending decision processes and systems, tend to demand considerable public sector time and effort. Prior actions such as personnel training in financial management or other areas, implementing VAT systems, tax collection programmes or adjusting land tax evaluation systems require significant investment of resources.

For their part, BMC respondents indicated that CDB places much emphasis on the satisfaction of the prior actions, to the extent that this was overemphasised relative to focusing on longer term reform efforts. BMC respondents view their reform efforts as longer-term in nature, and achieving the prior actions is only one element among others for achieving reform. While CDB's revised PBL framework in 2013 improved the orientation of the PBLs, BMCs still maintain that excessive attention is paid to the prior actions at the expense of a long term reform plan. For CDB respondents, steps have been taken to shift the orientation of recent PBL negotiations to longer term reforms (e.g., 2014 Grenada and Jamaica PBLs). However, there was a recognition among CDB respondents that measuring the implementation of prior actions remains a key element of the loans to demonstrate to the Board of Directors that funds were being used appropriately.

It was proposed by BMC respondents that there ought to be a clear linkage between the prior actions and reform objectives, especially as BMCs are becoming more sophisticated at focusing their reform efforts.

**Finding 13:** *Although a detailed cost-benefit analysis could not be completed as part of this evaluation, BMC respondents indicated that the costs of implementing the prior actions at times exceeded the funding value of the PBLs.*

The evaluation found that many PBLs tended to identify prior actions to be addressed over the short-term at a time when governments are under severe financial constraint. **Appendix G** sets out the total number of PBLs approved between 2006 and 2015. It shows that the average value of a PBL was approximately USD35 mn. This is well below PBL values of major funders such as the World Bank, IDB and IMF. Upon brief examination of the breadth and depth of the prior actions in most CDB PBLs, costs to plan and implement them far exceed the value of the loan. If combined with other PBLs, implementation costs may

be reduced. The evaluation examined other MDB contracts and found that recent PBLs made a greater effort to harmonise reporting requirements.

However, BMCs indicated that despite increasing coordination over time, PBLs from different lenders required different timelines for reporting, or various approaches to measuring implementation.

Equally important, prior actions were being implemented by BMCs during times of financial stress in their economies. The combination of prior actions across MDB instruments were difficult to undertake as public services were being forced to downsize. In the view of BMC respondents, such constraints were not always taken into consideration by CDB or other MDB partners when negotiating the range and number of prior actions.

### 4.2.3 Management of PBLs

This part of the assessment looked at the degree of efficiency in management of the PBL programme, adequacy of results frameworks, and the provision of TA.

**Finding 14:** *Funds were usually disbursed efficiently, in a timely way.*

CDB and BMC respondents consistently indicated that funds were disbursed efficiently, in a timely way, across all of the case studies conducted. CDB officials provided the appropriate guidance and contractual requirements for disbursement to all PBL holders. However, also consistent across several PBLs, particularly those issued before 2012, funds were disbursed when in some cases not all prior actions had been completed. For examples, see the 2009 Grenada PBL, 2009 SVG PBL, and 2008 Jamaica PBL. It appears that this was not the case in more recent PBLs.

**Finding 15:** *Statement of expected outcomes, measurement and risk mitigation strategies could be improved. Without clearly stated outcomes and measurement approaches, target setting is difficult, which may compromise verification of results achievement. There was also weak alignment between outcome statements and prior actions.*

The evaluation found that there was an absence of clear logic frameworks with stated targets and outcomes in the PBLs. Such an absence made it difficult to assess actual performance. The assumption on the part of CDB that through improved debt and financial management, and revenue generation, growth and poverty reduction would result could not be validated in any of the PBLs examined. This constitutes a significant weakness in the Programme's ToC.

The evaluation also found that the stated outcomes in early PBLs were too high-level to be useful; outcomes and outputs were sometimes confused; and the sequencing of results was not always appropriate.

When outcomes are stated at a very high level, the possibility that there might be a mismatch between short and longer-term efforts to achieve the goal may increase. For example, "maintaining macroeconomic stability" can have numerous differing approaches and strategies. As well, such outcomes are contingent on external factors that may very well be beyond the control or influence of the BMCs subject to the PBLs. Likewise, the indicators for measuring conditions tended to be vague, to the extent that BMCs may not have the capacity to develop them or resources to properly measure them.

According to CDB analysts, more recent PBLs tended to be based on IMF frameworks. But challenges of setting feasible outcomes with appropriate measurement strategies remained. Sequencing of short and medium-term outcomes was determined by the evaluation to be an ongoing challenge. Several CDB respondents indicated that there was also a misalignment between outcome statements and prior actions.

CDB analysts indicated that efforts were made to match prior actions with IMF programmes, which was not always possible. Attempting to include social outcomes in addition to the economic conditions considered by other MDBs also complicated the work of CDB analysts in properly advising BMCs on meeting prior actions and conditions.

In summary, the evaluation found that the lack of clear logic frameworks and measurement strategies could set the stage for misaligned expectations for satisfying the prior actions and conditions between the CDB and BMCs. Several CDB analysts indicated that a common complaint from BMC officials was a misunderstanding of expectations regarding results achievement. Such a lack of clarity around results and measurement is a significant issue in current PBL implementation. As such, CDB analysts indicated that building appropriate risk mitigation strategies is difficult in the absence of clear outcomes statements and targets. PBLs tended to propose generic risk mitigation strategies that were not always appropriate to local circumstances. For example, Grenada and Jamaica respondents indicated that risk strategies often neglected the implications for the poor and vulnerable, and understated the implications that reforms might have on local communities and their resistance to the measures contained in them.

***Finding 16:*** *TA has improved over time. However, TA offered by CDB is considered expensive, and could be improved to address a wider range of governance reforms.*

The evaluation found that there were challenges related to the adequacy of TA for PBLs issued prior to 2013. In more recent PBLs, the situation was found to have improved. That said, two main concerns arose. First, relative to other providers of TA, CDB was cited as much more expensive. This might explain why TA was either not taken up by BMCs, or that very specific assistance was requested.

Second, BMCs indicated that the TA provided by CDB is generally narrow in focus, addressing economic reform. The greater demand is for assistance to develop social reform projects in areas that are not economically focused, such as free press legislation or ethics regimes, improving access to information, creating M&E systems, building social capital or citizen engagement, or improving electoral systems. That said, such assistance was considered by BMCs to be outside the realm of capacity for CDB. BMCs did indicate that greater help to develop microeconomic indicators and monitoring systems would be welcomed, but it was reported that CDB was either unable or unwilling to provide this type of assistance.

***Finding 17:*** *BMC respondents believe that a menu of PBL instruments is needed to support local reform efforts.*

The evaluation found that senior BMC officials were divided on the way the PBL instrument was approached after the 2013 policy change. Although they regard the revised 2013 PBL framework to be a positive development, they noted that there are advantages and disadvantages to a tranche and non-tranche approach to delivering PBLs. In their view, the pre-2013 instrument offered CDB greater certainty that the prior actions would be monitored and that there was a closer working relationship with BMCs. Risks for delivering on the prior actions, which theoretically would contribute to local reforms, were divided between the CDB and BMCs. The tranche approach set out “milestones” against which BMCs were expected to deliver, and report their progress before receiving a payment.

With the 2013 policy change, the main advantage in their view is provision for a series of single PBLs with single payments that are better configured to local reforms. In other words, they regard the new approach as better linking prior actions to reforms. One downside of the new approach, however, is that implementation of the prior actions does not appear to be monitored as closely, thereby reducing BMC accountability. The positive trade-off in this approach is that local flexibility for identifying and managing the prior actions is increased, thereby improving local commitment to them.

Almost invariably, senior BMC officials in both phases of research indicated that the new approach is highly dependent on the state of capacity and readiness of the BMC to work within this flexible approach. The higher the capacity level and the commitment to the reform objectives identified, the greater the probability that the prior actions will be implemented. However, if capacity is unstable or low, and commitment to the reform objectives is mixed, the probability that the prior actions will not be implemented, or at least not in the way that was expected, (including timelines), increases.

Given that BMCs are in different states of readiness, capacity, and commitment to the reforms, it was suggested that a menu of instruments continues to be desirable. At present, the post-2013 approach tends to privilege the larger BMCs with greater public service capacity. Some of the smaller countries, it was suggested, may require greater direction from CDB on meeting the prior actions, and more direct oversight.

### 4.3 Observable Effects

#### 4.3.1 CDB Responsibilities for Monitoring and Oversight

Findings in this section refer to CDB responsibilities for monitoring and oversight, and whether the prior actions have been met.

***Finding 18:*** *Monitoring of PBL expected results could be improved. Monitoring tended to focus on achievement of prior actions, rather than reform results. Completion of reports was often beyond the capacity of BMCs.*

A weakness consistently reported across all case studies was that the monitoring of PBLs for the completion of prior actions and achievement of results needed to be improved significantly.

Although monitoring of the prior actions has gotten better over time, especially since the PBLs issued before 2010, the evaluation found that monitoring and reporting has been intermittent and oftentimes inconsistent. For earlier PBLs (2006-2013), project supervision reports were missing, and reporting tended to focus on macroeconomic indicators rather than on the short and medium term results based on local reform efforts to which PBLs contributed. Reporting of outcomes was a consistent weakness across all case studies.

For those PBLs issued after 2013, some of these challenges persisted, including intermittent monitoring and reporting such as the 2014 Jamaica PBL where reports were not always complete, and sometimes completed late.

The evaluation also found that monitoring reports tended to repeat information and language used in World Bank and IMF reports, suggesting that BMCs are either not collecting the information required and must rely on feedback from other lenders to report findings, or that BMCs do not have the appropriate capacity to monitor and report on their prior actions and reform results. In either case, the reports provide some evidence to suggest that there is a capacity problem in BMC public services to provide effective monitoring. The evaluation found that BMCs appear to be struggling with the design and implementation of appropriate monitoring and results mechanisms, and collecting the data necessary to support them.

With respect to CDB, the evaluation found that ARs often use information from World Bank and IMF sources. This is to be expected to some extent given that content from other MDB reports covers similar ground and can be used to inform CDB reports. It may also suggest cohesion between CDB and other MDB activities. Nonetheless, the collection of monitoring information regarding the prior actions could be improved at CDB. Reporting tended to vary by PBL, and there were no summaries of tracking reports at the aggregate level that could be reported easily.

**Finding 19:** *Most prior actions (84%) in the case studies were reported to have been completed. However, these determinations were not always verifiable.*

**TABLE 10: TOTAL PRIOR ACTIONS AND CONFIRMED COMPLETIONS**

Country/ Tranche	1		2		3		Totals	
	Planned	Complete	Planned	Complete	Planned	Complete	Planned	Complete
<b>Barbados</b>								
2010 PBL	11	11					11	11
<b>Grenada</b>								
2009 PBL	15	15	18	13	-	5	33	33
2014 PBL	7	7					7	7
<b>Jamaica</b>								
2008 PBL	13	12	15	7	11	3	39	22
2014 PBL	12	12	11	11			23	23
<b>St. Vincent &amp; Grenadines</b>								
2009 PBL	9	9	14	10			23	19
2010 PBL	6	6	7	4			13	10
<b>Totals</b>	<b>84</b>	<b>72</b>	<b>65</b>	<b>45</b>	<b>11</b>	<b>8</b>	<b>149</b>	<b>125</b>

The evaluation found that most prior actions were reported to have been completed, although there were delays in completion in earlier PBLs using the tranche approach. Recent PBLs (post-2013) appeared to show that most prior actions were completed on schedule. Table 10 shows total prior actions (as per Table 9) and confirmed reported completions.

Reasons for delays and non-completion included revision of dates for expected completion by national authorities (e.g., legislative agenda beyond control of public service), overly ambitious timelines, inadequate information to confirm completion (e.g., Jamaica 2008), or changes in the external economic environment that had negative effects on local capacity (e.g., austerity measures included cuts to public service).

Some BMC officials (e.g., Grenada) reported that the combination of prior actions from CDB and other lending institutions were considered incoherent or unfocused. Therefore, internal commitment and cooperation was sometimes difficult, even to the point of resistance from some departments to the reform agenda.

The evaluation found that a small proportion of prior actions could not be validated as completed. For example, five second tranche prior actions in the 2008 Jamaica PBL could not be validated through the reports, either because the data was unavailable or reports were not completed. PCR reporting would suggest that prior action completion improved over time, however the evidence in the reports to back up completion claims was limited.

#### 4.3.2 BMC Ability to Launch Reform Activities

Findings in this section refer to the setting of macroeconomic indicators of performance, and the conditions necessary to elicit BMC commitment to the prior actions, and reform agenda.

**Finding 20:** *BMC respondents indicated that the probability of successful completion of PBL prior actions and reforms is increased when a senior local champion is identified, and provided with the resources and authority to act.*

The evaluation found that a critical distinguishing factor for successful completion of the prior actions between the earlier PBLs and the more recent ones is that BMCs either were advised to, or committed to, offering a senior public champion from their public service to coordinate and/or lead implementation of PBL reforms from a central position of authority. Officials from Grenada and Jamaica especially indicated that the success of their recent PBLs could be traced to recognised leadership in their respective public services, with Ministerial support, authority, and resources to act.

**Finding 21:** *A number of indicators across all PBLs measured outcomes that could not be attributed to the performance of the PBLs. The clarity of the indicators could also be improved to provide evidence of contribution rather than attribution.*

CDB analysts and BMC officials responsible for PBL implementation indicated that the PBLs were premised on the assumption that outcomes achievement could be attributed directly to the CDB instrument. Notwithstanding the complexity of local economic and social circumstances, these respondents offered a degree of confidence that short-term debt relief could be attributed to the PBLs. However there was little evidence that such attribution was possible.

It was observed that a common problem in the construction of indicators was the use of normative language such as “optimise” or “minimise”. Such imprecision made it difficult to construct measurable targets or benchmarks for performance. In fact, very few PBLs used target-setting as a way to bring clarity to the indicators. In the absence of clear targets, indicators were routinely crafted that could not provide directionality or progress against which performance could be definitively established.

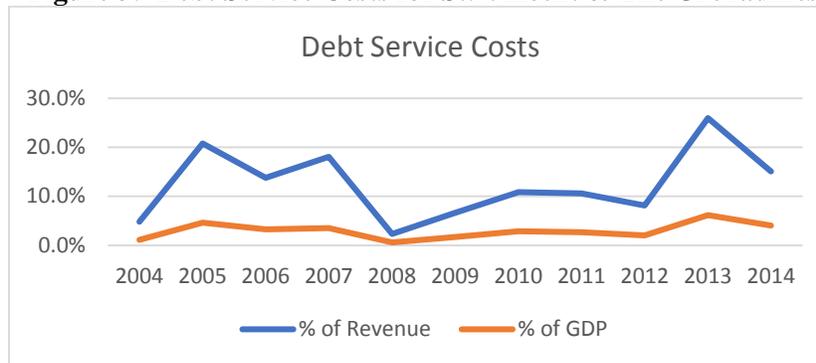
Finally, as noted in the Grenada and Jamaica PBL case studies, BMC officials stressed that consideration of local conditions, including institutional, political, and cultural factors, is essential when establishing indicators and targets for performance against PBL objectives. Macroeconomic outcomes tend to be high-level, and are concerned with longer-term changes. Constructing meaningful targets and attaching any attribution for macroeconomic change to PBLs was regarded by BMCs as creating unrealistic expectations.

### **4.3.3 BMC Short-Term Outcomes**

**Finding 22:** *The most notable short-term outcome across all PBLs was the fact that BMCs were able to pay down short-term debt. That said, attribution to the PBLs of reducing debt-GDP ratios cannot be stated with confidence. PBLs were observed to trigger key short-term reforms in deficit management and revenue collection.*

The evaluation found that there was an improvement in short-term liquidity for all BMCs across all PBLs. Most BMCs indicated that debt service costs stabilised or improved over the short-term. There were notable reductions in debt servicing costs over the duration of the PBLs. Good examples were the PBLs for St. Vincent and the Grenadines as the following graph shows:

**Figure 3: Debt Service Costs for St. Vincent & The Grenadines**



Funding from the PBLs was applied in different ways. For example, St. Vincent and the Grenadines used its 2009 funding to partially pay down an outstanding overdraft, thereby immediately improving country reserves and debt service charges. Although its deficit increased, it was possible to increase social programme spending during the financial crisis. Such examples were common across most PBLs, especially earlier ones. Such PBLs also allowed BMCs to restructure short-term loans. For example, Grenada’s 2014 PBL was used to reduce short-term borrowing costs from other lenders, earning it high IMF ratings. Despite these improvements in short-term liquidity, it was found in all case studies that BMCs remained vulnerable to economic shocks, suggesting that more fundamental reforms were needed. Economic volatility and a subsequent increase in borrowing costs followed the use of the PBLs for Barbados, Grenada, and SVG.

Increases in revenue were also observed over the duration of several PBLs, although such increases cannot be attributed directly to the PBLs. For example, Grenada introduced a VAT in 2009 which increased revenues for a short time until public pressure forced the government to insert a greater array of exemptions. In the case of Jamaica, tax collection reform improved revenue, although it failed to meet its targets. That said, Jamaican respondents indicated that the more important contribution of the PBL was that it triggered reforms to improve revenue collection in the first place. Such observations were common across all PBLs, and confirm an intended effect of the instrument.

**Finding 23:** *BMC respondents indicated that the value of PBLs is that they trigger reforms over the short-term. While several “outcomes” are more aptly defined as outputs, there are nonetheless some notable short-term outcomes.*

The evaluation found that although it was not possible to link short term reforms in all cases to the PBLs, BMC respondents indicated they were confident that they played a contributory role in sparking or maintaining momentum in reform initiatives. For them, the key consideration in negotiating PBLs, aside from bolstering short-term liquidity, was to catalyse or encourage needed reforms. BMC respondents from Grenada and Jamaica showed the highest confidence that several short-term reforms would not have been undertaken had it not been for pressure applied by external lenders.

That said, most reforms identified by BMC respondents could be considered to be the “outputs” of PBL implementation, rather than outcomes. For example, Grenada implemented its PFMA Act and Audit Act in 2009, and SVG attempted and partially achieved the approval of key regulations governing the insurance industry in 2010. Creation of tourist authorities or regulatory agencies/bureaus were also considered to be outputs that could be attributable in part to the PBLs.

Several outcomes were observed over the short-term across most of the PBLs, including:

- Fiscal space was created that allowed BMCs to bolster social programme reforms or reduce economic stress on individuals and families;
- Conditions for investment were improved over the short-term to bolster key industries such as tourism, for example reducing wait times at border crossings (which could be attributed in part to PBLs);
- Critical management systems such as audit, budgeting and planning were improved, contributing to increased management efficiency.

BMC respondents indicated that such short-term reforms would have been much more difficult in the absence of PBLs.

#### 4.3.4 BMC Medium-Term Outcomes

Findings in this section refer to observable effects that can be attributed, at least in part, to the implementation of the PBLs.

***Finding 24:*** *Few medium-term effects or outcomes were identified that could be clearly attributed to the PBLs. However, BMC officials indicated that the prior actions may have contributed to improved economic and social programme performance over time.*

The evaluation found that in most of the case studies either medium-term outcomes were not identified, or were not achieved, for various reasons. It was also observed that for some PBLs, such as Grenada's 2009 one, medium-term outcomes were "reported" to have been completed although there was little substantiating evidence. PCRs relied on other lender's reports to identify or substantiate the achievement of CDB-identified medium-term outcomes. In Jamaica, for example, the World Bank praised the strengthening of tax administration systems and improved financial management and budgeting processes as these contributed to increased tax revenues as a percentage of GDP.

BMC officials across all case studies indicated that a coordinated, targeted, and ongoing programme of reform supported by lenders such as CDB ensures momentum that leads to improved economic and social sector performance. Jamaican respondents indicated that its 2008 PBL was, "a critically important intervention in Jamaica, and with the support of other MDBs helped to identify first generation structural reforms on which the recent fiscal gains have been premised" (See pg. 40, Appendix E). Such comments were common especially in the validation research phase of the evaluation.

That said, BMC respondents across all case studies indicated that PBL implementation was uneven, due in large part to factors beyond the control of local decision-makers, such as weak or unstable economic growth. Such factors contributed to shortfalls in meeting fiscal targets, increased debt and deficits, and low economic growth. Nonetheless, BMC and CDB respondents agreed that without the PBLs, economic and social programme performance would have been that much more unstable or unpredictable. For BMC respondents, the challenge was ensuring that reform measures were not initiated too quickly or in a way that did not adequately consider systems capacity in their local economies, and public services. The value of PBLs, it was reiterated, is to facilitate access to external expertise and to assist BMCs with coordinating their home-grown reform efforts.

**Finding 25:** *A longer term value of the PBLs may be a shift in attitude regarding reform agendas. There is greater acceptance among BMCs for ongoing and effective reforms.*

The evaluation found an evolution in thinking across BMCs over the time period of the evaluation. The narrative among BMC respondents appears to be shifting from one of PBLs solely providing short-term fiscal stability, to one of increasing recognition (as evidenced in the case studies) of PBLs as a vehicle to incentivise decision-makers to focus on reform. Taken collectively, the PBL programme has raised the profile of reform efforts (both successes and failures), and in particular created peer recognition across BMCs of their importance. This encourages individual CDB member countries to appear to be making progress, and not be perceived as laggards. As a vehicle toward progress, BMC respondents indicated that PBLs provide a means to highlight for others not only the number of reforms they are making, but their complexity. Respondents noted the greater incentive in recent years to be seen by peers as a reformer.

## 5. CONCLUSIONS

Based on the evidence and findings, the evaluation came to a number of conclusions. The following provides an assessment of the PBL programme’s ToC, and the extent to which the assumptions of its logic chain held.

### 5.1 Summary of Assumptions Tests

Table 11 summarises the assumptions tests, and indicates the evaluation’s determinations as to whether the assumptions held.

**TABLE 11: SUMMARY OF ASSUMPTIONS TESTS**

Assumption	Holds	Partial Hold	Holds With Reservations	Does not Hold
<b>CDB Causal Pathway Assumptions</b>				
Need for the PBL programme; Rationale for the PBL programme; Relevance of the PBL programme	✓	✓		
Country assessment is appropriate; Technical support is made available to BMCs; There is appropriate engagement with BMCs	✓	✓		✓
Prior actions proposed and are appropriate; Instrument is feasible with apparent and appropriate risk strategies.				✓ ✓
PBLs align with local context and conditions; PBLs enjoy CDB support; Resources are timely.	✓	✓	✓	
Adequate monitoring is enabled; Prior actions are met; Lender support is apparent.	✓		✓	✓
<b>BMC Causal Pathway Assumptions</b>				
PBL complements local priorities; and, CDB PBLs are harmonised with other PBLs.		✓ ✓		
Financial instrument modality is effective; BMC is committed to reform; BMC maintains and builds capacity; CDB conditions are regarded as reasonable.	✓ ✓	✓		✓
BMCs meet prior actions; TA is regarded as useful; Appropriate risk mitigation strategies are deployed.		✓ ✓	✓	

## 5.2 CDB Causal Pathway Assumptions

**Conclusion 1:** *Although there is a generally accepted need for the PBL program, views of its rationale differ between those who place more emphasis on fiscal relief, and those who underscore the longer-term reform orientation. The interpretation of relevance is influenced by which view of rationale is accepted.*

Findings 1 to 4 relate to the need, rationale and relevance of the PBL program. The evaluation concludes that there is an ongoing need for policy based lending. It is apparent that there are occasions when BMCs require short-term liquidity, but also support for their reform efforts.

There are differences in perspective, however, regarding the rationale of the PBL program as stated in the ToC, which is to ensure that, “BMC has capacity to achieve long-term public sector stability to meet reform goals.” For some, the emphasis is on short-term liquidity support, acknowledging that it will afford greater ability to address needed reform activities. For others, the emphasis is on longer term reform strategies, using the provision of short term budget support and prior conditions as a stepping stone to get there. While these two views contain similar elements – liquidity support and reform – the differing emphases create differences in results expectation and design approach.

Although the PBL programme has overall relevance to BMCs’ need for budget and reform support, its strength, particularly in the pre-2013 period, was more evident in the response to short term fiscal pressure.

**Conclusion 2:** *The PBL application process, loan assessment process, and determination of TA requirements were not entirely transparent.*

Findings 5, 6, and 7 relate to the following assumptions:

- PBL assessment process is appropriate;
- Technical support is made available to BMCs; and,
- There is appropriate engagement with BMCs.

The evaluation concludes that the assumption “PBL assessment is appropriate,” does not appear to hold. Although there is evidence that assessments on macroeconomic indicators were completed in all cases, the application and review process for the programme were neither discernible nor transparent. There are no written application procedures that were made available for review by the evaluation, nor is there any evidence of review criteria for the PBL requests from BMCs. As such, there was no way for the evaluation team to validate the extent to which CDB’s own assessment and review processes were followed. No firm conclusions could be made regarding this assumption that would indicate that the assessment process was appropriate. The implication is that PBLs were assessed individually on their own merits, and assessment criteria could not be validated.

The second assumption: “Technical support is made available to BMCs,” held partially. The negotiation of TA was offered almost invariably across all PBLs. That said, the level of technical support offered did not always correspond to the magnitude of the loan, its conditions, and the results expected. In addition, technical assistance was often refused by the BMC. BMCs cited the high cost of TA, and the fact that other service providers were better able to provide assistance at a much lower cost. Given the complexity of many of the prior actions, the assumption of TA is significant as a success factor for PBL implementation. It can be concluded that in the absence of TA the probability that prior actions will be implemented as intended, or at all, is much lower.

With respect to the third assumption, “there is appropriate engagement with BMCs,” the evaluation concludes that this assumption is holding increasingly as the programme matures. Interview evidence with BMC respondents suggested that they wish to have an ongoing working relationship with CDB that extends beyond simply the use of PBLs. This is to some extent met through the periodic Country Strategy cycle. But recent PBLs have also engaged a wider and deeper pool of stakeholders, to better understand national priorities and constraints and increase buy-in for implementation. Hence, the assumption of engagement is holding increasingly over time.

**Conclusion 3:** *Prior actions could be improved by clarifying their links to national reform agendas. As well, there is room for improvement in logic frameworks, indicators, and risk mitigation strategies.*

Findings 10, 11, 12 and 15 relate to the following assumptions:

- Prior actions proposed are appropriate; and,
- Instrument is feasible with apparent and appropriate risk strategies.

With respect to the first assumption, “prior actions are proposed, and are appropriate,” the evaluation concludes that with respect to the negotiations process the assumption is holding increasingly over time. Specifically, CDB appears to be making a more concerted effort to approach a wider array of local actors in recent PBL offerings than earlier ones. Such negotiations include the involvement of other MDBs to ensure there is reduced probability that prior actions are duplicated or that reporting requirements are contradictory.

With respect to appropriateness of the prior actions, the evaluation concludes that this assumption does not hold. The evaluation could not discern a PBL design process in which PBL objectives were negotiated and prior actions derived from them; or whether prior actions were the primary focus of negotiation with PBL objectives being added later. This is a critical distinction, as it speaks to the rationale of the programme. The collective evidence suggests that prior actions were in fact the first focus of design efforts, which could explain why prior actions were not always aligned with longer term reform initiatives.

As well, prior actions tended to be too numerous, although there is evidence that this is less the case in recent PBLs. Numerous and wide ranging prior actions reduces the probability that they will be implemented effectively. It is better to focus limited capacity than disperse it. The evaluation found that the Suriname Energy Sector PBL provides an example of how greater focus can lead to better results.

The evaluation concludes that the assumption “instrument is feasible with apparent and appropriate risk strategies,” did not hold. There is an absence of clearly stated and feasible risk strategies, which tended to be generic across most PBLs.

The evaluation also tested the extent to which the PBLs were coherent over time within individual BMCs. While not always the case in earlier PBLs, there is evidence of greater although not complete coherence in more recent ones. Specifically, three of the four cases showed evidence that CDB analysts prepared prior actions that appeared to reference ones from previous PBLs. That said, there was no way to validate whether in fact more recent prior actions were intended to build off previous ones.

**Conclusion 4:** *There is scope for more explicitly considering social outcomes in reform programs, improving logic and results frameworks, and strengthening TA.*

Findings 14, 15 and 16 relate to the following assumptions:

- PBLs align with local context and conditions;
- PBLs enjoy CDB support;
- Prior actions are measurable.

With respect to the first assumption, “PBLs align with local context and conditions,” the evaluation concludes that this assumption holds partially, with evidence that as CDB gains experience with the instrument, there is greater effort to consult more widely. Early PBLs were crafted in a top-down manner without the benefit of a clear set of objectives other than shoring up short-term liquidity. More recent PBLs appear to be taking a more concerted approach to recognising the potential social effects of the prior actions. Although there is a recognition that vulnerable populations were not always considered in the design of prior actions, there is evidence that PBLs have recently considered the inclusion of social reforms aimed at poverty reduction more concertedly in the setting of prior actions.

With respect to the second assumption, “PBLs enjoy CDB support,” the evaluation concludes that this assumption holds, particularly for recent PBLs that show evidence of a longer term strategy. Although there are differences in view internal to CDB regarding the rationale for PBLs, there is evidence of discussions such as the willingness and ability of CDB to increase the cap on PBLs. This indicates that there is general internal agreement that PBLs are providing evidence of achieving reform aims, thereby securing the confidence of senior CDB management.

With respect to the third assumption, “prior actions are measurable,” the evaluation concludes that this assumption did not hold. There is sufficient evidence that funds flowed in a timely way once applications were approved in the case of recent PBLs, and that funding flowed once prior actions were reportedly satisfied under the tranche approach in early PBLs. However, the evaluation also concludes that the evidence to support the flow of funding is not verifiable. There is a lack of documentation other than that stated in PCRs, which are summary reports. There is a distinct lack of documentation in logic frameworks, indicator and measurement strategies to support internal decisions that prior actions have been satisfied.

The shortcomings of such frameworks reduces the likelihood that there are clear linkages between the prior actions and outcomes or reforms. Although there is a recognition that the flow of funds is essential in the performance of PBLs, the lack of appropriate logic and results frameworks also diminishes accountability.

With respect to the provision of TA, the evaluation concludes it is not being provided to its potential. There is significant evidence to suggest that CDB can play a much larger role in providing TA but that its pricing model is prohibitive for BMCs.

**Conclusion 5:** *There is evidence to suggest that CDB is making progress toward propelling reform efforts through its PBLs. However, monitoring of outcomes needs to be improved.*

Findings 18 and 19 relate to the following assumptions:

- Adequate monitoring is enabled regarding PBL implementation;
- Prior actions are met; and,
- Lender support is apparent regarding the PBLs.

With respect to the first assumption, “adequate monitoring is enabled regarding PBL implementation,” the evaluation concludes that this assumption does not hold. For reasons cited in part by previous conclusions, monitoring and reporting of results regarding the prior actions is inconsistent. For early PBLs, monitoring reports were found to be missing or incomplete. More importantly, reporting tends to focus on macroeconomic indicators rather than short and medium-term results as denoted in the PBL objectives. Monitoring would benefit from improved results frameworks with appropriate indicators of performance against the prior actions that lead to reform results.

With respect to the second assumption, “prior actions are met,” the evaluation concludes that this assumption holds, with significant reservations. Prior actions in most PBLs are “reported” to have been completed, but there is little verifiable evidence that supports these claims. Given that many prior actions are broadly scoped, the evaluation found that the evidence supported partial completion in many cases. Again, however, there was little evidence in support of these claims other than reports from BMCs that explained delays or reasons why prior actions could not be completed. The findings indicate that a small proportion of prior actions could not be validated by CDB as having been completed, which means that there was no evidence to support claims of completion by BMCs. CDB respondents did indicate, however, that the majority of prior actions had some evidence of completion, but for which the evaluation could not verify.

With respect to the third assumption, “lender support is apparent,” the evaluation concludes that this assumption holds. There is some evidence to suggest that the CDB Board of Governors supports the ongoing use of PBLs. Several interviews were conducted over two phases with Board of Governors members that provide sufficient evidence that Caribbean countries are engaged with an ongoing programme of regional and national reform efforts.

*In summary, there appears to be an ongoing effort at planned change on the part of CDB toward a concerted agenda encouraging economic and social reform. There are weaknesses that require attention, but culture change from providing short-term liquidity to fostering longer term reform is evident.*

### **5.3 BMC Causal Pathway Assumptions**

**Conclusion 6:** *There has been better alignment of PBLs with local priorities over time. More effort could be made to be sensitive to local contexts, conditions and capacity in the design and implementation of prior actions.*

Findings 8 and 9 relate to the following assumptions:

- PBL complements local priorities; and,
- CDB PBLs are harmonised with other PBLs.

With respect to the assumption, “PBL complements local priorities,” the evaluation concludes that it is holding partially for more recent PBLs, but did not hold for earlier ones. There is evidence that earlier PBLs were designed in a top-down manner, and were largely prescriptive. There has since been greater effort in more recent PBLs, particularly after 2013, to make sure that local priorities, context and conditions are being considered. Greater consideration is being given to the potential receptivity in the national context for the implementation of the prior actions. This was found to be a positive development in the evolution of the programme.

The evaluation also found, however, that despite this evolution, there remain challenges. For example, the effects of the prior actions on social programmes and economic conditions for the most vulnerable are not monitored. Several BMC respondents indicated that some prior actions resulted in reduced social assistance

payments to needy families. As well, when systems such as ASYCUDA, around which prior actions are built, fail to function as effectively as planned (in this case for revenue generation) the commitment of decision-makers to reform can be diminished. Therefore, the evaluation concludes that while monitoring of the effects on the most vulnerable should improve, there is also a need for reforms to be continuously reinforced in order to maintain momentum, especially during leadership transition periods. Such reinforcement suggests need for an ongoing relationship between CDB and BMCs beyond the duration of current PBLs. Fostering such relationships was cited by BMC respondents as critical not only as it relates to the performance of the PBLs, but to ensuring that capacity considerations are taken into account, and that maintaining a strong working relationship with CDB between PBLs is preserved. Clearly there is a resource consideration to this conclusion, but there may be some practical sense to ongoing surveillance that could result in TA being provided that maintains the reform momentum.

With respect to the assumption, “CDB PBLs are harmonised with other PBLs,” referring to other MDB instruments, this assumption again did not hold in earlier PBLs but does more so for recent ones. Evidence of coordination between CDB and the IDB, World Bank and IMF appears to be showing that there is greater cohesion between their respective PBL instruments. The main benefit of greater cooperation and collaboration is the efficiency gains through harmonised conditions and reporting. There is evidence in the PCRs that analysts from the MDBs are attempting to better focus their efforts to prevent reform fatigue.

**Conclusion 7:** *BMCs appear more committed now to reform and capacity building than they were when the PBL programme was instituted. But, some challenges must be addressed.*

Findings 10, 11, 12, 13, 14, 16, 17 related to the following assumptions:

- Financial instrument modality is effective;
- BMC is committed to reform;
- BMC maintains and builds capacity;
- CDB conditions are regarded as reasonable.

The evaluation concludes that the first assumption, “financial instrument modality is effective”, holds. However, there are two elements that should be considered. First, it was indicated by several BMC respondents that a menu of instruments to suit local circumstances would be preferred. BMCs are in different states of readiness to complete reforms based on commitment to change, and the capacity of the public service to respond. For those countries in a higher state of readiness, PBLs fashioned on the post-2013 approach is preferred. For those in a lower state of readiness, more external guidance and encouragement may be needed. As such, the tranche or pre-2013 PBL instrument may be better suited, especially to smaller BMCs with more limited capabilities.

Second, although BMC officials indicated that there is a marked improvement in use of the instrument since the 2013 policy change, some significant concerns related to the number of objectives and prior actions remain. There was a consensus that the PBLs should be targeted to a set of focused prior actions.

With respect to the second assumption, “BMC is committed to reform” the evaluation concludes that, with some exceptions, this assumption holds. There is evidence to suggest from the findings that local decision-makers are increasingly committed to ongoing reform including of governance. PBLs have for a number of years been part of lenders’ offerings, and the increasing collaboration between lenders and borrowers suggests a shared appetite for improved public service and governance systems.

The evaluation concludes that the third assumption “BMC maintains and builds capacity,” holds partially. There is limited evidence to suggest that short-term outcomes such as creating and passing legislation or developing new rules, has translated in a meaningful way to increased capacity, public service expertise or

the maintenance of new processes and systems. This conclusion builds on previous ones that measurement and evidence is needed to demonstrate with greater certainty that capacity is being built. There is however circumstantial evidence to suggest that some limited capacity is being built to support economic development and related reforms.

With respect to the fourth assumption, “CDB conditions are regarded as reasonable,” the evaluation concludes that this assumption does not hold. There is sufficient evidence in the cases that the PBLs are too broadly scoped in terms of their objectives, and that there are excessive numbers of prior actions. When CDB PBL prior actions are added to other MDB prior actions, the effort and capacity needed on the part of BMCs extends beyond their abilities. The evidence suggests that on paper, the number and focus of prior actions is improving with recent PBLs, but that they continue to address too wide an array of objectives.

**Conclusion 8:** *The majority of observed effects are short-term in nature. There is room for more focus on medium-term outcomes.*

Findings 22 to 25 relate to the following assumptions:

- BMCs meet prior actions;
- TA is regarded as useful;
- Appropriate risk mitigation strategies are deployed.

With respect to the first assumption, “BMCs meet prior actions,” the evaluation concludes this assumption holds partially, and with reservations. As with previous conclusions statements, the evaluation could not substantiate, other than through PCRs and related documents from other MDBs, that the prior actions had been met. Little documentary evidence was provided in the PCRs that would substantiate that prior actions were met, nor were any assessment criteria provided that could illuminate the assessment process, or the manner in which conclusions were drawn for individual prior actions.

Drawing on the PCRs and other documents, the majority of prior actions were addressed, but the evaluation could not validate or substantiate either the intended objectives at which the the prior actions were aimed, or the results. The evaluation could only conclude that most prior actions were addressed to the satisfaction of both CDB and the BMC.

The evaluation also concludes that there is sufficient evidence to suggest that CDB analysts are taking into consideration prior actions from previous PBLs when crafting new ones. The evaluation could not determine, however, the extent to which prior actions from previous PBLs were either completed as intended, or whether they had been completed as intended and new PBLs were building on that work. One can conclude based on the evidence that there appears to be some coherence in analysis and the setting of objectives from one PBL to the next.

With respect to the second assumption, “TA is regarded as useful,” the evaluation concludes that the assumption holds partially. The evidence suggests that where TA has been provided, BMCs responded well in general to the help they received from CDB. However, the general concern raised by BMCs is that it is expensive, resulting in assistance that was not always accepted. More importantly, there is significant discussion with BMCs and within CDB about the types of services to provide in this regard, and how to support BMCs over the short and medium terms. Given the breadth of the PBL objectives and, to some extent the prior actions, it makes sense that the design and delivery of TA would be a point of debate within CDB. In this respect, greater clarity regarding the intended scope and nature of TA is needed.

With respect to the third assumption, “appropriate risk mitigation strategies are deployed,” the evaluation concludes that this assumption holds partially. As indicated in previous conclusions, CDB risk mitigation

strategies could be improved significantly. There is little evidence to suggest that CDB risk mitigation strategies are working as intended, given that these have been applied generically across PBLs. However, it can be assumed from the evidence available that BMCs are deploying risk mitigation with some limited degree of success, which may or may not be related to those suggested by CDB. As there are observed results, it is apparent that some risks are being mitigated. Several BMCs indicated that as a general approach to risk mitigation, the performance of the PBLs is improved markedly when there is an identified champion, who has the authority and resources to act on implementing the prior actions, and leading reform efforts. The evaluation found evidence that in a few of the cases the use of champions was serving to increase the probability that prior actions would be implemented as intended.

## 5.4 Final Comments

Given the complexity of the PBL programme, and of this evaluation exercise, a few comments are offered by way of summary. Evidence suggests that several assumptions in the ToC logic may not be holding, or that they are holding partially. That said, in broad terms the ToC for the PBL programme has been found to be valid. It is very clear from the evidence that significant improvement in the design, management and implementation of the PBL programme has occurred since the programme commenced. The aggregate of results from PBL investments suggests that aside from national legislative, technical, and policy changes, the real success story is a marked increase in awareness and openness to reform agendas among BMCs. Challenges remain regarding the degree of commitment, leadership, and culture change needed to support reforms. However, there also appears to be a collective recognition that PBLs are making a contribution not simply to economic growth, but to attitudes regarding entrepreneurship, innovation, and a collective sense that better governance leads to sustainable development. The evaluation team regards such efforts by CDB to be a positive contribution, borne out by evidence of the accepted narrative of the importance of policy and institutional improvement among BMCs.

## 6. RECOMMENDATIONS

The findings and conclusions of this evaluation, based on evidence generated from document review, well researched case studies, and a wide range of interviews, suggest that several key factors increase the likelihood that PBLs will achieve their desired results. These are:

- Clear objectives and results logic, with indicators and targets that can be measured and verified;
- Selective focus on a manageable number of expected reform outcomes;
- Agreement on limited number of prior actions that are clearly linked to those outcomes;
- Good understanding of external risks, and elaboration of mitigation strategies;
- An engagement process with BMCs that engenders ownership and commitment on the part of borrowers;
- A menu of PBL options that offers the right instrument calibrated to borrowers' reform readiness;
- An understanding of national capacity constraints and, where needed, provision of TA to address them;
- Designation of an identified champion in the national public service with responsibility and authority for achieving reform results;
- Consistent monitoring to identify when conditions are met, and the degree of progress towards reform outcomes

While this evaluation has found that CDB's PBLs are increasingly taking account of these factors, this has not universally been the case. Effort is needed to lock in the positive trend. To that end, the following recommendations are offered:

1. CDB should review its practice of “Management for Development Results” in the PBL programme. It should ensure that its design process respects good MfDR practice, with clearly stated expected outcomes and SMART indicators. The robustness of the results framework should be a primary criterion for quality at entry. Where necessary, staff responsible for PBL design and monitoring should have access to training in MfDR techniques, as well as occasional expert advice from a results specialist.

A corollary of more carefully stated results frameworks would be more tailored risk mitigation strategies. To date, such strategies have tended to be generic across PBLs. They should rather be more closely matched to the specific circumstances of the national context and reform programme.

2. Taking account of: i) the limited size of its PBL loans; ii) BMC priorities and its own Country Strategy; and iii) with an agreed longer term reform programme in mind; CDB’s policy based lending should focus on a limited number of key outcomes, with prior actions that are causally linked to them. This focus should ideally be maintained over time, with prior actions in successive PBLs building incrementally on one another.
3. National ownership and leadership are indispensable to the success of development reform programs. CDB’s should facilitate these to the greatest extent possible through its engagement with BMC’s in PBL design and implementation. This requires consultation with a sufficient breadth of national stakeholders, at both leadership and implementation levels, to gain commitment and follow through on reform objectives and prior actions. A good practice to be encouraged is designation of a “champion” from the BMC’s public sector for implementation of targeted reforms.
4. Small economies experience serious capacity constraints in attempting to implement reform programmes. These need to be anticipated and responded to as part of an effective PBL programme. Relative to other MDBs, CDB has an intimate understanding of the contexts and constraints of its BMCs. Yet there has been limited needs analysis or uptake of CDB TA in connection with its PBL loans. CDB should investigate the reasons for this, ensure that potential TA requirements are well analysed at the design stage, and flexibly offered during implementation.
5. Different countries find themselves at different stages of readiness for PBL-supported reform programmes. While the 2013 revised framework for PBL lending introduced an appropriate emphasis on placing loans within a longer term reform context, (through the programmatic series approach), there is still sentiment that multi-tranche PBLs may be well suited to BMCs requiring more structured and predictable prior actions. CDB should ensure that the right PBL instrument is matched to each reform context.
6. Monitoring and completion reporting are important parts of the effective implementation and accountability of the PBL programme. CDB should ensure that these tasks are consistently carried out, with a results focus, for all PBLs. This should go beyond verifying that prior conditions have been met, to assessing the extent to which these actions are contributing to reform outcomes. CDB should also consider extending monitoring efforts beyond the timeframe of PBL disbursements. The outcomes of interest are after all medium and longer term reforms, and CDB will wish to track these as part of its overall country strategy process.

**APPENDIX A**  
**EVALUATION APPROACH AND METHODOLOGY**

**CARIBBEAN DEVELOPMENT BANK:**  
**POLICY-BASED LENDING PROGRAMME**

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## ABBREVIATIONS

BMC	Borrowing Member Country
CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
CSP	Country Strategy Paper
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDB	Multilateral Development Bank
OECS	Organisation of Eastern Caribbean States
OIE	Office of Independent Evaluation (CDB)
PBL	Policy-Based Loan
PCR	Project Completion Report
PSR	Project Supervision Report
TA	Technical Assistance
TBS	Treasury Board Secretariat of the Government of Canada

## THEORY-BASED EVALUATION AS AN APPROACH

This evaluation employed a qualitative, theory-based approach (TBA), designed to provide a “coherent conceptual framework for interpreting findings and reporting results.”<sup>14</sup> Case studies of CDB’s PBL experience in Barbados, Grenada, Jamaica, and St. Vincent and the Grenadines were undertaken to provide evidence in support of the TBA.

Central to a TBA is elaboration of a Theory of Change (ToC) to describe the programme or intervention in question. This provides an overall understanding of the desired outcomes, and the activities, outputs and causal mechanisms for achieving them. It is possible to graphically depict the ToC, (which has been done here in figure 1 below), to facilitate understanding of these various elements.

The contexts and conditions under which the intervention operates can be expected to influence whether and how desired change occurs. Therefore, in the design of a theory-based evaluation, indicators are developed that place contextual factors in priority, and are expressed as assumptions behind an intervention’s approach to change.

Like other social science research methodologies, logic modelling is an imperfect tool for establishing causal inference. Just as uncertainty in drawing conclusions is inherent to scientific research, so too are there challenges associated with reducing complex social phenomena into simplified measurable variables.

As King, Keohane, and Verba note:

[W]hat we perceive as complexity is not entirely inherent in phenomena: the world is not naturally divided into simple and complex sets of events. On the contrary, the perceived complexity of a situation depends in part on how well we can simplify reality, and our capacity to simplify depends on whether we can specify outcomes and explanatory variables in a coherent way. Having more observations may assist in this process but is usually insufficient. Thus “complexity” is partly conditional on the state of our theory.<sup>15</sup>

Nonetheless, according to the TBS guidance on theory-based evaluation, there is a methodological rigour inherent in such an approach:

For most interventions, there are usually multiple causes for an observed outcome. A wide range of other economic and social factors, not to mention other government interventions, may also come into play...[S]eeking a clear “one to one” causation that can be wholly attributed to one mechanism (finding the cause) is not possible. Rather, the relevant evaluation question is: In light of the multiple factors influencing the results, has the intervention made a noticeable contribution to an observed outcome and in what way? Understanding *contribution*, rather than proving attribution, becomes the goal.<sup>16</sup>

With the above referenced literature in mind, this evaluation has a design limitation that affects its explanatory power. Human resource and logistical constraints necessitated use of an all-inclusive logic model that applies the same assumptions and exogeneous factors across all BMCs. In doing so, theoretical

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<sup>14</sup> Sue C. Funnell & Patricia J. Rogers. 2011. *Purposeful Programme Theory: Effective Use of Theories of Change and Logic Models* (San Francisco, CA: Jossey-Bass).

<sup>15</sup> Gary King, Robert O. Keohane, and Sidney Verba. 1994. *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton, New Jersey: Princeton University Press), 10.

<sup>16</sup> TBS. “Theory-Based Approaches to Evaluation.” 2015. Ottawa: TBS. Section 3.

complexity and investigative specificity are traded off in favour of a more homogenous approach. A consequence is that the model does not permit a detailed examination of internal and external contextual factors unique to each BMC, that potentially influence their PBL's efficacy. A homogenous approach does however allow cross-country comparisons that provide a meta-view of the PBL programme. The case studies do provide some balance between a meta and country specific view by interpreting the ToC assumptions in a way that accounts for local circumstances. It is not a perfect evaluative framework, but is comprehensive in its use of information.

In summary, a theory-based approach using a ToC provides the basis for determining the extent to which an intervention is making a difference, identifying where evidence for claims of results achievement is most needed. Causality can be inferred when:

- The intervention is based on a reasoned ToC: the results chain and the underlying assumptions of why the intervention is expected to work are sound, plausible, and agreed to by key players.
- The activities of the intervention were implemented.
- The ToC is verified by evidence: the chain of expected results occurred, the assumptions held, and the (final) outcomes were observed.
- External factors (context) influencing the intervention were assessed and shown not to have made a significant contribution, or if they did, their relative contribution was recognised.<sup>17</sup>

## STEPS TO CARRY OUT A THEORY-BASED EVALUATION

There are some basic steps to follow when conducting a theory-based evaluation, relying on effective participation from stakeholders. These steps were followed in this evaluation:

1. Gather detailed background information on the evaluand (intervention);
2. Determine the stakeholders of the evaluand;
3. Create an evaluation design that includes a ToC, based on consultation;
4. Validate the ToC with stakeholder groups, including testable assumptions;
5. Establish measurable indicators for each assumption so that these may be tested, and validate that activities of the intervention were carried out;
6. Gather data and research findings for each assumption;
7. Come to conclusions about whether the assumptions held or did not hold in the evaluand's ToC;
8. Prepare the evaluation report.

## POLICY-BASED LOAN PROGRAMME THEORY OF CHANGE

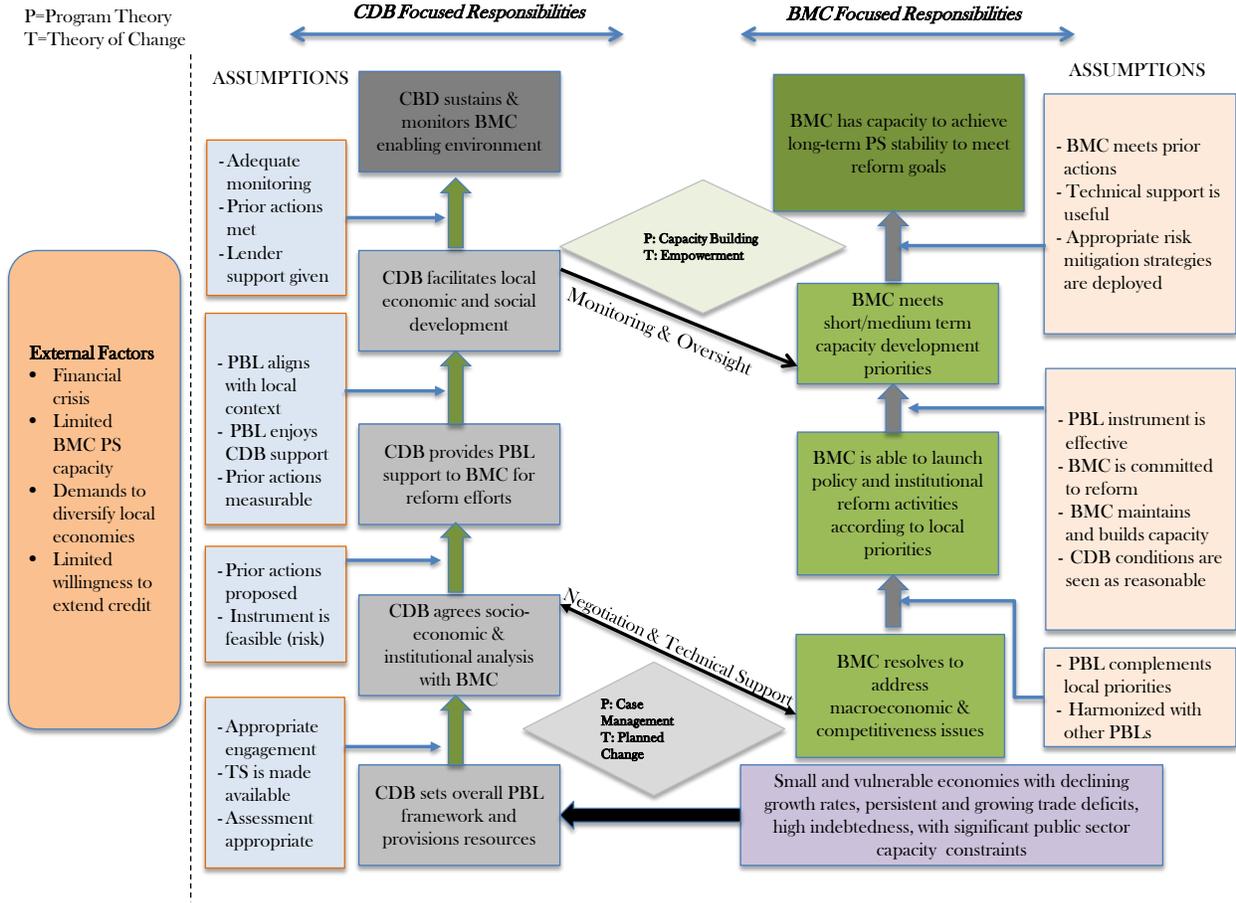
### General Description

The following provides a detailed description of the theory of change for the Caribbean Development Bank's Policy-Based Lending Programme. It highlights in particular the assumptions that were tested: process and implementation assumptions informing the CDB responsibilities for the programme; and, process and implementation assumptions informing the BMC responsibilities for the programme. Implicit in the following model is a recognition that CDB is responsible for the overall design of the PBL programme and the conditions for lending, and that BMCs have responsibilities to meet the loan conditions and implement local programmatic responses that are consistent with CDB expectations according to PBL contracts. In other words, CDB will agree to supply human and financial resources to BMCs to support policy-based lending objectives, if BMCs comply with the terms of the lending contract. In our view of the theory of change, these responsibilities are separate and exercised separately.

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<sup>17</sup> TBS. "Theory-Based Approaches to Evaluation." *Op.Cit.*, Section 4.

**Figure 1: Theory of Change: CDB PBL Programme**



As indicated, there are two elements of the model for analysis: CDB focused responsibilities; and, BMC focused responsibilities. These are depicted at the top of the model, and shown through separate logic chains below each. In this model, we have taken the view that process and effects are combined in one model in order that expected change intentions and responsibilities are depicted to show how the overall objective of the programme is met: resources are provided to “small and vulnerable economies with declining growth rates, persistent and growing trade deficits, high indebtedness, with significant public-sector capacity constraints.” Such an objective can also be understood as the *raison d’être* of the program – to assist struggling and vulnerable small and medium sized economies weather periods of slow growth, and fiscal deficits. This is achieved in the CDB PBL programme by providing human and financial resources in the short term that allow member countries to address policy and institutional issues so as to improve economic and social outcomes in the medium and long term.

### Theory of Change (T)

Inherent in ToC models are social change theories (“big theories”) about how change occurs for individuals, groups, organisations and communities. Action theories are a local expression of big theories. Obviously, there are many ways to activate large social changes.

Big theories of social change (T) are expressed differently in various disciplines such as criminology, psychology or political science. However, they are described here thematically and generically according to the evaluation literature, such as Funnell and Rogers conceptualisations<sup>18</sup>:

- Theories of reasoned action and planned behaviour: aimed at changing the attitudes, cognition, or behaviours of individuals, organisations, or communities premised on research informed modeling;
- Stages of change theory: aimed also at changing the attitudes, cognition, or behaviour of individuals based on a staged approach to change over time (e.g., create awareness, then change attitudes, then change cognition, then reinforce desired behaviours);
- Empowerment theory: can be aimed at individuals, groups or communities – the theory posits that programmatic outcomes will only be achieved in individuals, groups or communities believe they have the power to design and implement their own solutions;
- Diffusion theory: largely aimed at changing community behaviours, and behaviours of individuals en masse – the theory posits that desired behaviour can be achieved by aggregating the successful change in innovators that will manifest over time in larger and larger collections of individuals;
- Socioecological theory: can be aimed at individuals, families, groups, and communities and the interplay among all actors – the theory posits that collections of individuals, families, etc. are interconnected, and that change must occur as an ecology of connections between various actors in different contexts and conditions;
- Network theory: about the relationships, networks, and connections among entities, and not simply the characteristics of the entities themselves. Entities can be individuals, organisations, special issues groups, or countries. The theory posits that through the interaction of various networks, desired change will occur through mutually reinforcing attitudes, cognitions, and behaviours.

The evaluation understood the CDB PBL programme as premised on a theory of planned behaviour or change. That is, the programme provides a vehicle for BMCs to address policy and institutional issues according to a mutually agreed strategic plan outlined in a contractual arrangement. The theory is that if the BMC addresses these issues, then the probability of future economic crises will be reduced.

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<sup>18</sup> See: Funnell & Rogers. *Op.Cit.*, Chapter 11, 319-50.

With respect to encouraging behavioural change in BMCs, empowerment theory appears to be the best fit. The premise is that governance changes will not be effectual as long as local contexts and conditions are not considered. That is, in order for planned changes to occur, local governmental organisations and their leaderships must be committed and willing to embrace the desired changes and implement them accordingly.

### Theory of Action (P)

There are various theories of action (P) that may be used to activate theories of change. In the evaluation literature, like change theories, there are “archetypes” of action theories. Programme archetypes are classes of interventions that are used to activate mechanisms for change, and are often grouped by programme type such as:

- information programmes (e.g., advice, information provision, education);
- carrots and sticks (e.g., incentives and sanctions);
- case management (e.g., linear service provision programmes such as the processing of applications or addressing charges laid by offence);
- community capacity-building (e.g., entrepreneurial programs, or economic development); and,
- direct service delivery programmes (e.g., municipal welfare services).

### CDB Focused Responsibilities:

Figure 1 above depicts the programme theory for the PBL program, with distinct results chains for CDB and BMC focused responsibilities. For the former, its action theory follows the “case management” archetype. This archetype is premised on the idea that activities in a program are intended to follow a common set of eligibility criteria, and utilise a commonly accepted approach for determining whether applicants to the programme satisfy those eligibility criteria. Although each case or application may be unique in its circumstances, the cases are bound together by the nature of the problem(s) the programme wishes to address, which for the PBL programme are institutional, policy, and capacity constraints. Case management programmes are labour intensive for both the applicant, and the program personnel. A decision to adopt a case means committing significant resources to addressing a set of issues.

Case management programmes can be preventive, developmental, rehabilitative, or corrective.<sup>19</sup> In the evaluators’ view, the PBL programme is developmental in nature, as its intent is to develop the potential of BMCs more fully. A typical case management action theory conforms to the following logic, which appears to fit the CDB PBL programme:

- clients (BMCs mainly) agree to a realistic set of objectives for themselves, including the possibility of revisiting and revising objectives;
- clients agree to implement and monitor individualised programmes that are instituted to match their agreed objectives;
- short term objectives for clients are progressively achieved and reset as required;
- probability that objectives will be met improve;
- desired end results are achieved for clients (and the community/country).<sup>20</sup>

Ultimately, the CDB responsibilities are engaged by a collective agreement on planned change to improve BMC capacity, which is activated by an action theory premised on case management. The action theory

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<sup>19</sup> Sue Funnell and B. Lenne. 1990. “Clarifying Programme Objectives for Programme Evaluation,” *Programme Evaluation Bulletin*, January.

<sup>20</sup> Funnell & Rogers. *Op.Cit.*, 367.

assumes that BMCs desire outcomes to prevent additional crises from recurring. As such, it employs a commonly held set of eligibility criteria, and provides resources to BMCs when they satisfy those criteria.

### **BMC-Focused Responsibilities:**

The evaluation used the “capacity building” archetype to characterise BMC focused responsibilities. This action theory is used to empower communities. The following outcomes chain is most commonly used to highlight recurring features for such programmes:

1. Community (country) develops a better understanding of issues, opportunities and challenges that it can address and potential projects, or processes through which to address them (e.g., human capital, social capital, institutional capital, economic capital, natural capital);
2. Community (country) develops an awareness and understanding of one or more elements of its existing capacity;
3. Community (country) develops a better understanding of the relevance of its existing capacity to take up opportunities, projects, and challenges, what additional capacity is required, and who requires it;
4. Community (country) identifies and undertakes activities, processes, and projects that successfully develop required capacity;
5. Community (country) taps into and applies existing and/or newly developed capacity to address challenges and seize opportunities;
6. Community (country) identifies how it can sustain and enhance its capacity and looks for new opportunities to apply capacity;
7. Ultimate change: Stronger communities (country case): Enhanced and maintained well-being of communities (country).<sup>21</sup>

Ultimately, BMC responsibilities are engaged by a collective sense of empowerment to build capacity in ways appropriate to local context and conditions. Such a ToC is activated by a capacity building archetype that assumes BMCs will work through the logic steps identified above by co-producing a strategic plan, and set of prior conditions aimed at facilitating the capacity-building effort. Empowerment suggests by definition that BMCs will participate fully in the negotiation of prior conditions, and develop their own strategies for implementing plans to facilitate their completion according to their own priorities and ways of doing things.

## **PBL PROGRAMME ASSUMPTIONS**

### **Identifying and Validating the Assumptions**

Assumptions that could be tested in the evaluation were identified along the two outcome chains in the ToC depicted in Figure 1. In the planning stage of the evaluation in 2015, CDB and a sample of BMC officials were consulted about the design and expected results of the PBL programme. These results chains and associated assumptions were validated again in early 2017, and a final ToC approved by OIE.

Case studies were conducted to provide evidence on whether the assumptions along the CDB and BMC process and outcomes chains held or not. From a theory-based perspective, it stands to reason that if the assumptions held, the probability of the expected outcomes being achieved would be greater, especially at the initial points along the chains. In addition, the model accounts for external confounding factors that were likely to influence the causal pathway, such as regional social and economic contexts and conditions.

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<sup>21</sup> *Ibid.*, 371.

## Assumptions Tested

Table 1 provides a summary of the assumptions that were tested in the case studies - those supporting CDB focused responsibilities, and those supporting BMC focused responsibilities. The evaluation sought to determine whether the conditions under which the PBL programme operates actually held in implementation. Table 1 presents the assumptions that were tested.

**TABLE 1: THEORY OF CHANGE ASSUMPTIONS BEING TESTED**

<b>Category</b>	<b>CDB-focussed Assumptions</b>	<b>BMC-focussed Assumptions</b>
Relevance of the PBL Programme	<ul style="list-style-type: none"> <li>• Appropriate support is offered</li> <li>• Instrument is harmonised</li> <li>• Prior actions negotiated</li> <li>• PBL aligns with local context</li> <li>• Assessment is appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• PBL complements local priorities</li> <li>• PBL is harmonised with other PBLs</li> </ul>
Appropriateness of Conditions	<ul style="list-style-type: none"> <li>• Behaviour expectations are clearly expressed</li> <li>• Conditions of support are met (CDB carries out its responsibilities)</li> </ul>	<ul style="list-style-type: none"> <li>• Access to technical support is appropriate</li> <li>• Prior actions are negotiated</li> <li>• Investments in capacity building are enabled</li> <li>• Appropriate risk mitigation strategies are deployed</li> </ul>
Observable Effects	<ul style="list-style-type: none"> <li>• Funds are timely/Processing of contracts works well</li> <li>• Monitoring framework in place</li> <li>• CDB implementation conditions are appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Prior actions and other conditions are met</li> <li>• Reforms are seen as useful and sustainable</li> <li>• BMCs maintain and build on expertise</li> </ul>

## Field-Testing the Assumptions

In order to test the assumptions, the evaluation focused on three main evaluation criteria along the causal pathways to guide the collection of documentary data, and to frame the semi-structured interviews and focus groups (discussed under Data Collection Strategy):

- Need for and Relevance of the CDB PBL Programme;
- Appropriateness of the conditions; and,
- Observable effects of the CDB PBL Programme.

As indicated in Table 1, the evaluation pursued two main lines of inquiry. First, it assessed the extent to which CDB's activities aimed at supporting reforms were appropriate and useful. Second, it investigated whether BMC activities to implement the reforms outlined in CDB contracts were being undertaken. For the BMC causal pathway, it was important to explore process factors and external conditions; as well as observed effects to the extent there was data available to corroborate them.

Typically, in a theory-based evaluation, the evaluation criteria are tested sequentially given that the veracity of the assumptions at the inputs-activities level should hold in order that those following have a greater probability of also holding. It is possible that assumptions further along the causal pathway can hold even if earlier ones did not, but the extent to which expected results are realised may be impaired, or the manner in which such results are realised may not align, or align consistently, with the programme’s design.

The evaluation carried out a three-step test of the evaluation assumptions, by asking specific questions for each set of CDB and BMC assumptions. In theory-based evaluation, one examines the likelihood that assumptions along later parts of the causal pathway(s) are able to hold if earlier assumptions do not hold. As such, conclusions in a theory-based design focus on the extent to which assumptions along the causal pathway(s) influence the likelihood that the entire ToC is defensible and supported. In other words, if there are assumptions that do not hold, a theory-based approach determines the extent to which these are significant enough to affect the achievement of intended outcomes. These questions are used to guide data collection, and the coming to findings.

Table 2 provides the questions used by the evaluation for each criterion:

**TABLE 2: ASSUMPTIONS TESTS BY EVALUATION CRITERION**

<b>Assumptions Tests</b>	
<b>1: Relevance of the PBL Programme</b>	<ul style="list-style-type: none"> <li>• Does the CDB PBL programme support country objectives for reform?</li> <li>• Is the design of the CDB PBL programme appropriate?</li> <li>• Is the CDB PBL programme relevant given alternative programs available to BMCs?</li> </ul>
<i>If the first set of assumptions hold, examine the next questions.</i>	
<b>2: Appropriateness of the Conditions</b>	<ul style="list-style-type: none"> <li>• Is there an appropriate match between the conditions outlined in the PBLs, and the priorities of BMCs?</li> <li>• Are the conditions calibrated to the capacity limitations of the BMCs?</li> <li>• Does the benefit of implementing the conditions outweigh the costs of using the PBL?</li> <li>• Is technical support offered and appropriate?</li> </ul>
<i>If the first and second set of assumptions hold, examine the next questions.</i>	
<b>3: Observable Effects</b>	<ul style="list-style-type: none"> <li>• Is there an appropriate monitoring strategy for the programme?</li> <li>• Are there observable effects that can be attributed to the programme?</li> <li>• Are there improvements that can be made to the programme?</li> </ul>

## DATA COLLECTION STRATEGY

Each of the questions in Table 1 was explored through various data collection methods, or lines of evidence, including semi-structured interviews, focus groups on findings validation; and, document reviews in various organisations.

Data collection for this evaluation was conducted in two phases. In the first phase, four BMC case studies, and a review of CDB documents and interviews were conducted in the fall of 2015. Given that some PBLs were in process at the time, it was decided to carry out a validation exercise of the case studies in the spring of 2017. Part of the second phase was the conduct of interviews and focus groups at the 2017 CDB Annual Meeting held in Providenciales, Turks & Caicos. Subsequent telephone interviews were also conducted to consult officials who were not present at the Annual Meeting and who could provide more specific information. This second phase of interviews allowed for additional analysis of the cases, and to validate findings to that point in the evaluation. Each of the case study reports provides a detailed list of interviews and documents reviewed over the two phases. The main report synthesises evidence from all interviews and documents reviewed over the course of the evaluation.

### **Semi-Structured Interviews**

Interviews were conducted with CDB officials, CDB development partner officials, BMC officials, and BMC stakeholder groups in various capacities. See Appendix H of the main summary report for a detailed listing of interviews for Phase 1.

#### CDB Officials:

- Board of Directors representatives;
- Programme or Unit Directors;
- Country analysts;
- Support analysts, including OIE analysts.

#### Selected CDB Development Partner Officials:

- Caribbean Regional Technical Assistance Centre (CARTAC);
- Eastern Caribbean Central Bank;
- Eastern Caribbean Currency Union;
- International Monetary Fund (IMF);
- Inter-American Development Bank (IADB);
- Organisation of Eastern Caribbean States (OECS).

#### BMC Officials:

- Ministers;
- Permanent Secretaries, Deputies;
- Senior Executives (below the rank of Permanent Secretary, Deputy);
- Programme Managers (e.g., ministries of finance); and,
- Programme Analysts.

#### BMC Stakeholder Groups:

- Private sector organisations (e.g., banks);
- Non-profit and community-based organisations.

## Focus Groups:

Two focus groups were conducted in the 2017 validation exercise with selected CDB officials, and two with BMC officials at the Annual Meeting in May 2017.

## Document Reviews:

The following categories of document were reviewed as part of this evaluation:

- Economic data from CDB, IMF, World Bank, and the case study BMCs;
- CDB appraisal reports, country strategy papers (CSPs), country performance assessments (CPAs), previous PBLs;
- CDB implementation documentation (e.g. project supervision reports (PSRs), project completion reports (PCRs), project completion report validations (PCVRs));
- Various case study BMC documentation (e.g. reform plans, poverty assessments);
- Multilateral Development Bank reports, papers, and PBLs; and,
- Other documentation (e.g., sectoral studies, community-based reports, private sector reports).

Table 3 delineates the various lines of inquiry, and associates them with the evaluation questions to support the assessment of the assumptions. Although the table does not provide a precise association of data gathering approaches to assess CDB and BMC responsibilities, it is a reasonable approximation of the uses of the lines of inquiry.

*Note: Questions are numerated according to Table 2.*

**TABLE 3: DATA GATHERING STRATEGY BY EVALUATION QUESTION**

Question	Interviews				Focus Groups	Documents Reviews					
	CDB Officials	CDB Partners	BMC Officials	BMC Other		Economic Data	CDB General Docs	CDB Implem. Docs	BMC Docs	MDB Docs	Other Docs
<b>Need and Relevance of the PBL Programme</b>											
1.1	x		x		x	x	x	x	x		
1.2	x		x		x		x	x	x		
1.3		x	x	x	x		x		x	x	x
<b>Appropriateness of the Conditions</b>											
2.1	x	x	x		x	x	x	x	x		x
2.2	x		x		x		x	x	x		
2.3		x	x	x	x		x	x	x		
2.4	x	x	x		x		x	x	x		
<b>Observable Effects of the PBL Programme</b>											
3.1	x		x	x	x		x	x	x		
3.2	x	x	x	x	x	x	x		x	x	x
3.3	x	x	x		x		x	x	x		

Based on this data collection strategy, detailed instruments were created for the three main lines of inquiry: semi-structured interviews, focus groups, and document reviews. For purposes of maintaining some brevity, the instruments are not included here. The instruments were constructed based on specific data indicators for each assumption.

**APPENDIX B:**

**Policy Lending and Budget Support: A Meta-Analysis of Results and Evaluation Methodologies**

**Policy Lending and Budget Support:  
A Meta-Analysis of Results and Evaluation Methodologies**

**Ruby Dagher  
Deborah Nurse  
Gina Pattugalan**

May 2015

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## ABBREVIATIONS

BMC	Borrowing Member Country
CDB	Caribbean Development Bank
CEF	Country Evaluation Framework
DAC	Development Assistance Committee
ECG	Evaluation Cooperation Group
GBS	General Budget Support
IEG	Independent Evaluation Group
IFI	International Financial Institution
JBS	Joint Budget Support
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MfDR	Management for Development Results
OECD	Organisation for Economic Cooperation and Development
OIE	Office of Independent Evaluation
OVE	Office of Evaluation and Oversight
PAS	Performance Assessment System
PBL	Policy-Based Loan
PCR	Project Completion Reports
PFM	Public Financial Management
PGBS	Partnership General Budget Support
PIA	Poverty Impact Assessment
PPAR	Project Performance Audit Reports
PSBS	Partnership Sector Budget Support
RFM	Results Framework Matrix
SBS	Sector Budget Support
TA	Technical Assistance

## Executive Summary

This report is the result of a meta-analysis commissioned by the Caribbean Development Bank (CDB). The report assesses the major findings regarding the evaluation results of assistance provided through budget support and policy-based loans (PBLs). It also assesses the methodologies used to evaluate both aid instruments.

According to the review of existing research, budget support initiatives have had varying levels of achievement. Successes include increases in the services provided to the population, decreases in interest rates paid on public debt, improvements in public financial management practices, increases in public expenditure, and increases in macroeconomic stability. The provision of aid through this modality has also sometimes led to negative results, including a decrease in the quality of public services provided and an increase in transaction costs for the recipient country government. The analysis also identifies areas where budget support failed overall to improve the situation (a non-effect). These include areas related to aid effectiveness, country policy development, good governance, and domestic revenue.

The research on PBLs has also indicates mixed results. Their use has helped improve budgeting, fiscal sustainability, increased coordination, economic management, and certain early social development facets (increased service delivery in certain social sectors like education). However, PBLs have also been associated with certain undesired outcomes that result from a lack of sustainability of results and an incomplete assessment of actual local conditions. These loans have also had little measurable impact on long-term development and long-term sustainable change.

The success of both modalities, as indicated in the literature, depends on a proper assessment of the local conditions; a strong assessment of the political economy related to the power dynamics, local ownership and commitment; a valid and reliable performance management framework; the provision of complementary technical assistance (TA); a simple and realistic reform agenda; flexibility in complying with changing conditions and adapting to local situations; and the targeting of the different levels of government (central, regional and local) so as to ensure sustainability.

However, the results of the research identify some differing trends between the modalities. Budget support evaluations identify the need to avoid including an evaluation of the effect that PBLs have on good governance, given the unsubstantiated causality between budget support and improved governance and the political backlash that it has caused on numerous occasions. Second, budget support evaluations tend to recommend the delivery of TA through independent projects as a means to ensure that enough attention is placed on TA and capacity building. As is demonstrated below, the evaluations of PBLs seem to take the opposite view in both of these areas. In essence, as budget support evaluations are highlighting the need for clarity and simplicity (by removing TA from budget support activities, minimising conditionalities, and limiting or removing good governance principles), recent recommendations for PBLs often involve the addition of goals and activities (attaching good governance principles to projects and increasing the focus on TA within PBLs). Given the richer history of budget-support and the significant number of evaluations completed, the evidence associated with attaching technical support and good governance principles indicates the need for a much more cautious approach.

The evaluation methodology used to assess both modalities indicates the near impossibility in addressing attribution and causality. Evaluation methodologies often assess the soundness of the theory of change by assessing the lower level outcomes and outputs. However, the methodological practices for both modalities attempt to compensate for this weakness by using both qualitative and quantitative data and slightly different, yet onerous, systems to attempt to establish some sort of a counterfactual.

As for the PBL, the recommendations offered in this report voice a note of caution regarding the addition of good governance principles and embedded TA components to PBLs that might repeat some of the same challenges that have been experienced with most budget support initiatives.

As related to CDB's evaluation framework for PBLs, the report identifies the presence of adequate tools and policies, including a strong results-based matrix and the existence of a theory of change, evidence-based diagnosis and evaluation techniques, and the use of evaluation criteria based on relevance, sustainability, efficiency, effectiveness, and impact. The analysis has also identified documents that highlight the Bank's intentions to assess the risks associated with PBLs and their impact on the achievement of results, evaluate its own performance as a lender, evaluate the performance of the borrower (government), assess local ownership, assess the tool itself (PBL) and its objectives, and evaluate its cost effectiveness.

However, the analysis has also indicated six main weaknesses in the Bank's approach to evaluations. These are: (1) an insufficiently detailed methodology or operations guideline for the evaluation of PBLs; (2) inadequate emphasis on harmonisation and predictability of tranche releases; (3) the less-than-rigorous assessment of the use of multiple tranches and conditional clauses; (4) not enough emphasis on the assessment of alternatives as a means to ensure that the specific PBL is the right approach; (5) a less than rigorous enough assessment of the presence and impact of other projects or loans; and (6) the lack of tools to assess the impact of PBLs on the long-term goal of poverty reduction.

As such, it is recommended that the Bank establish a more detailed methodology for evaluating PBLs, one that it has the resources to implement and that addresses the six main weaknesses indicated above. It is also recommended that the Bank establishes clarity regarding the measurement of long-term impacts – whether its aim is to assess the theoretical or actual link between inputs and poverty reduction. Depending on the decision taken by the Bank in this regard, the Bank can draw on existing frameworks as a means to improve its existing methodology.

## Introduction

The Caribbean Development Bank (CDB) began issuing Policy-Based Loans (PBLs) in December 2005. The loans were a means to support local Caribbean governments in their efforts to develop policies, manage policy reform and institutional change, and ultimately support economic development and poverty reduction.

PBLs are offered by all of the multilateral development banks. They are considered to be a tool that provides flexible support for making institutional and policy changes that are deemed necessary in a specific sector or a subsector. Most PBLs target a country's macroeconomic policies as a means to improve macroeconomic stability and government finances.

There are many commonalities between the goals and methodologies of PBLs and budget support initiatives (e.g. policy change, public financial management and institutional systems as a means to improve economic development and decrease poverty). There are also many lessons learned from budget support initiatives and non-CDB PBLs that can be drawn upon to help the Bank improve its performance in the area of PBLs. Moreover, given the observed similar difficulties associated with the evaluation of these two modalities and the richer history of budget support initiatives and their evaluations, an analysis of these two instruments' performance and evaluation methodologies is useful.<sup>22</sup>

This report represents the findings of a meta-analysis of the performance of budget support initiatives and PBLs, a meta-analysis of evaluation methodologies of budget support initiatives and PBLs, and an assessment of CDB's current PBL evaluation methodology as compared to that of other Banks and donors. The results and recommendations found in this study are expected to contribute to the improvement of CDB's evaluation methodology of PBLs.

The report begins with an analysis of budget support instruments, their results, the lessons learned, and an assessment of the budget support evaluation methodology. The analysis then turns to PBLs, their results, the recommendations, and their evaluation methodology. Before presenting the overall comparative results of the analysis, the report offers an overview of the characteristics of CDB's PBLs and the Bank's existing evaluation methodology. The report ends with two sets of recommendations with the first set targeting the improvement of the instrument itself, and the second set providing the key points that are likely to be considered for when CDB undertakes an improvement of its PBL evaluation strategy.

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<sup>22</sup> While there are other instruments that might provide interesting lessons, none share as many features. Comparing these two instruments allows the analysis to limit the variation resulting from instrument-related features.

## 1. Budget Support

### Evaluation Outcomes

#### Defining Budget Support

According to the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), budget support is defined as a method of financing a partner country's budget through a conditional transfer of resources from an external financing agency to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures.<sup>23</sup>

The provision of budget support is dependent on specific disbursement conditions that are agreed upon between the development partner(s) and the government. With an intention of supporting the national government's implementation of its national development strategy, the provision of budget support allows for a focus on policy dialogue, capacity development, and improved financial management. Budget support also includes activities that support good governance initiatives as a means to improve the manner in which the government operates and thus the resulting benefits accrued by the population (e.g., increased delivery of social goods and services).

There are several types of budget support initiatives depending on the number of development partners and the areas of focus. Budget support could focus on supporting the government's overall national development strategy (General Budget Support (GBS)) or a development strategy for a specific sector (Sector Budget Support (SBS)). The provision of budget support, whether GBS or SBS, can be provided through the initiative of a single development partner (GBS/SBS) or various development partners (Partnership General Budget Support (PGBS)/Partnership Sector Budget Support (PSBS)).

In all of these cases, the main inputs or activities provided through budget support typically include transfer of funds, policy dialogue, support for capacity building, and the provision of TA. Therefore, according to the OECD DAC, the direct results of the activities associated with budget support are expected to lead to the following short-term results:

- "Increased size and share of external funding made available through the government budget;
- Increased size and share of the government budget available for discretionary spending;
- Increased predictability of the disbursements of external funds;
- Improved policy dialogues and more effective (disbursement) conditions through better coordination, more consistency with the government priorities and stronger incentives for effective implementation of government strategies;
- Better coordinated TA and capacity building support provided in the context of the budget support programme(s), which are more consistent with government priorities and more conducive to the effective implementation of government strategies;
- A better coordinated and harmonised total package of external aid provided to the partner country, which is also more aligned with the government's policies and implementation systems; [and]
- Reduction of transaction cost of providing and receiving aid at the level of both the partner government and the donors."<sup>24</sup>

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<sup>23</sup> OECD/DAC, "Harmonising donor practices for effective aid delivery," Volume 2, 2006.

<sup>24</sup> OECD/DAC, "Evaluating Budget Support: Methodological Approach," 2010, p 11.

The OECD DAC also highlights the following key induced outputs<sup>25</sup> or short-term outcomes that can result from actions undertaken through budget support initiatives and/or other non-budget support factors (e.g. assistance provided through other projects or programmes and/or other external factors):

- “Improved macroeconomic and budget management (including revenue and expenditure policies, inflation and debt management, monetary and foreign exchange policies, trade policies, etc.);
- Increased quantity and quality of goods and services provided by the public sector;
- Strengthened public financial management (PFM) and procurement systems (including improved fiscal discipline, transparency and oversight, and enhanced allocative and operational efficiency including closer links between policies and budget allocations);
- Improved public policy formulation and execution processes;
- Strengthened public sector institutions;
- Enhanced allocative efficiency of public expenditure, including closer links between policies and budget allocations;
- Strengthened links between the government and oversight bodies in terms of policy formulation and approval, financial and non-financial accountability and budget scrutiny; [and]
- Other improvements in governance issues (e.g. improved relations between central and local governments).”<sup>26</sup>

The medium term outcomes<sup>27</sup> at the level of beneficiaries (the population and economic actors) are affected by the budget support initiatives, the manner in which the beneficiaries react or respond to the changes in public policy and resource allocation, and the influence of external factors. As such, an evaluator’s ability to assess the strength of the causal relationship between budget support and the medium term outcomes is severely weakened. The medium term outcomes include:

- “Increased use of goods and services provided by the public sector in the areas targeted by the government policies and activities supported by BS programmes, and enhanced positive outcomes thanks to increased quality and quantity of public goods;
- A positive response from economic actors in terms of increased business confidence and growth of private sector investment and production;
- Improved competitiveness of the economy; [and]
- Improved confidence of the population in the performance of the government, particularly as regards governance, PFM and service delivery.”<sup>28</sup>

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<sup>25</sup> According to the OECD DAC, induced outputs are second level results flowing from direct outputs of budget support activities: “The induced outputs refer particularly to changes (improvements) of government policies and services, which are not the result of the BS [budget support] programme alone but also of various other government actions and decisions, other external assistance programmes; and external non-government related factors.” OECD/DAC, “Evaluation Budget Support: Methodological Approach,” 2010, p 10.

<sup>26</sup> Ibid, p 12.

<sup>27</sup> According to the OEC DAC, medium term outcomes are “envisaged positive effects at the level of final beneficiaries – service users and economic actors – due to improved government policy management and service delivery.” OECD/DAC, “Evaluating Budget Support: Methodological Approach,” 2010, p 8.

<sup>28</sup> Ibid, p 12.

According to the theory of change or the logic of the relationship between the various levels of results, the long term outcomes are expected to include:

- “Enhanced sustainable and inclusive economic growth;
- Reduced income poverty and non-income poverty; [and]
- Empowerment and social inclusion of poor people and disadvantaged groups (including women).”<sup>29</sup>

This programme theory or logic of intervention is presented graphically in Figure 1.

## Results

The meta-analysis of the evaluations<sup>30</sup> of budget support initiatives indicates an overall acknowledgement of the weak

### **Budget Support’s Role in Social Services**

Keeping in mind the difficulty of establishing causality, DANIDA’s evaluations reveal that budget support has led to the expansion of access to basic education (e.g. Ghana, Mali, Tanzania, Tunisia and Zambia) and health services (e.g. Ghana, Mali, Zambia). Budget support also helped in the expansion of the road network (e.g. Tanzania and Zambia) as well as the improvement in access to both justice and water/sanitation (e.g. South Africa). Moreover, in some cases, these results have been accompanied by progress in the equity of access to services: geographical equity in access to education services in Tunisia and Tanzania, and improved access to justice for marginalised groups in South Africa. In some cases though, the results of budget support initiatives have been uneven. For example, budget support funding was directed to the improvement of the Zambian primary road network at the expense of rural roads, and large-scale expansion of services in basic education in Ghana, Tanzania and Zambia has been accompanied by a deterioration in the quality of the education and/or by average education outcomes.

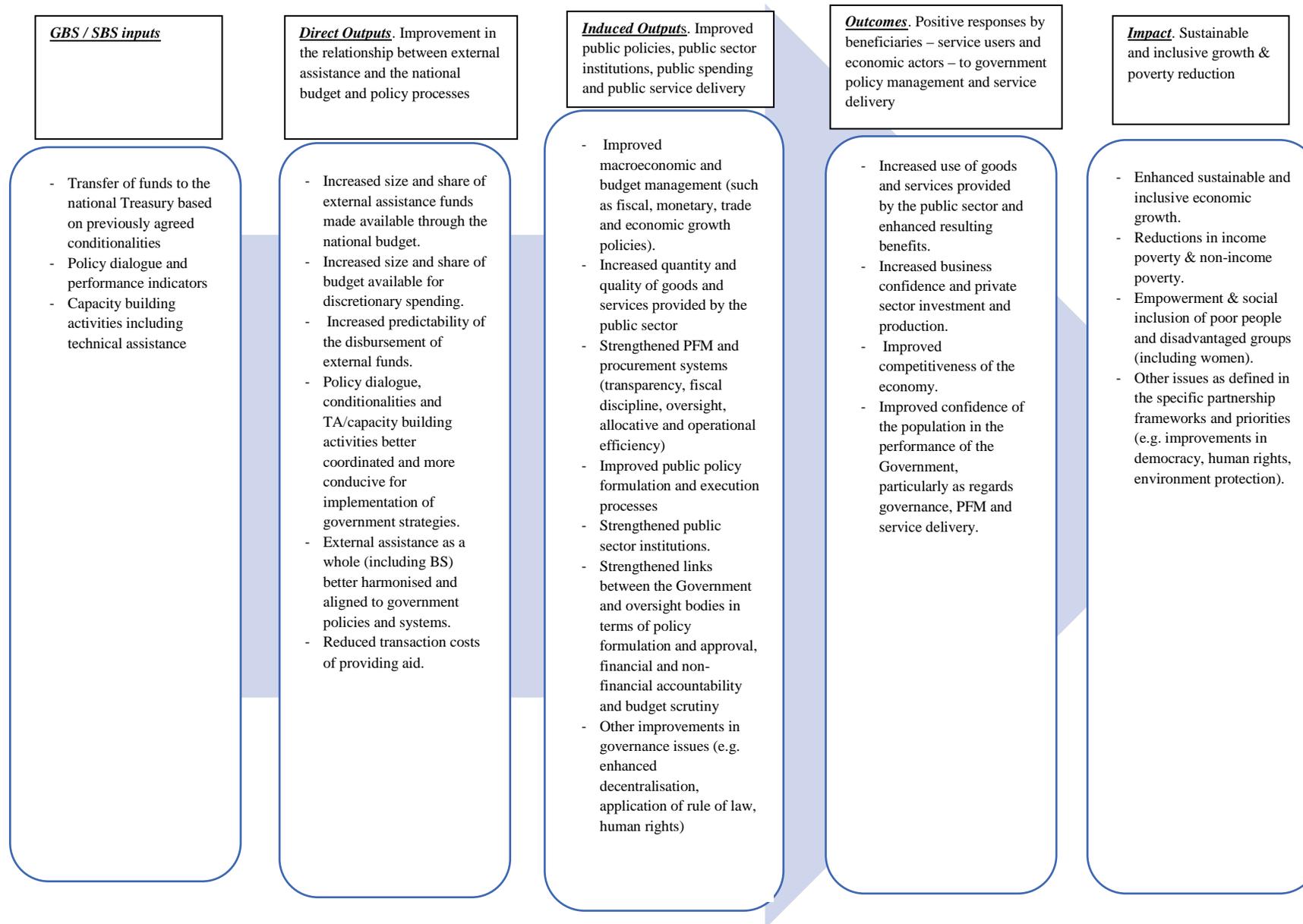
Source: DANIDA, “Review of Budget Support Evaluations,” 2014, pp. 7-8.

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<sup>29</sup> Ibid, p 12.

<sup>30</sup> The meta-analysis covered eight studies and evaluations of budget support initiatives. The documents reviewed include: evaluation methodologies; case studies; policy documents; good practices notes; and meta-evaluations of multiple country studies, agency specific evaluations and thematic studies.

Figure 1: Budget Support - Theory of Change (OECD-DAC, Evaluation Budget Support: Methodological Approach)



causal link between poverty reduction and budget support. The various factors at play make it impossible for anyone to claim that the provision of budget support has actually caused a decrease in poverty rates. However, multiple assessments completed on the performance of budget support as it relates to the achievement of the more immediate results have identified mixed results. Overall, the evaluations have demonstrated that budget support has had positive effects, negative effects and very limited or non-existent effects.

### *The positive effects*

According to the documents reviewed, budget support, like the example presented above, has led to the expansion of access to public services, the maintenance of macro-economic stability (fiscal reforms to help expand social services without significantly affecting the budget), a decrease in the domestic financing of the budget deficit, lower interest rates in certain countries, improvements in the public financial management systems, increased harmonisation (using multi-donor budget support structures, aligning budget support to national policy frameworks), some increase in economic activity (however, not necessarily pro-poor), increases in public expenditure, and improvements in policy coordination within the government.

### *The negative effects*

The analysis also indicates that budget support has led to a decrease in the quality of services even as access has increased. This has been linked to the speed of expansion and the limited financial and non-financial resources available to the government.

#### **Budget Support and Poverty Reduction**

DANIDA's evaluations suggest, at best, a weak link between the delivery of budget support and poverty reduction. Most evaluations conclude that the link between budget support, increased economic growth, and the reduction of income-poverty was inconclusive and inherently difficult due to the lack of appropriate data, long time lags between budget support inputs and likely impacts, numerous external factors at play, attribution problems, and the frequent lack of comprehensive growth strategies with a pro-poor focus at the country level.

Source: DANIDA, "Review of Budget Support Evaluations," 2014, pp. 7-8.

Joint Budget Support (JBS)<sup>31</sup> has also been associated with increased transaction costs as a result of excessive coordination and the excessive number of working groups associated with this instrument.<sup>32</sup>

### *Very limited or non-observable effects*

The use of policy dialogue as a form of TA, especially dialogue focused on disbursement conditionality, negotiation, and monitoring of results has had little impact on the development or improvement of country policies. Policy change has been affected by the increased tensions between national governments and donors associated with the development partners' requirements, the

overloading of the dialogue process and the unrealistic level of expected results and measurement indicators – in essence, there has been a minimum level of alignment in the preferences of development partners and recipient governments.

There has also been a non-existent or very limited effect on the generation of domestic revenue and on either the decrease or increase in corruption. The impact on human and civil rights, the rule of law, and democratic accountability has also been marginally influenced by budget support. There are three primary causes for this underperformance: (a) the various donors' inconsistent approaches and the levels of

<sup>31</sup> A Joint Budget Support (JBS) initiative involves an agreement between a government and multiple donors.

<sup>32</sup> The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

importance they associate with these governance and democracy-related objectives, (b) the governments' limited intention to go beyond developing the policies or laws towards their implementation and enforcement, and (c) increased accountability towards development partners (as linked to conditionality clauses) rather than the country's citizens. This is further aggravated when there is limited local ownership, when the pursuit of good governance objectives is perceived to negatively impact outcomes related to economic development and poverty reduction, and when the socio-political environment is not necessarily conducive to the implementation of governance reforms.

Budget support has also had a limited effect on aid effectiveness. While harmonisation has been facilitated in some areas (especially when multi-donor budget support structures are established), differences related to definitions, the perceived importance of good governance principles, and the ideological or other interests of development partners have negatively affected harmonisation among development partners. Furthermore, while alignment has improved as a result of linking budget support to national policy frameworks, local ownership has been undermined by development partners' continued push for and influence of policy development and implementation. Overall, the predictability of aid has not been affected by the use of budget support instruments. While the use of budget support instruments offers local governments the opportunity to receive aid in a more predictable fashion, the lack of clarity or even the severity of the underlying principles and conditionality has actually increased the risks for the local government and has negated the instrument's predictability advantage. Finally, the transaction costs associated with budget support are lower than those of other non-programme based approaches but still remain at significant levels.<sup>33</sup>

### *Factors for success*

Several factors have been linked to the successes associated with the provision of budget support. Chief among them is the need for deep national government ownership and political willingness to implement the reforms. Second, the presence of similar objectives between the local government and development partners allows for trust, ownership, and a positive partnership between the various actors. Third, the existence of strong economic and political incentives allows development partners and recipient governments to work towards the established objectives. Fourth, the existence of a well-identified problem helps in garnering agreement and identifying specific goals without over-burdening the agenda. Fifth, targeting an area of reform that is a high priority area for the government allows for increased local ownership and commitment. Sixth, choosing the approach (GBS or SBS) according to the need – whether it be allocative efficiency across sectors or resolution of a sector-specific problem – allows for an increased success rate.

## **Recommendations**

The meta-analysis of existing budget support evaluations has identified several recommendations. The recommendations have been summarised below.

1. *A more realistic approach.* The development partners' limited impact on government policies and the negative consequences of overloading operations with multiple long-term objectives, conditions and targets make budget support results very hard to achieve. As such, budget support operations should include more realistic outcomes and expectations.
2. *Policy change, as an objective, should only be used selectively* Given the potential negative impact of implementing policy change, this objective should only be included in cases where there is an agreement between the local government and development partners and where the local government is actively looking for support and expertise.

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<sup>33</sup> DANIDA, "Review of Budget Support Evaluations," 2014; The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

3. *Severely limit the use of performance tranches* The use of performance tranches as a means to provide an incentive for improvement in performance should be limited given its negative impact on the predictability of aid.
4. *Concentrate on quality in addition to quantity* An expansion of services requires human and material resources as well as the efficiency of bureaucratic hierarchies and incentives. This expansion should be accompanied by the improvement of quality through the use of sector budget support and the provision of targeted TA and capacity building.
5. *Remove good governance conditionality* There seems to be a tradeoff between socio-economic objectives and the underlying principles of good governance with the strongest achievers in poverty reduction performing badly on good governance reforms.<sup>34</sup> Even if it meets targets as they relate to poverty reduction, the local government's poor performance on good governance reforms often triggers the suspension of budget support. Given the difficulty in achieving political reform with the sole use of financial resources and the resulting problems linked to the associated conditionality requirements, good governance should not be included as an objective of budget support assistance. Nevertheless, development partner staff should be trained to identify and deal with a regression in good governance principles so as to be able to identify forthcoming risks to donors and the sustainability of achieved reforms.
6. *Increase flexibility on underlying principles and conditions* Lack of flexibility as it relates to underlying principles (e.g. human and civil rights, the rule of law and democratic accountability) and conditionalities (e.g. disbursements conditions, performance targets) attached to the delivery of budget support has a severe impact on the government's ability to deal with unpredictable political and non-political developments. This is especially the case in fragile, conflict and highly undemocratic budget support recipient states.
7. *Provide unattached TA and capacity building* It is recommended that TA and capacity building not be attached or embedded as main components of budget support systems. Technical assistance, when embedded, tends to be treated as an additional expendable activity that is severely underfunded and under-resourced despite recognition of its important contribution.<sup>35</sup> Given the tendency to under-resource this important area of support, it is recommended that budget support initiatives be supported by independent but parallel TA and capacity building programmes or projects that receive their own budgets and goals so as to provide adequate assistance on areas deemed necessary for the success of budget support objectives.
8. *Limit the number of development partners* Various evaluations have demonstrated the negative impact associated with budget support systems that have been supported by a large number of development partners. The fewer the development partners, the more focused the budget support becomes, the more common the priorities are, and the less diluted or complicated the outcomes. However, one needs to be careful not to implement such a recommendation without assessing the possible resulting increases in the number of other donor projects and thus the challenges that this might pose to the objective of donor harmonisation.
9. *Refocus efforts on development results and country ownership* Budget support instruments, especially JBS instruments, have become too arduous for local governments and are often overloaded with donor-driven processes, requirements, and expectations.<sup>36</sup>

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<sup>34</sup> DANIDA, "Review of Budget Support Evaluations," 2014.

<sup>35</sup> DANIDA, "Review of Budget Support Evaluations," 2014; Inter-American Development Bank, "The Evaluation of the New Lending Framework, 2005-2008," 2008.

<sup>36</sup> This point is emphasised in the section describing the World Bank's results with budget support funding found in the following document: The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

## Evaluation Methodology

According to the OECD DAC, the evaluation of budget support is a means “to assess to what extent and under which circumstances the budget support has enhanced the policies, strategies and spending actions of the partner government so as to achieve sustainable national and/or sector level development outcomes and have a positive impact on poverty reduction and sustainable and inclusive economic growth.”<sup>37</sup>

Yet, there is a general consensus that the specific evaluation of the link between budget support and poverty reduction is tremendously difficult.<sup>38</sup> The lack of data, long time lags, the multitude of factors at play, the lack of complex pro-poor strategies, and attribution problems all contribute to a murky process that is unlikely to truly reflect the success or failure of budget support initiatives in achieving their desired impact. However, there are groups, like the Independent Evaluation Group (IEG), who have decided to assess the impact of budget support by comparing the results achieved (a) with a control group of countries – countries that have similar features and which have not yet received budget support – and (b) with the results of other programmes implemented under other aid instruments or modalities.<sup>39</sup>

In recognition of the causality challenge, for its part, the OECD DAC suggests the use of a Comprehensive Evaluation Framework (CEF) based on the theory of change model demonstrated in Figure 1. According to the OECD DAC, the CEF is used to highlight the distinction between the outputs (induced outputs) of general budget support, their immediate effects on the relevant government policies and expenditures, and the resulting effects on the longer term outcomes and impact as identified by the budget support initiative.<sup>40</sup>

To accomplish this, the CEF uses a three step approach based on the programme theory to assess achievements and come to some conclusions regarding attribution. The first step includes the assessment of the inputs, direct outputs, and induced outputs (short-term outcomes) and the analysis of the causal links among them. The second step includes an assessment of the actual and expected medium to long-term outcomes (including impact) and the identification of the main factors that led to these outcomes. Step three includes, in effect, the comparisons of the results in step one and two in order to explore the actual contribution of budget support to the local government’s policies, strategies, and spending, and thus the longer-term outcomes suggested by the programme theory.

The OECD DAC hopes that in using the CEF, the evaluation of budget support can account for the fact that while direct outputs can be traced back to the activities under the provision of budget support, longer term results (induced outputs - improved public policies, public sector institutions, public spending and public service delivery) are subject to various influencing factors that fall outside the achievements of the budget support initiative. These factors include, but are not limited to, the overall aid framework, the capacity of the public sector, the strengths of domestic accountability, global economic development, political changes, and foreign capital flow.

In addition to the issue of causality, this analysis has indicated another constraint that has an effect on the outcomes of evaluations of budget support – time. The longer-term results – the resulting changes in economic growth and income poverty – are likely to be noticeable more than five years following the implementation of budget support initiatives.<sup>41</sup> This alone might not be a severe limitation. However, since

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<sup>37</sup> OECD/DAC, “Evaluating Budget Support: Methodological Approach” 2010, p 6.

<sup>38</sup> DANIDA, “Review of Budget Support Evaluations,” 2014; Overseas Development Institute, “Evaluation of General Budget Support – Evaluation Framework,” 2004; OECD/DAC, “Evaluating Budget Support: Methodological Approach” 2010.

<sup>39</sup> DANIDA, “Review of Budget Support Evaluations,” 2014.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

the research for this report has identified that most evaluations are performed six months after the operations have been terminated as part of the completion of the project final report<sup>42</sup> or completed before any policy reforms or renewals of partnership agreements expire<sup>43</sup>, the evaluations are likely to miss valuable information regarding the performance of various indicators.

With these limitations in mind, the existing analysis indicates that an evaluation should nevertheless assess:

1. *The tool itself and its objectives* – evaluating (a) the amounts, types, and quality of the inputs provided, (b) the effect of these inputs on the short term results, (c) the changes in government policies, strategies and spending actions and the key drivers of these changes, (d) the positive and negative side-effects and their potential effect on the longer term outcomes and impact, (e) the relevance of the budget support tool given the local context, and (f) the inclusion of recommendations related to the design of future budget support initiatives as well as a list of policy and institutional issues that need to be addressed as a means to increase the impact of budget support initiatives.<sup>44</sup>
2. *Its effect on aid effectiveness principles* – assessing the levels of predictability, harmonisation (including the level of transaction costs), local ownership, and accountability.
3. *The effect of the conditional clauses* – assessing the clarity of the clauses, the clarity of development partners’ expectations, the effect of the partners’ exit strategies, and the requirements for and effect of the use of triggers.
4. *The presence of non-budget support initiatives* – assessing the presence and effect or potential effect of non-general budget support interventions, including those related to policy dialogue, and their possible contribution to the achievement of results.<sup>45</sup>
5. *The impact on governance only in cases where the budget support initiative still enforces good governance conditionalities* – assessing the changes, positive and negative, on the level of transparency, the relationship between the government and civil society, the level of democratic practices (e.g., elections, human rights), and the effect that budget support has had on corruption. Evaluators should also assess the effect of this conditionality on local ownership, donor harmonisation, donor alignment, aid predictability, and the direction of accountability (from the government to the donor(s) or from the government to the people).

The evaluation of these five basic areas of interest is usually expected to take between 12 to 18 months. Surpassing the 18-month limit is considered counterproductive given that the usefulness of the resulting recommendations (changes to policies and future budget support initiatives) is likely to lose its value the longer the evaluation takes.

The evidence to be gathered requires that an evaluator (a) triangulate the sources of information (various sources of information), (b) use data going back at least three years<sup>46</sup>, (c) carefully reconstruct case histories of the country in question by paying attention to the role of assumptions and risks (as a means to tackle the problem of attribution), and (d) only attempt an analysis of the counterfactual when he or she can assess

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<sup>42</sup> For example: The World Bank, “2012 Development Policy Lending Retrospective: Results, Risks and Reforms,” 2013.

<sup>43</sup> OECD/DAC, “Evaluating Budget Support: Methodological Approach,” 2010; Inter-American Development Bank, “Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III,” 1999.

<sup>44</sup> OECD/DAC, “Evaluating Budget Support: Methodological Approach,” 2010.

<sup>45</sup> Overseas Development Institute, “Evaluation of General Budget Support – Evaluation Framework,” 2004.

<sup>46</sup> According to the Overseas Development Institute, three years represent the period required for budget support to be a well established modality.

the plausibility of alternative case histories.<sup>47</sup> It is important to note that the reconstruction of case studies needs to occur earlier on in the life of the budget support initiative or immediately after its closure.<sup>48</sup>

However, given the difficulty in assigning a solid link between inputs and impact and the high costs associated with implementing counterfactual analysis, it is often suggested that an evaluation of the outcome and impact results should be limited to an assessment of the viability of the theoretical linkage between the inputs and these higher level outcomes/impact.<sup>49</sup>

According to the OECD DAC Network on Development Evaluations, a budget support evaluation requires six logistical phases:

- *Phase 1: The preparation phase* Evaluators will use this phase to assess the availability of information and data, the participation of the various stakeholders and their roles, and the necessary framework.
- *Phase 2: The inception phase* This entails the structuring of the evaluation – document collection, desk review, inception mission, inventory development, context analysis, selection of sectors and features, definition of the framework, and the drafting of the methodology and the work plan.
- *Phase 3: Further data collection and primary analysis* This phase requires the collection of further data, evaluation missions and the development of an interim report that includes some initial conclusions regarding the findings.
- *Phase 4: In-depth analysis and verification* This includes a reassessment of the initial interim findings, an attempt at triangulating results and receiving initial feedback on some of the draft outcomes.
- *Phase 5: Synthesis phase* This entails an overall analysis of the data collected, the circulation of the initial draft of the evaluation report, and the completion of the final report based on the feedback provided by the main client.
- *Phase 6: The dissemination phase* In this phase, the report is disseminated through presentations at headquarters (of the main client) and in a national seminar in the partner country.

## 2. Policy-Based Loans

### Defining Policy Based Loans

Policy-based loans are instruments used to provide flexible support for institutional and policy changes.<sup>50</sup> These loans could be issued to support macro-economic policies or adjustments, progress in a specific

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<sup>47</sup> Overseas Development Institute, “Evaluation of General Budget Support – Evaluation Framework,” 2004.

<sup>48</sup> Ibid.

<sup>49</sup> An assessment of the validity of the theoretical linkages could be accomplished by gathering information regarding the viability of the budget support’s theory of change (e.g. consulting experts, researching academic and non-academic documents, reconstructing the pre-existing conditions or conditions at the start of the budget support initiative, assessing the logic of the assumptions that underpin the choice of the various accomplishments (outputs, induced outputs, outcomes, and impact), assessing risks and the mitigation strategies that were suggested and implemented, and using counterfactual models to assess causality). Examples of questions and guiding principles are found in the following two documents: The Overseas Development Institute, “Evaluation of General Budget Support – Evaluation Framework,” 2004; OECD/DAC, “Evaluating Budget Support: Methodological Approach,” 2010.

<sup>50</sup> Multilateral banks have their own terminology as it relates to PBLs. At the IMF, PBLs are called “arrangements” with a distinction made between short-term (standby) and medium-term instruments. The World Bank originally referred to PBLs as adjustment operations. More recently, the World Bank changed its lending framework for PBLs and now refers to these products as development policy loans. The African Development Bank (AfDB) refers to PBLs as adjustment operations. PBLs at the Asian Development Bank (AsDB) are referred to as

sector, or improvements in subsector government institutions (e.g. Ministry of Housing as a subsector government institution supporting the social sector). They could also be issued at the national level or at various regional levels. According to the CDB, PBLs “are expected to incentivise these reforms and ensure that the reforms themselves are well-designed and implemented so that the ultimate objectives are more likely to be achieved.”<sup>51</sup>

While PBLs were originally used as financing vehicles to help manage economic shocks, they eventually became instruments for poverty reduction, social and structural reforms, and capacity building.<sup>52</sup> The current objectives of PBLs are (a) to support policy change by ensuring an incentive for implementation, (b) increase the capacity of a country to manage its own policy reform and institutional change processes by reducing transaction costs and providing TA and resources, and (c) support sustainable economic growth and poverty reduction by helping to address the medium-term structural, social and institutional issues.<sup>53</sup> With these goals, PBLs are expected to help improve the country’s fiscal situation, its capacity to compete through trade and investment, make debt more manageable, and improve the government’s public financial management systems.<sup>54</sup> PBLs are preferred to other loan instruments due to the lack of procurement requirements, simplified contractual clauses, and quick disbursement mechanisms.<sup>55</sup>

## Results

The reforms associated with PBLs tend to take a long time to come to fruition, especially as it relates to institutional change. Most of the long-term results will occur only several years following the completion of the execution period of these loans.<sup>56</sup> Moreover, policy reforms supported by a specific loan are often one of several instruments that are being used either by the local government or other development partners as a means to improve economic growth and decrease poverty.

The difficulty of isolating the social change of policy loans implies that there are no clear causal links between the delivery of policy loans, and the resulting effect on the economy, and thus the longer term impact on decreasing poverty rates.<sup>57</sup> Nevertheless, PBLs have been linked to positive and negative effects. They have also been criticised for their lack of results.

### *Positive effects*

Keeping in mind that no clear causal links can be identified, evaluators have nonetheless associated PBLs with significant improvements in capital markets, banking systems, debt management, public financial and service reforms, and in the efficiency of budget processes (macroeconomic management), including in the areas of social protection and public health. They have also been associated with significant improvements in fiscal sustainability and the modernisation of revenue systems. To this end, PBLs have been deemed

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programme lending, while the IADB uses the term PBLs. (CDB, “Policy Paper: A Framework for Policy-Based Lending,” Paper DB, 72/05, 218th Board of Directors Meeting, 13 October 2005).

<sup>51</sup> CDB, “Assessment of the Effectiveness of the Policy-Based Lending Instrument,” 2012, p 3.

<sup>52</sup> CDB, “Policy Paper: A Framework for Policy-Based Lending,” Paper DB, 72/05, 218th Board of Directors Meeting, 13 October 2005.

<sup>53</sup> DaCosta, Michael, “Policy-Based Loans by CDB, 2006 – 2009: An Assessment,” 2010.

<sup>54</sup> Ibid.

<sup>55</sup> IDB, “The Evaluation of the New Lending Framework, 2005-2008,” 2008.

<sup>56</sup> IDB, “Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III,” 1999.

<sup>57</sup> Ibid; World Bank, “Poverty Reduction Support Credits: An Evaluation of World Bank Support,” Washington, D.C., 2010; The Asian Development Bank, “Policy-Based Lending. Emerging Practices in Supporting Reforms in Developing Member Countries,” 2007.

successful in supporting a country's medium term development goals, particularly where Poverty Reduction Strategies are merged with the national development strategy.<sup>58</sup>

PBLs are also said to allow for a stronger coordination among development lending partners when donors harmonise their support and remain on target with the expenditure schedule.<sup>59</sup> They also seem to have a positive impact on in the areas of social development, finance and private sector development, as well as economic management.<sup>60</sup>

#### *Negative effects*

PBLs, specifically those defined either as stand-alone instruments<sup>61</sup> or those that have a multi-tranche component, have had a negative effect on sustainable change. According to the World Bank, not embedding the stand-alone PBLs into a medium to long-term reform process comes at the expense of long-term sustainability and success. The World Bank also notes that PBLs that use a multi-tranche process and performance-based triggers tend to be less flexible and thus less successful.<sup>62</sup> As such, they have been deemed to be less appropriate for countries with a more restricted set of preconditions.

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<sup>58</sup> The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

<sup>59</sup> The World Bank/The Independent Evaluation Group, "Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan," The World Bank, 2013.

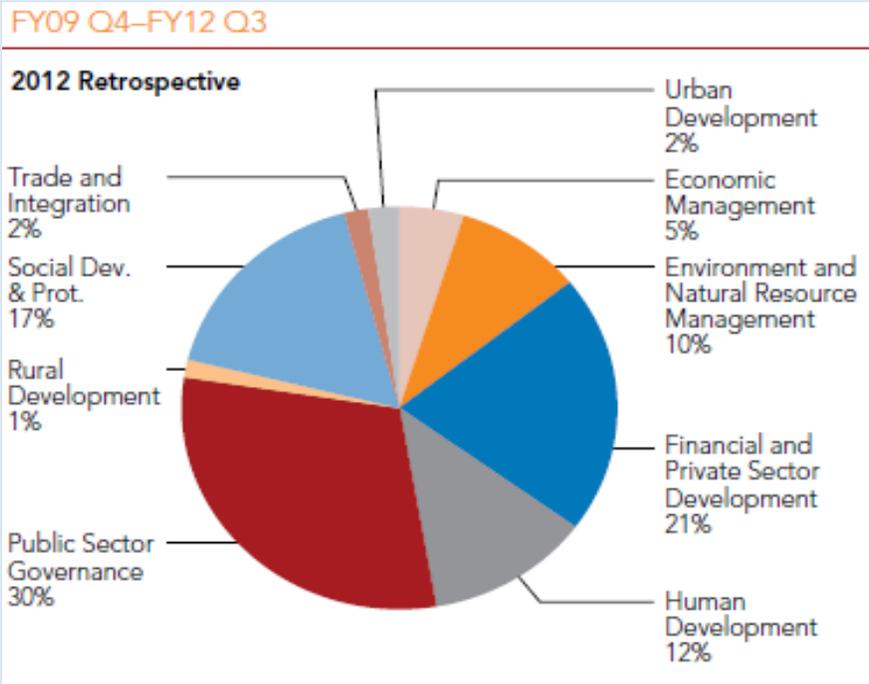
<sup>60</sup> The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

<sup>61</sup> Stand-alone loans are short to medium-term loans that are issued outside a programmatic approach and that target structural reforms in a specific sector.

<sup>62</sup> Ibid.

### World Bank's Use of Conditionalities

According to the World Bank's 2013 review of policy-lending instruments, the average number of conditionalities attached to policy-lending operations was 10 with most conditionalities focusing on the area of public sector governance (public expenditure, financial management, procurement, transparency and accountability). Other conditionalities were associated with social protection and economic management, climate change, and gender.



Source: The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013, p 10.

The World Bank has linked these two different characteristics (stand-alone and multi-tranche) to lower success rates as compared to those associated with longer-term loans that are part of a more holistic programmatic approach.<sup>63</sup> The following are two specific examples:

- The slow rate of progress and the lack of flexibility in expectations were two key factors for the cancellation of a multi-tranche loan to the Senegalese government;
- The lack of a medium to long-term programmatic approach in the stand-alone PBL offered to Saint Lucia limited the PBL's impact and led to a realisation of the need for reforms in complementary areas.<sup>64</sup>

#### *Very limited or non-observable effects*

Some of the PBLs that were issued resulted in very limited sustainable institutional improvements in the selected sector. According to the IEG, the main culprit for this lackluster performance is the mismatch

<sup>63</sup> Ibid.

<sup>64</sup> Ibid.

between corporate incentives to disburse funds quickly and the development imperative to embed the design within a longer-term approach or goal.<sup>65</sup>

Furthermore, the meta-analysis has identified little effect on public sector governance, human development, and trade and integration.<sup>66</sup> Given the political economy associated with reforms targeting public sector governance, many of the reforms were either very poorly implemented or not implemented at all by the local government.

### *Factors for success*

The presence of stabilisation programmes that are already underway and their success in advancing structural reforms allow PBLs to build on the supporting reforms needed to help improve the chances of success.<sup>67</sup> PBLs have also been more successful in cases where there is a certain level of flexibility as it relates to balancing compliance with the difficulty in fulfilling loan conditions.<sup>68</sup> This is more easily done in cases where the government is already undertaking other stabilisation programmes that are supporting macroeconomic improvement and better financial management.

Mitigating the risk of weak institutional conditions by adjusting sequencing and expectations (including the speed of simultaneous changes required by the PBL)<sup>69</sup>, developing an action plan in cases where capacity and data (including results) are not available<sup>70</sup>, choosing the most appropriate tools based on the results of the institutional assessment<sup>71</sup>, and providing TA to help with the weaker areas<sup>72</sup> can lead to higher success rates and increased avoidance of unintended negative outcomes. This mitigation process, however, requires a proper assessment of the institutional conditions, policy reform context (macroeconomic and sectoral context), and the actual design of the reform programme, including its potential impact on development goals. As reform is a dynamic process, the sequencing of operations also seems to be a vital factor for success in countries where the minimal initial institutional conditions are either limited or not present.

Moreover, banking regulation and supervision have been demonstrated to be vital for the success of PBLs and the decrease in the riskiness associated with such loans. The higher the standards, quality, effectiveness, and transparency of the financial sector, the more likely those PBLs will succeed.<sup>73</sup> Furthermore, the more TA or capacity building that is offered, the more likely that the reforms will be successful. TA can also help local actors participate in the design of the reforms and their dissemination, thus increasing local engagement with and commitment to these reforms, and, subsequently, their chance of implementation.

The aspect of local engagement, ownership, and commitment is especially important since, in some cases, disbursements are either not focused on the institutions that are to implement the changes or the institutions responsible for implementing the changes are not aware of or are unwilling to comply with the loan conditions.<sup>74</sup> Local ownership, commitment, and long-term engagement are also positively impacted by increased consistency between the PBL's objectives (overall development and more general sector goals) and those of the national government. Furthermore, policy dialogue with the national government has

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<sup>65</sup> The World Bank/The Independent Evaluation Group, "Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan," The World Bank, 2013.

<sup>66</sup> The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

<sup>67</sup> IDB, "Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III," 1999.

<sup>68</sup> Ibid.

<sup>69</sup> Ibid.

<sup>70</sup> Inter-American Development Bank, "The Evaluation of the New Lending Framework, 2005-2008," 2008.

<sup>71</sup> Ibid.

<sup>72</sup> The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

<sup>73</sup> IDB, "Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III," 1999.

<sup>74</sup> Ibid.

positively influenced results in certain cases.<sup>75</sup> Given that policy changes have an impact on stakeholders' behavior, local ownership and commitment can be improved through a strong stakeholder analysis.<sup>76</sup>

Building on the need to minimise risk and increasing local ownership and commitment, PBLs need to have a strong logic of intervention.<sup>77</sup> In addition to setting realistic outcomes, the robustness of the performance management framework is vital for helping a local government achieve success and ensure sustainability.<sup>78</sup> This robustness is based on the development of “a results framework, a system of performance indicators for monitoring and evaluation (M&E) ... arrangements for collecting and using M&E information”<sup>79</sup> and the constant updating of these tools when circumstances change.

The quality of indicators attached to the loan is an important factor in accurately defining the problem and in orienting the activities or interventions towards the most effective and appropriate solutions.<sup>80</sup> However, their quality also depends on the quality of the local government's data generating and tracking capacity. The attention to this detail allows the implementation of PBLs to be based on more realistic and appropriate analytical processes. It also provides the national government with an opportunity to improve its M&E systems, an aspect that can be tackled through TA.

PBLs have been more successful than performance-driven loans, loans that are issued in tranches upon the successful completion of subsequent tasks as measured by the indicators and measurement frameworks of the lending agency or agreed-upon government indicators. Performance-driven loans tend to push staff to concentrate more on immediate outputs rather than inputs and processes as a means to ensure the release of the subsequent tranches. This emphasis on immediate results is counterproductive and potentially dangerous in cases where results management frameworks on both sides (lender and borrower) are limited and where the local government has limited data management capacity. The emphasis on the need to demonstrate results through performance measurement indicators has also increased the burden on all of the actors involved in the process.

Increased success can also come about by focusing on only a few areas, preferably ones that have the greatest chances of success.<sup>81</sup> This focus also allows for the recognition of the continuous “binding constraints” that reforms are likely to generate and the continuous actions that need to be taken to remove them.<sup>82</sup> However, even a focused policy-based loan might not be effective when the country is experiencing

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<sup>75</sup> The World Bank/The Independent Evaluation Group, “The World Bank Group's Response to the Global Economic Crisis,” The World Bank, 2010; The Asian Development Bank, “Policy-Based Lending. Emerging Practices In Supporting Reforms in Developing Member Countries,” 2007.

<sup>76</sup> Bolt, Richard, et al., “Economic Analysis of Policy-Based Operations: Key Dimension,” Asian Development Bank, 2004.

<sup>77</sup> IDB, “The Evaluation of the New Lending Framework, 2005-2008,” 2008.

<sup>78</sup> The World Bank/The Independent Evaluation Group, “Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan,” The World Bank, 2013.

<sup>79</sup> The World Bank, “Good Practice Note for Development Policy Lending Results in Development Policy Lending,” 2011, p 2.

<sup>80</sup> IDB, “The Evaluation of the New Lending Framework, 2005-2008,” 2008. The World Bank (Good Practice Note For Development Policy Lending Results in Development Policy Lending, 2011) provides parameters for selecting indicators: reliability (unambiguous), validity (appropriate measure of desired outcome), comparability (across time and groups), specificity, measurability (in terms of quantity, quality and timeframe), realism (likely to be achieved), and targeted (measures impact on particular groups to be affected by the program).

<sup>81</sup> IDB, “Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III,” 1999.

<sup>82</sup> These constraints might include stakeholders' negative or unhelpful behaviors as a response to changes in policy frameworks. Bolt, Richard, et al., “Economic Analysis of Policy-Based Operations: Key Dimension,” Asian Development Bank, 2004.

a financial crisis.<sup>83</sup> As it relates to ownership and commitment, PBLs need to also find innovative ways to compensate those on the losing end of the reform process.<sup>84</sup>

There are also external factors that affect the success of PBLs. Among these are economic shocks and natural disasters during and after programme implementation, changes in the global and regional markets, changes in government and policies, and civil unrest and conflicts.<sup>85</sup>

## Recommendations

1. *Develop two frameworks - a normative and a conceptual one.* The existence of an appropriate normative framework can help properly assess the economic condition of the country and a conceptual framework can guide the interventions that are deemed to be needed.<sup>86</sup>
2. *Undertake a strong political economy analysis.* These frameworks and the resulting actions should be informed by a strong political economy analysis<sup>87</sup>, one that is likely to provide a more complete picture of the enabling and challenging factors. The political economy analysis related to the political sensitivity of the required reforms needs to assess the adjustment costs on various groups and the political feasibility of a policy change by looking at many alternatives, testing political reactions, and identifying the most likely reform package with the least overall costs.<sup>88</sup>
3. *Keep focused on the country in question.* The more realistic and flexible the mix of instruments, the more likely the achievement of results. There should not be a focus on the theoretically appropriate instrument mix, but rather on choosing a policy instrument mix that focuses on strategically-selected, limited range of problems and that offers short-term and long-term solutions in that specific context.<sup>89</sup> This process should be supported by macro analyses (analyses of changes in the macro economy), meso-analyses (analyses of changes at the sector level), and micro analyses (policy, institution and investment issue that impact a specific sector).<sup>90</sup>
4. *Keep it simple and realistic.* When dealing with small states, use policy-based loans that have simple and realistic scopes and targets. Overall, ensure that reforms can be implemented in the time allocated for the PBL.
5. *Develop a strong theory of change.* The interventions should be guided by a strong theory of change that supports the analysis and objectives of the intervention and that identifies a hierarchy of objectives.

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<sup>83</sup> The World Bank/The Independent Evaluation Group, "Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan," The World Bank, 2013.

<sup>84</sup> IDB, "Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III," 1999.

<sup>85</sup> The Asian Development Bank, "Policy-Based Lending. Emerging Practices in Supporting Reforms in Developing Member Countries," 2007.

<sup>86</sup> IDB, "The Evaluation of the New Lending Framework, 2005-2008," 2008.

<sup>87</sup> The World Bank/The Independent Evaluation Group, "Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan," The World Bank, 2013.

<sup>88</sup> Bolt, Richard, et al., "Economic Analysis of Policy-Based Operations: Key Dimension," Asian Development Bank, 2004.

<sup>89</sup> IDB, "The Evaluation of the New Lending Framework, 2005-2008," 2008.

<sup>90</sup> Bolt, Richard, et al., "Economic Analysis of Policy-Based Operations: Key Dimension," Asian Development Bank, 2004.

Asian Development Bank: Factors Contributing to and Detracting from Results <sup>91</sup>		
	Factors Contributing to the Desired Result	Factors Detracting from the Desired Result
Factors internal to ADB	<b>Strengths</b> <ul style="list-style-type: none"> <li>Reform outcomes were consistent with and tailored to government reform agenda and priorities</li> <li>Sufficient analysis and dialogue on sector and policy issues</li> <li>Policy alternatives were understood by client decision makers</li> <li>Reforms were well targeted</li> <li>Reforms had sufficient consensus among decision makers and stakeholders</li> <li>Sufficient government and public awareness of reform intentions and implications</li> <li>Programme design and policy matrix were coherent and implementable</li> <li>Conditions were focused, manageable, and some were acted upon before programme start-up</li> <li>Implementing agency was correctly selected and had sufficient capacity</li> <li>The length of the programme period was sufficient</li> <li>Direct and indirect costs were identified and met by the programme or counterpart funding</li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>Insufficient consideration of macroeconomic and wider sector policies</li> <li>Reform outcomes were inconsistent with government priorities</li> <li>Poorly understood outcomes arising from the lack of counterfactual analyses</li> <li>Policy alternatives were not understood</li> <li>The reform programme was too complex/ambitious</li> <li>Reforms proceeded despite poor decision maker and stakeholder support and awareness</li> <li>Reform outputs did not meet desired outcomes</li> <li>Over-complex design and too many tranche-release conditions in the policy matrix</li> <li>Conditions were back-loaded to second and subsequent tranches</li> <li>Implementing agencies did not have the capacity to carry out reforms or functions</li> <li>The programme period was too short to allow for the expected depth of reforms</li> <li>Key direct and indirect costs were not identified</li> </ul>
	Factors external to ADB	<b>Opportunities</b> <ul style="list-style-type: none"> <li>Stable global and regional markets</li> <li>Stable country economic, social, and political context</li> <li>Complementary macroeconomic and institutional reforms beyond the programme boundary</li> </ul>

6. *Identify expected results and indicators and include them in official loan documents* Expected results and the specific indicators, both qualitative and quantitative, need to be included in detail in loan documents and operational processes and need to be collected in a timely manner.<sup>92</sup>
7. *Time operations to coincide with the government's mandate* Operations should coincide with and be executed within the timeframe of the mandate of the respective government so as to avoid backsliding and other implementation-related problems.
8. *Weighting compliance* Policy-based loans need to incorporate an objective weighting of compliance to the conditions issued under the loan as a means to recognise partial compliance and avoid extreme and uncertain consequences that have a significant impact, especially on countries that are more vulnerable to natural disasters, economic uncertainties, political instability, and other internal and external shocks.<sup>93</sup>

<sup>91</sup> Ibid.

<sup>92</sup> IDB, "The Evaluation of the New Lending Framework, 2005-2008," 2008.

<sup>93</sup> IDB, "Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III," 1999.

9. *Provide additional TA.* Additional TA helps decrease the risks associated with low levels of institutional capacity.<sup>94</sup> However, TA cannot be too scattered and should concentrate on long-term impact (e.g. development of human resources and capacity) rather than providing short-term solutions.<sup>95</sup>
10. *Include actions to help improve good governance* As actions are being undertaken to improve the capacity of government institutions, good governance requirements should be added in order to increase sustainability of results.<sup>96</sup>
11. *Target different levels of government* The desire for sustainability highlights the need to include all levels of government and work with them to support changes that have can affect the impact results that are desired (e.g. poverty reduction).

## Evaluation Methodology

There are major methodological difficulties in evaluating the effect that a loan and its accompanying TA have on macroeconomic and sector aggregates. The methodological challenges are even further amplified when one attempts to assess the results of PBLs. As the Evaluation Cooperation Group (ECG) notes, “[a]ssessing PBL outcomes is complicated by the interaction of IFI [International Financial Institution]-supported reforms with contemporaneous changes in other public policies, shocks, cyclical factors, and changes in market conditions.

Isolating and attributing change to any particular set of PBL-supported policy and institutional actions is information intensive and analytically demanding.”<sup>97</sup> Hence, complications are related to issues of causality, attribution, and criticality. While evaluating the performance of PBLs through the use of counterfactuals could potentially be considered as a solution to the measurement of long-term outcomes and impacts, the capacity to do so remains limited.

This difficulty has led to an increasing focus on examining specific macro and sector indicators by working on isolating the effect of external shocks and other assistance. To that end, many have also implemented evaluation methodologies that are limited to focusing on the manner in which the multilateral bank has supported sector reforms through policy loans<sup>98</sup> as opposed to assessing the actual elusive link between PBLs and poverty reduction or economic growth. The IEG has tried to deal with the challenge by surveying country counterparts as a means to assess the value added of the loan.<sup>99</sup> Others have advised the use of a poverty impact assessment (PIA) matrix which identifies all the channels through which the poor are affected, assesses whether the effect is direct or indirect, and outlines the consequences on the distribution of goods and services between the poor and other affected groups (the losers and gainers from the implemented reforms).<sup>100</sup>

### Evaluating outcomes of the World Bank’s Poverty Reduction Support Credits (PRSCs)

As the cases of Armenia, Benin, Ghana, Lao PDR, Mozambique, and Vietnam indicate, attributions of larger outcomes to the PRSC are more difficult due to the overlap between the Bank’s PRSC and its sector-specific projects.

Source: World Bank, “Poverty Reduction Support Credits: An Evaluation of World Bank Support,” Washington, D.C., 2010, pp 78-79.

<sup>94</sup> The World Bank, “2012 Development Policy Lending Retrospective: Results, Risks and Reforms,” 2013.

<sup>95</sup> IDB, “The Evaluation of the New Lending Framework, 2005-2008,” 2008.

<sup>96</sup> The World Bank, “2012 Development Policy Lending Retrospective: Results, Risks and Reforms,” 2013.

<sup>97</sup> Evaluation Cooperation Group, “Big Book on Evaluation Good Practice Standards,” 2012, p 44.

<sup>98</sup> IDB, “Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III,” 1999.

<sup>99</sup> The World Bank/The Independent Evaluation Group, “Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan,” The World Bank, 2013.

<sup>100</sup> Bolt, Richard, et al., “Economic Analysis of Policy-Based Operations: Key Dimension,” Asian Development Bank, 2004.

Capacity is often exacerbated by problems of poor quality data or its lack of availability. In such cases, evaluators have been asked to reconstruct the operational definitions, initial conditions and targets associated with the objectives of the loan and attempt to find the data that can help provide a comparative opportunity.<sup>101</sup> With this level of uncertainty, the limits of analysis and the underlying assumptions should be clearly stated in the evaluation document and there should be recognition of the possibility of error and subjectivity in the results.

Another aspect affecting the evaluation of PBLs is the approach favored for evaluating the project and completing the project completion reports. Certain studies note the importance of hiring independent evaluation experts to complete regular, detailed and objective evaluations.<sup>102</sup> Others are of the opinion that objective and detailed evaluations can be accomplished through a process that has project officers or desks undertake a project completion report and then have it verified by either an internal independent evaluation unit or an external evaluation body. Both approaches are currently used.

Given the limitations involved in the evaluation methodology and reality, the approaches tend to differ, albeit slightly, between Multilateral Development Banks (MDBs)/International Financial Institutions (IFIs).

As an example, according to the Inter-American Development Bank, the evaluation of PBLs needs to address four areas related to the logic behind the objectives and actions of policy loans:

1. The presence of a problem statement regarding what works and what does not;
2. The presence of evidence-based diagnosis;
3. The presence of a plan to migrate operations toward country systems;
4. The identification of existing systems that can be used for the implementation of the initiatives;<sup>103</sup> and
5. The depth of policy changes<sup>104</sup>.

To this end, the Office of Evaluation and Oversight (OVE) of the Inter-American Development Bank has developed an evaluation system based on eight dimensions:

1. Objectives – The presence of a relationship between project objectives and economic analysis (evidence-based analysis and a strong problem-statement);
2. Alternatives – The consideration of alternatives to the chosen path and attempting a counterfactual analysis (evidence-based analysis);
3. Financial analysis – Estimation of financial flows and debt sustainability analysis;
4. Cost-effectiveness or cost-benefit analysis;
5. Identification of the fiscal impact;
6. Identification of the environmental impact;
7. Risk analysis; and
8. Institutional analysis – Stakeholder analysis, institutions and systems involved, and migration measures.<sup>105</sup>

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<sup>101</sup> IDB, “The Evaluation of the New Lending Framework, 2005-2008,” 2008.

<sup>102</sup> IDB, “Summary Report: Evaluation of the Policy-Based Loan Portfolio – Phase III,” 1999.

<sup>103</sup> IDB, “The Evaluation of the New Lending Framework, 2005-2008,” 2008.

<sup>104</sup> As indicated in a meeting that was held in April 2015 between a representative of CDB and a representative of the Inter-American Development Bank.

<sup>105</sup> Ibid.

On the other hand, the IEG has identified four main areas to assess when evaluating the performance of PBLs:

1. Outcomes: The outcomes are evaluated according to *relevance* (consistency with the local country's development agenda and the lender's strategies and goals), *efficacy* (the extent to which the loan's objectives were or are likely to be achieved), and *efficiency* (the extent to which the loan has or is expected to achieve a return higher than the opportunity cost of capital and benefits).
2. Risk to development outcome: Assessing the risks that might hamper the achievement of results or their *sustainability*.
3. The lender's performance: The quality of the services provided by the lender throughout the duration of the initiative.
4. The borrower's performance: The quality of preparation, implementation and compliance.<sup>106</sup>

Similarly, the Asian Development Bank has focused its evaluation on understanding *relevance* (the extent to which the activities within PBLs are appropriate to the achievement of the national government's priorities and policies), *effectiveness* (the achievement of the PBL's objectives), *efficiency* (the cost and time efficiency of PBL activities), *impact* (the long-term positive and negative, intended and unintended results of PBLs), and *sustainability* (the likelihood of continued benefits after the funding is completed).<sup>107</sup>

These four principles are based on the OECD DAC's criteria for evaluating development assistance.<sup>108</sup> The ECG has also suggested that in addition to using qualitative and quantitative approaches, an evaluator can limit the evaluation approach to one that will evaluate the marginal benefit that a PBL offers (or the additional changes/improvements (value-added) that a PBL has brought forth) by assessing "whether or not it (i) accelerated (or delayed) reform, (ii) strengthened the hand and credibility of reformers, (iii) raised the perceived political returns to reform in terms of easing budget constraints and positive reputation effects, (iv) fostered policy learning, (v) built domestic capacity to design policy, and (vi) spurred debate and dialogue on new approaches to meeting development objectives."<sup>109</sup>

In all cases, the evidence is often gathered through external and internal meetings, multi-stakeholder roundtable discussions within the country being assisted and outside of it, surveys (online and in person), and quantitative data drawn from in-country systems or systems of lending partners.<sup>110</sup>

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<sup>106</sup> The World Bank/The Independent Evaluation Group, "Project Performance Assessment Report: Dominican Republic – Public Finance and Social Sector Development Policy Loan," The World Bank, 2013.

<sup>107</sup> The Asian Development Bank, Policy-Based Lending. Emerging Practices in Supporting Reforms in Developing Member Countries, 2007.

<sup>108</sup> <http://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm>

<sup>109</sup> Evaluation Cooperation Group, "Big Book on Evaluation Good Practice Standards," 2012, p. 45.

<sup>110</sup> The World Bank, "2012 Development Policy Lending Retrospective: Results, Risks and Reforms," 2013.

### 3. The Caribbean Development Bank

#### CDB's Policy-Based Loans

CDB introduced PBLs in 2006 as a means to influence the process of social and economic development. The Bank's PBLs are meant to provide resources to support improvements in public sector management of the development process by BMC governments, enhance the results of all government activity, and intensify CDB's efforts to improve its development effectiveness and responsiveness to its BMCs.<sup>111</sup>

Generally, there are five priority areas in which PBLs are perceived as appropriate lending instruments: fiscal and debt sustainability, disaster risk reduction, development of a proactive trade agenda, sustainable poverty reduction, and improvement of the quality and effectiveness of human resources. CDB's Strategic Plan (2010-14) sought to broaden the development impact of the Bank and thus has added the following to the PBL's expected outcomes: gender, socio-economic conditions and economic growth, institutional development, technology enhancement, environmental issues of climate change, and citizen security.

The Bank's PBLs are appraised and prepared by the Bank's Economics Department with input from sector specialists, reviewed by the Loans Committee, and approved by the President for submission to the Board of Directors.

PBLs are to be disbursed in line with agreed conditions or policy reforms between the Bank and the BMC. The reform must be consistent with the Country Strategy Paper. Other requirements for disbursement of a PBL are country ownership, a national commitment to the reform agenda, and the presence of a macro-economic framework deemed to be appropriate by CDB's experts.

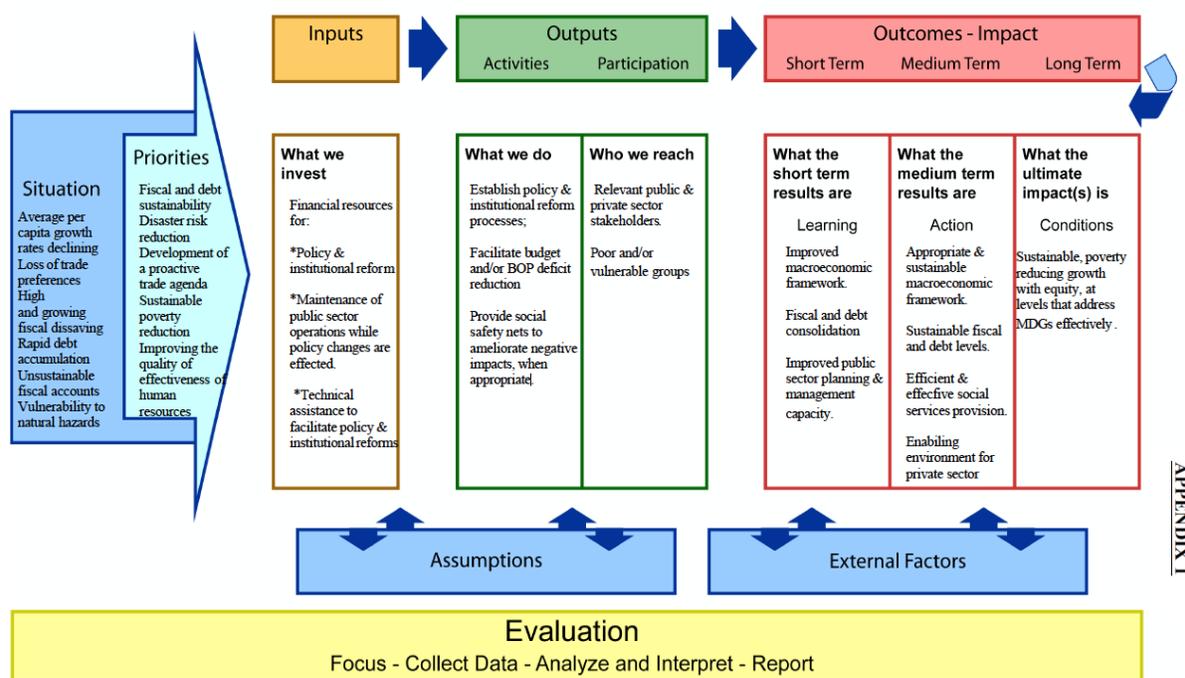
CDB's PBLs are either single or multi tranche and often have a TA component. In 2014, CDB approved additional PBLs for Jamaica, Trinidad and Tobago, and Grenada.

As demonstrated in Figure 2, the expected short-term outputs include an improved macro-economic framework, fiscal and debt consolidation, and improved public sector planning and management capacity. Expected medium-term outcomes include an appropriate and sustainable macro-economic framework, sustainable fiscal and debt levels, efficient and effective social services provision, and an enabling environment for private sector. Finally, long-term outcomes and impact include sustainable, poverty-reducing growth with equity to address the Millennium Development Goals (MDGs).

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<sup>111</sup> CDB, "Policy Paper: A Framework for Policy-Based Lending, Paper DB, 72/05, 218<sup>th</sup> Board of Directors Meeting," 13 October 2005.

**Figure 2: CDB's 2005 Policy Lending Programme Action Logic Model**



Three important conditions are described as necessary for the successful achievement of the PBL's objectives:

1. The PBL is aligned with the country strategy, which outlines the development challenges facing the country, analyses the government's responses to these challenges, and assesses the policy and institutional appropriateness of the environment;
2. The design of the PBL is appropriate given the context of the macro-economic environment; and
3. There is clear local ownership and origination of as well as commitment to reforms on the part of the national government and relevant national stakeholders.

According to CDB, the success of PBLs is also significantly affected by the presence of local capacity (to make, implement and sustain good policies) and the high likelihood that this capacity will be exercised during the PBL timeframe and beyond. Due to the criticality of capacity in the success of the outcomes of PBLs, CDB has ensured the delivery of TA as part of their PBLs. It has also combined fast-disbursing components (loans and grants) to cover critical and immediate needs in emergency situations or for unexpected developments with the slower-disbursing elements (TA) that allow for continued and sustainable change.<sup>112</sup>

In terms of risks, the Bank identifies two types associated with PBLs:

1. Development impact risks – fiscal and debt sustainability, balance of payment vulnerability, monetary and exchange risk, political instability, financial sector risks, and corporate risks
2. Financial and reputational risks – financial capacity of the BMC to service debt, monitor the

<sup>112</sup> CDB, "Policy Paper: A Framework for Policy-Based Lending," Paper DB, 72/05, 218th Board of Directors Meeting, 13 October 2005.

risk environment, and evaluate the effectiveness of the mitigation measures.

**Figure 3: Results Framework Matrix Logic Model<sup>113</sup>**

Component	Description	Flow of Logic
Development Results Strategic Objective	Changes (output, outcome and impact) in a state or condition derived from a cause and effect relationship. The higher order goal/objective to which a development intervention is intended to contribute.	Impact/Long-term outcome 
Expected Impact	Positive and negative long-term effects on identifiable population groups produced by a development intervention – economic, socio-cultural, institutional, environmental, technological, or of other types.	
Expected Outcome	Intended or achieved short-term and medium-term effects of an intervention’s outputs, discrete results from implementation of the intervention which are necessary to achieve the objective, and changes in development conditions which occur between the completion of outputs and the achievement of impact.	Outcome/short-term outcomes 
Outputs	Deliverables – the products, services and causal linkages which result from the completion of activities within a development intervention.	Outputs
Inputs	Resources, activities and processes required to undertake the intervention.	 Inputs
Risks	Factors which are beyond the control of the intervention that can influence the results, outcomes and impact.	
Critical Assumptions	Conditions under which the development hypothesis or strategy for achievement of the objective will hold true and can which can affect achievement of results.	

In 2013, CDB developed the Performance Assessment System (PAS) as a means to better implement the Management for Development Results (MfDR)<sup>114</sup> agenda. The new PAS has led to the formulation of the Bank’s Results Framework Matrix (RFM) Logic Model (Figure 3). The RFM is focused on the results of the intervention, accounts for the direct and indirect effects of other interventions working on areas that might have an impact on the results of the PBL, and thus guides both the design and the evaluation of PBLs. Furthermore, PAS expands the list of risks associated with PBLs to include indirect or unanticipated risks related to the project itself (e.g. citizen participation in the changes, availability of inputs, and prices of goods). However, unlike the OECD’s evaluation methodology that has been tailored for budget support initiatives, the CDB’s RFM is generic in nature and is used to evaluate the majority of the Bank’s initiatives.

<sup>113</sup> CDB /Office of Independent Evaluation, “Performance Assessment System (PAS), Policy-Based Lending (Volume I),” Caribbean Development Bank, October 2013.

<sup>114</sup> MfDR is a results-based approach focused on outcomes and uses tools for planning, monitoring and evaluating performance, reporting, and organisational improvement and learning to help ensure the achievement of the desired outcomes.

## The Evaluation of CDB's Policy-Based Loans

In its efforts to align its operations with that of other multilateral development banks, the CDB has established an Office of Independent Evaluation (OIE) whose primary responsibility is to evaluate development activities of the Bank and review the Bank's project completion reports issued by Operations. In 2011, CDB developed an Evaluation Policy. While this policy document details the structure and human resource components of the OIE, it provides a very general set of procedures and a methodological framework for the evaluation function at CDB. In doing so, the policy does not offer the CDB detailed PBL evaluation guidelines and thus does not take into consideration evaluation best practices and the evaluation-related issues highlighted in this document. With the 2013 approval of an addendum to the Bank's policy-based operations, CDB approved a set of criteria for the evaluation of policy-based operations.<sup>115</sup> While the new evaluation good practices draw on the OECD DAC's criteria for evaluating development assistance, the guidance remains general with not enough attention paid to the difficulties associated with attribution and causality and the need to assess the PBL's effect on aid harmonisation and predictability.

### CDB's Evaluation Framework

There are two main elements of CDB's evaluation framework – a system self-evaluation and an independent evaluation. Both elements are required for a complete analysis of the performance of the project. Self-evaluations are often used as a major source of data for independent evaluations. The self-evaluation's processes are used to measure the progress as well as achievements and results of operational activities including investment projects or programmes, policy-based lending, grants, and TA activities.

Independent evaluations are conducted by OIE. OIE reports directly to the Board of Directors on matters of evaluation. The three main activities of the OIE are:

1. Auditing all self-evaluations at the project level;
2. Undertaking performance evaluations of completed projects (and selected on-going projects), programmes, PBLs, TA activities, and other development efforts to assess their outcomes and impact on the economic and social development of BMCs; and
3. Conducting sector policy and thematic reviews, country strategy evaluations, and corporate process reviews.

### Types of Evaluations

The CDB Evaluation Policy Manual identifies the following types of evaluations:

- *Impact evaluations* assessing welfare outcomes at the societal level;
- *Sector, thematic, and policy evaluations* assessing the effectiveness of CDB's policy within a given sector or on given themes;
- *Country strategy evaluations* assessing the contribution of CDB's operations to the economic and social development of borrowing member country's; and
- *Corporate process evaluation* assessing the quality assurance of CDB's operational procedures and processes.

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<sup>115</sup> CDB, "Policy Paper: A Framework for Policy-Based Operations – Revised Corrigendum," Paper BD, 72/05 Add. 6 Corr. 1, 258<sup>th</sup> Board of Directors Meeting, 17 October 2013.

## PBL Evaluations

CDB uses several evaluation approaches depending on the ‘evaluand’ (the subject of the evaluation). The outputs of project evaluations are Project Completion Reports (PCRs) and Project Performance Audit Reports (PPARs). The evaluations assess PBL performances according to the following core criteria<sup>116</sup>:

- *Relevance*: (a) the extent to which the project fits the BMC’s development priorities and is consistent with CDB’s strategic objectives; (b) the extent to which the work used to reconfirm the country strategy’s problem analysis and justify the intervention is satisfactory and based on sound analysis; and (c) the extent to which the selected financing modality is an appropriate tool to respond to the identified development problem, degree of coordination between development partners and complementarities of assistance, the extent of beneficiary participation and ownership, and the extent to which lessons from previous related experiences are incorporated in the design of the intervention.
- *Effectiveness* (or efficacy): (a) the extent to which the project achieved, or is likely to achieve, its stated policy, financial, institutional, social, and environmental objectives, taking into account their relative importance and any other changes influencing the results; (b) the achievement of the outcomes defined in the RFM, the realism of the outcomes defined in the RFM, the factors influencing the achievement of the expected outcomes, and the influence of the implementation process on the achievement of the outcomes (including positive and negative outcome, and effect of implementation delays); and (c) the results related to the Bank’s overarching or cross cutting themes (poverty reduction, gender aspects, social development, institutional development, capacity building, and environmental impact).<sup>117</sup>
- *Efficiency*: how well the intervention utilises resources in achieving the outcome (resources efficiency, process efficiency, and timeliness).
- *Sustainability*: (a) the likelihood that the human, institutional, financial, and natural resources are sufficient to maintain results; (b) the extent to which development results are exposed to risks which may impact the continued benefits in the long-term; and (c) the absence of major policy reversals, continued support for outcomes from key stakeholders, and the existence of a conducive macro-economic setting.

As Figure 4 indicates, the RFM model is directly linked to the OCED DAC model of evaluation criteria.<sup>118</sup>

In addition to the core evaluation criteria, PBLs are also rated based on:

- *Institutional development impact* – the contribution of a PBL to institutional development (improved governance practices – improved skills, procedures, incentives, structures, or institutional mechanisms).
- *CDB’s performance* – the overall performance of the Bank during the entire PBL process. The evaluation should assess the appropriateness of the Bank’s role during all of the stages of the PBLs, including its oversight of the process.
- *Borrower’s performance* – the quality of local ownership (the borrower’s commitment and performance in its role and responsibilities during the implementation phase). The evaluations should address the borrower’s contribution to the design and preparation of the policy-based loan,

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<sup>116</sup> CDB /OIE, “Performance Assessment System (PAS), Policy-Based Lending (Volume I),” Caribbean Development Bank, October 2013.

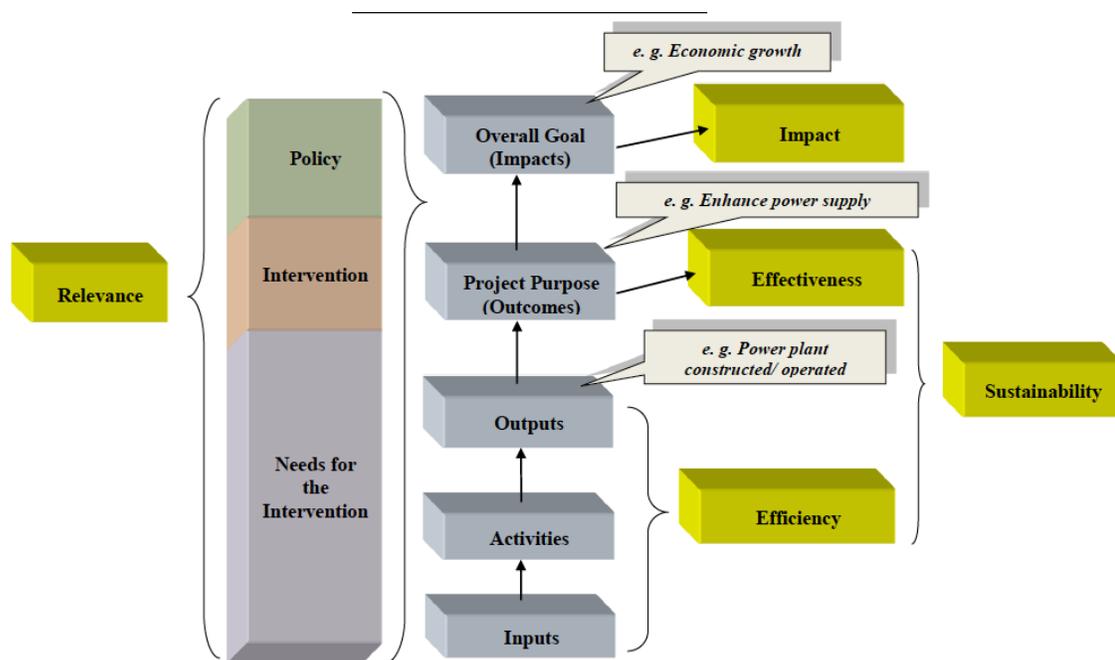
<sup>117</sup> CDB, “Strategic Plan 2000- 2014,” Caribbean Development Bank, 2000.

<sup>118</sup> CDB/OIE, “Performance Assessment System (PAS), Volume I, Public Sector Investment Lending and Technical Assistance,” Caribbean Development Bank, October 2013, Appendix 1.

execution, monitoring and reporting, supervision and implementation support, evaluation, and compliance with the relevant terms and conditions of the PBL.

- *Thematic Assessments* – direct or indirect impacts of PBLs on other cross-cutting areas (poverty, gender, socioeconomic conditions and economic growth, institutional development, technology enhancement or changes, environmental issues of climate change and disaster risk mitigation, and citizen security).
- *Impact* – the extent of the loan-induced socioeconomic change. The evaluation needs to use counterfactual analysis to assess the value added of the PBL on the reform process (acceleration or delay of reform, strengthening reformers, fostering policy learning, building capacity for policy formulation, and improving public debate on policy development).

**Figure 4: DAC Evaluation Criteria Relationship to the Logical Framework Matrix for Evaluation of Interventions**



For organisational consistency the evaluation criteria are used for self-evaluations primarily undertaken by the Project and Economics Department and independent evaluations performed by the OIE.

Nevertheless, CDB recognises that evaluating PBLs is challenging – there is methodological difficulty with the use of standard evaluation techniques such as baseline studies, ex-ante impact assessment. This difficulty is recognised as an inherent factor in the nature of the objectives of PBLs. As noted in the Evaluation Policy, “PBLs aim to make significant changes to the rules and incentive systems under which economies operate. Policy and institutional reforms generally take longer than the life of any PBL operation to implement or for the effects to become evident.”<sup>119</sup>

In actual practice, monitoring and supervision of PBLs includes the use of desk reviews of data and reports emanating from the borrowing country, telephone calls and e-mail exchanges with country officials regarding the status of compliance with loan conditions, visits to the borrowing country (averaging about

<sup>119</sup> CDB / OIE, “Performance Assessment System (PAS), Volume I, Public Sector Investment Lending and Technical Assistance,” Caribbean Development Bank, October 2013.

one visit per year), and participation in other lending institutions' missions.

#### 4. Findings and Recommendations

Despite some differences, including the fact that PBLs are loans (in case of CDB with the exception of Haiti) to be repaid while budget support is a grant, the findings have demonstrated many common threads related to the results, challenges, and evaluation methodologies between budget support and PBLs. Common successes claimed for both include increases in services provided to the population, improved macroeconomic stability and increased public finances. Both aid modalities apparently offer great opportunities for coordination amongst development actors.

Unfortunately, the implementation of both modalities has also had negative effects on country ownership, commitment by governments, and alignment at country level. The use of the two modalities have also had only a negligible impact on good governance and aid effectiveness principles and experienced challenges related to the sustainability of the outcomes.

The meta-analysis of budget support and PBL evaluations highlight similar lessons related to the need for a proper and complete assessment (including a political economy assessment) of the local condition before the initiative is implemented, a strong performance management system to help improve a focus on relevant and possible results, a theory of change that is based on a proper assessment of the conditions on the ground, an increased provision of TA and capacity development, and a focus on country needs rather than the mix of instruments that align with the development partner's requirements (instead of those of the local government).

However, the analysis highlights some contradictions in the recommendations between the two modalities. The results from evaluations of budget support initiatives seem to indicate that the promotion of good governance is not necessarily conducive to the systems, structures and processes of budget support instruments while the evaluation of PBLs seems to advise the promotion of good governance as an objective within the modality itself. To this end, there needs to be a better understanding of the outcomes, the factors that lead to success, and a lot of caution before either excluding or including good governance provisions in PBLs.

Second, evaluations of budget support have argued for the establishment of specific TA projects as a means to ensure commitment and continuous use of, and thus benefit accruing from, this expertise. However, the evaluations of PBLs seem to recommend the actual inclusion of more TA within the structure of the PBL. If its inclusion in the PBL is considered to be preferable, then actions need to be taken to ensure that (a) the funding for TA and capacity building is not diverted to other aspects of the PBL, (b) the results framework has a specific section dedicated to the results that are expected from the TA and capacity building activities, and (c) the stakeholders are actively monitoring these activities to ensure their continued relevance.

Third, while the analysis of budget support initiatives indicated a preference to move away from multi-tranches and the conditionalities associated with their release, most of the PBL literature that was reviewed for this paper has not indicated a preference for such a limitation.

With the exception of the three points highlighted above (technical assistance/capacity building, good governance, and multi-tranches/conditionalities), CDB's use of PBL is in line with the recommendations offered for budget support initiatives and PBL initiatives. While PBLs are still a 'new' instrument, introduced by the CDB only nine years ago, the experiences related to other donors' budget support initiatives have been numerous. These initiatives have been implemented in several countries with diverse circumstances and challenges and thus, offer interesting precedents and valuable lessons.

## Recommendations for Evaluating CDB PBLs

The PBL and budget support evaluation methodologies recognise the tremendous difficulty in attributing results and assessing causality between the inputs and activities of the two modalities and the overall objective of increased economic growth and poverty reduction. There is also a clear recognition of not only the scientific complexity of evaluating such relationships, but also the significant resources that might be required to seriously address the causal links between the provision of PBLs and whatever outcomes occur. Evaluators have therefore limited themselves to evaluating only short-run outputs and reflecting on the validity of the theory of change (rather than actually observing the long-term results). Furthermore, without attending to long-term results, evaluations of PBLs and budget support initiatives occur within a rather short period following the completion of the initiative.

The analysis regarding CDB's evaluation methodology has demonstrated that the Bank clearly recognises the inherent difficulties in measuring impact and already has several good tools and ideas for evaluating PBLs. The assessment of CDB's evaluation policies and practices indicates that CDB:

1. Has a strong results-based matrix based on an accepted theory of change;
2. Uses evidence-based diagnosis and evaluation techniques;
3. Uses the evaluation criteria established by the OECD DAC (relevance, sustainability, efficiency, effectiveness, impact); and
4. Is expected to:
  - Assess the risks associated with PBLs and their impact on the achievement of results;
  - Evaluate its own performance as a lender;
  - Evaluate the performance of the borrower (government);
  - Assess local ownership;
  - Assess the tool (PBL) and its objectives; and
  - Evaluate the cost effectiveness of the initiative.

The analysis has also indicated the following weaknesses as it relates to CDB's approaches to evaluations:

1. CDB does not have a detailed methodology or operations guideline for the evaluation of PBLs;
2. CDB's evaluation policies do not place a strong enough emphasis on harmonisation and predictability;
3. The documents reviewed do not indicate a rigorous assessment of the positive and negative impact of the use of conditional clauses and multiple tranches on the achievement of results;
4. The evaluation methodology does not provide enough emphasis on the assessment of alternatives as a means to ensure that the specific PBL is the right approach;
5. CDB's evaluation methodology is not rigorous enough to assess the presence and impact of other projects or loans; and
6. The existing methodology does not provide CDB and BMCs with the tools to assess the impact of PBLs on the long-term goals of poverty reduction.

As such, it is recommended that CDB establish a more detailed methodology that the Bank can implement for evaluating PBLs and ensure the inclusion of methodological steps that will help improve on the six main weaknesses indicated in the list above. It is also recommended that CDB establishes clarity regarding the measurement of long-term impacts. Given the difficulty in establishing causality between the inputs and poverty reduction, CDB should clearly indicate whether their aim is to assess the theoretical or actual link between inputs and poverty reduction. Depending on the decision taken by CDB in this regard, the OECD DAC's Comprehensive Evaluation Framework could be useful in the development of CDB's evaluation methodology.

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