PROGRAM-BASED OPERATIONS

UNDERSTANDING A KEY FINANCING INSTRUMENT OF THE AFRICAN DEVELOPMENT BANK
1. WHAT ARE PROGRAM BASED OPERATIONS?

2. EVOLUTION OF PBOs IN THE BANK

3. UNDERSTANDING PBOs
   - DETERMINING THEIR USE
   - DESIGN
   - IMPLEMENTATION

4. RESULTS OF PBOs

5. LESSONS FROM BANK EXPERIENCE USING PBOs
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Program Based Operations differ from investment projects and other financing instruments

- PBOs support nationally-owned policy and institutional reforms in RMCs, and contribute to the availability of predictable medium term finance to support priority spending to meet RMCs’ medium and long term development goals.

- PBOs provide funds into a country’s treasury, to be executed using the country’s financial management system.

- PBO resources are not subject to earmarking and are not related to cost of reforms supported, but rather country financing requirements and the Bank’s available lending envelope.
PBOs deliver results through 3 main mechanisms

• Systemic effects on **strengthening country systems** and support to country-led reforms of PFM systems, including budget, procurement and audit, leading to better budget efficiency

• **Policy –dialogue**, supporting RMC led policy reforms in sectors of mutual interest

• **Financing government expenditure** on overall budget priorities and therefore contribute directly to overall development results achieved by RMC governments
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PBO type instruments were introduced in the late 80’s

- 1988 AfDB adopted guidelines for Structural and Sector Adjustment Lending and Policy-based lending

- 1990’s HIPC- 2005 Paris Declaration on Aid Effectiveness/ 2008 Accra Agenda for Action emphasized ownership and inclusive partnership with budget support seen to support national poverty reduction strategies

- 2006 Governance, Economic and Financial Management Department (OSGE) established in AfDB - leading work on PBOs.

- 2010 ADF commitment to consolidate existing good practices and streamline requirements for program-based operations


- 2014- Operational Guidelines for the programming, design and management of PBOs
The current PBO Policy defines several PBO instruments:

- **Budget support operations (BSOs)**
  - General Budget Support (GBS)
  - Sector Budget Support (SBS)
  - Crisis Response Budget Support (CRBS)
- **Balance of Payments support (BoP)**
  - Import Support (IS)
PBOs have constituted between 17-21% of overall approvals - peaking during times of economic crisis.

**PBOs as Percentage of Total Lending**

- **Total Approvals (incl grants, ADF, ADB, guarantees etc)**
- **PBOs**
- **-% of PBOs**

![Chart showing PBOs as percentage of total lending](chart_image)
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The country strategy paper provides the basis and strategic context for the use of PBOs:

- The Country Strategy Paper (CSP) articulates the required justifications for PBOs and also articulate their relevance within the Bank Group’s lending (or grant) program in the particular RMC.

- The amount and the timing of a PBOs is also set out in the CSP, based on the country’s financing requirements, sustainability of its development trajectory and absorptive capacity.

- The CSP should determine whether or not capacity building measures are required as part of the PBO package, and propose the relevant modality (e.g. institutional support program or technical assistance) to accompany the PBO.
The potential risks and benefits of PBOs are assessed during country strategy preparation.
For RMCs to access PBO, they must meet the eligibility criteria:

1. Macroeconomic Stability
2. Satisfactory Fiduciary Risk Assessment
3. Political Stability
4. Commitment to Poverty Reduction
5. Harmonization
Eligibility requirements vary for different types of PBO

<table>
<thead>
<tr>
<th>GENERAL BUDGET SUPPORT</th>
<th>SECTOR BUDGET SUPPORT</th>
<th>CRISIS RESPONSE BUDGET SUPPORT</th>
<th>IMPORT SUPPORT</th>
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<tbody>
<tr>
<td>✓ Macroeconomic stability</td>
<td>✓ Same as 1</td>
<td>✓ Same as 1</td>
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<tr>
<td>✓ Fiduciary risk assessment</td>
<td>✓ Same as 1</td>
<td>✓ Macroeconomic stability &amp;/or political stability may be relaxed due to the crisis context</td>
<td>✓ Less stringent on macroeconomic stability or adequacy of PFM</td>
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<tr>
<td>✓ Political stability</td>
<td>✓ Same as 1</td>
<td>✓ Same as 1</td>
<td>✓ Same as 1</td>
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Examples of crisis PBO?

Chad, 2017

**Emergency Fiscal Consolidation Support Program**- UA 46 million

The Chadian economy was severely impacted by the drop in oil prices, creating a deep crisis, negative growth, drastic decline in foreign exchange reserves, unsustainable debt levels, drop in public expenditure- jeopardizing already weak level of service delivery and exacerbating poverty and fragility, in particular with surge of insecurity in the Sahel and lake Chad region.

Objective: create fiscal space for economic recovery and safeguard social spending.

Mali, 2016

**Emergency Governance and Economic Recovery Programme**- UA 14 million

Mali was facing multifaceted fragility on both political, security and economic fronts- weakened institutions, ‘fragilized’ infrastructure in the North of the country and erosion of the Government’s capacity to provide the population with essential basic service

Objective: contribute to strengthened public financial management and economic recovery
There are three modalities in PBO design

STAND-ALONE OPERATIONS

- Single disbursement against fulfillment of prior actions in the year in question
- Policy dialogue limited to one year time-frame

PROGRAMMATIC OPERATIONS

- A series of yearly operations linked to each other in a multiple year framework
- Predictability: aligns PBO funds with government MTEF
- Policy dialogue more extensive over 2-3 years

PROGRAMMATIC TRANCHEING

- High degree of certainty required on reform actions & timing.
- Reduce transaction costs & improve efficiency but require Board approval for change of disbursement conditions.
The PBO Policy (2012) specifies that all sector departments can utilize PBO instruments (GBS, SBS and CRBS).

This provides a good basis for efficient collaboration between sector departments, and PBOs should, therefore, be done collaboratively with other relevant Departments of the Bank.

The decision as to which department will lead a particular PBO will be established as part of the CSP process (or Mid-Term review-MTR) led by the Regional Department, in consultation with relevant sector Departments.

In an unprogrammed PBO, such as CRBS, the Regional Department will facilitate a process to determine which department takes leadership of the PBO, based on the nature of the operation and the skill mix required.
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IN ANGOLA, the PBO supported electricity tariff reform; revised electricity sector legislation and revised electricity legislation.

IN COTE D'IVOIRE, the PBO supported establishment of procurement units across 5 ministries; extension of MSME centers; land tenure strategy; improved governance of cocoa sector.

IN NAMIBIA, the PBO supported the establishment of the Revenue Authority; Regulations for Public Procurement Act; approval of PPP bill; debt management strategy. Results: Reduction in the budget deficit from 8.1% of GDP in 2015/16 to 4.4% in the 2017/18

IN NIGER, PBO helped strengthen tax administration including through modernization of tax collection systems.

IN EGYPT, the PBO supported electricity tariff reform; restructuring of wage bill; streamlining of industrial licensing procedures; budget transparency through publication of citizens budget; establishment of internal audit function. Results: reduced time to issue licenses from 634 days in 2015 to 7 days in 2017; wage to GDP reduced from 8.1% in 2015 to 4.5% in 2017/18.

IN TANZANIA, the PBO supported the establishment of one-stop shop for business registration; PPP law amendments and establishment of guidelines;
**PBO package of support**

- **Funds:** The flow of funds into the budget creates fiscal space to finance the macroeconomic policies and sector plans.

- **Policy Dialogue:** This refers to a component of the decision-making process where macroeconomic issues and problems are diagnosed and a decision, policy, plan or action is mutually reached with government authorities to address them.

- **Technical Assistance:** This refers to non-financial assistance in the form of technical and skills trainings, consulting services, and capacity support usually provided by subject-matter specialists.

- **Economic and Sector Work:** Studies can provide a strong basis for policy dialogue, help diagnose specific risks and weaknesses, provide the basis to monitor progress in specific areas, and provide evidence of good practice to support policy reform processes.
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Experience shows there are critical factors for success:

- Programming and design
- Use of conditions
- Coordination with DPs
- Relevance
- Strategic Alignment
- Political Will/Country Ownership
- Capacity to implement reforms

The 2018 Independent Evaluation demonstrated AfDB satisfactory performance in the delivery of PBOs in the following areas:

- Programming and design
- Coordination with DPs
- Relevance
- Strategic Alignment
- Political Will/Country Ownership
- Capacity to implement reforms
Pipeline for 2019, includes 14 PBOs at a value of approx. UA 775 mill.
In conclusion

- **Demand for PBO is constant and increases during times of crisis** - recent economic headwinds & commodity crisis has led to increased demand from countries e.g. Nigeria, Angola, Algeria

- **PBOs provide unique entry point** for Bank to engage dialogue with Governments around macro and sector reforms

- Bank has to be responsive while paying close attention to the risks posed (fiduciary, economic, environment, climate, and social)

- Well designed PBOs achieve results and remain a strong instrument for promoting macroeconomic & sectoral reforms to achieve growth & poverty reduction
Useful Links


Operational Guidelines on the programming, design and management of PBOs ADF/BD/IF/35

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