Executive Summary

Background and Context

This report summarizes the findings, conclusions and lessons from the independent evaluation of African Development Bank Group (AfDB or the Bank) Program Based Operations (PBOs) 2012-17. The evaluation serves both accountability and learning purposes. It reports on how the Bank has been using the instrument since Board approval of the PBO Policy in 2012 and it also identifies factors which enable or hinder good performance, draws lessons for the Bank, and identifies recommendations to help the Bank to optimize effective use of the PBO instrument in future. The evaluation design was theory based and the findings are based on multiple complementary lines of evidence.

The evaluation scope covers PBOs approved between 2012 and 2017, with a collective approval value of UA 7.2 billion. To examine the Bank’s use of the PBO instrument since 2012, the evaluation focuses on three overarching questions. The first question relates to how the Bank is programming, designing and managing its PBOs. The second relates to PBO performance particularly in the two focus sectors identified: (i) energy reforms (ER) and (ii) private sector environment (PSE), also sometimes referred to as business enabling environment (BEE). In addition, the evaluation looked at performance of public financial management reforms (PFM). The third question is forward looking and asks how the Bank can optimize its use of PBOs in future, including to support the High 5s.

Overview of Findings

The evaluation finds that PBOs remain a relevant and useful instrument for the Bank and its clients, although challenging to design and manage effectively. The evaluation finds a broadly satisfactory picture when it comes to the relevance of the PBOs in the Bank’s portfolio – based on their programming and design and broad adherence to its own Policy and Guidelines and international good practice. With regards to achievement of reform objectives the overall picture is also satisfactory. However is much harder to evidence the Bank’s influence on reform direction and speed. For sustainability, even in the presence of strong ownership, concerns regarding institutional and financial dimensions of sustainability indicate overall unsatisfactory prospects for sustainability in the sectors examined.

Despite deploying UA 7.2 billion as PBOs over 2012-17, the Bank has failed to invest in its own institutional infrastructure to obtain maximum value for money from the instrument. As is well reflected in the 2012 PBO Policy, PBOs are expected to form part of a “package of support” in order to ensure that they influence and support reform agendas, while also providing important funding. This package includes analytical work to inform technical input, policy dialogue and capacity support. In practice, while there is significant disparity by country, overall the Bank underperforms when it comes to policy dialogue, despite its strong position as a trusted partner. This is partly due to the institutional set up, the lack of clarity on who is responsible for policy dialogue, the structure of how it should be conducted and reported, coordination, as well as a lack of investment in relevant human resources to conduct it. In addition, the Bank underperforms in providing timely and adequate capacity support and specialized technical advice, partly due to the limited menu of instruments available to do so. These shortcomings have implications for how well the Bank is able to influence or add value to country reform paths.
Programming and Design

A range of programming issues are examined, and while the overall picture is assessed as broadly satisfactory, there are areas that could be strengthened. First, for the large majority (94%, excluding Crisis Response Budget Support – [CRBS]) of the PBOs reviewed, their use was envisaged in either the relevant country strategy paper (CSP) or mid-term review (MTR) – in line with the Policy. However, in the majority of cases the assessment against the eligibility criteria was made for the first time during PBO preparation phase. In terms of the type of PBO, there is scope for stronger justification for the type chosen, especially when not using the recommended programmatic approach. Second, in around two thirds of the operations reviewed, the analytical underpinnings used are clearly listed and relatively complete. However, how exactly this work has informed or underpinned the design of the operation is not made clear. Third, while risk assessment is assessed as satisfactory in two thirds of the operations reviewed, reputational risk is rarely explicitly considered; and identified risk mitigation measures – such as future capacity support to address current risks - are not convincing within the time-frame of a PBO.

Alignment with country priorities and Bank priorities is assessed positively both on the basis of document review and in terms of stakeholder perceptions. All the PBOs can be mapped to at least one of the High 5s or are considered to support crucial governance issues which cut across them. The Bank has also succeeded in expanding use of the instrument to support sector reforms in addition to economic and financial governance. Nearly 80% of survey respondents had positive views on alignment with country policy frameworks.

In terms of coordination, strong examples of how the Bank coordinates with other development partners are highlighted, most notably in identification and appraisal periods. Bank staff are taking coordination seriously and investing in upfront work with other development partners. However, the in-depth assessment illustrates how difficult the Bank has found it to sustain initial high levels of coordination throughout the implementation phases. Moreover, following the 2017 G20 Principles for effective coordination between the IMF and MDBs, the bar for all MDBs to align behind the IMF - in countries facing macro-economic vulnerability - has been raised.

In terms of designing PBOs for results the overall picture is satisfactory, with shortcomings identified. Although two thirds of PBO appraisal reports examined stated there was an important role to be played by complementary inputs, only a handful developed how. All PBO results frameworks have defined baselines, targets and means of verification, and integrate prior actions and triggers. However, over a third did not meet the satisfactory bar due to weaknesses in how a convincing results chain was presented; high proportions of process and action based indicators; or lack of realism, particularly for single year operations. The use of conditions is suitably selective: in programmatic operations they link from one phase to the next in order to plot a medium term path, and link to broader dialogue frameworks. Weaknesses were noted where the number of prior actions was high; opportunities for identifying triggers were missed; or the level of ambition for prior actions was not appropriate.

The evaluation found that the Bank has missed valuable opportunities provided by PBOs to address gender equality and environmental reform issues at policy level. Just over a third of the PBO PARs assessed included gender related indicators and 7% environmental or climate sensitive indicators. The opportunity to push gender equality and environmental concerns is not equal in all types of PBO. However, particularly in the energy sector, PBOs can provide valuable opportunities to shift national policies– in support of the Bank’s ambitions of inclusive and green growth.
Management of PBOs

Efficiency

At portfolio level, time-efficiency in term of disbursement and implementation of PBOs shows a broadly positive picture; though from the perspective of receiving countries, predictability is raised as an issue. In line with expectations for the PBO instrument, the evaluation finds that the Bank does disburse fully and – relative to investment projects – quickly. In addition, based on how the Bank monitors implementation progress, PBOs are very rarely identified as a cause for concern. Nine of the ten in-depth assessments are also found to be efficient in terms of transaction costs and time to disburse. However, perceptions –amongst staff and RMC officials - of timeliness and transaction costs were more mixed.

Where the efficiency and transaction cost story is negative is with the technical assistance (TA) or institutional support provided to support PBOs. Such support – when it has been provided – has been slow, arriving towards the end rather than beginning of a PBO series unless already in place. This relates both to the tendency to design capacity support in parallel rather than in advance, and to the limited set of instruments the Bank has available to provide small items of TA, all of which operate like full projects rather than rapidly deployable expertise.

Policy Dialogue and Supervision

The Bank is not fully utilizing its comparative advantage – and “African Voice” to ensure PBO results via policy dialogue. This finding is not dissimilar to that of the 2011 evaluation which described the Bank as “punching below its weight” when it comes to policy dialogue. Only three of the ten in-depth assessments found satisfactory frameworks for policy dialogue in targeted sectors. Policy dialogue is an important mechanism through which PBOs are expected to achieve results. Deficiencies that emerged in relation to policy dialogue are broadly categorized as: (i) lack of clarity over who is leading and responsible for policy dialogue, especially after approval; (ii) limited capacity to engage in in-depth technical dialogue in some areas; and (iii) lack of structured planning or reporting for policy dialogue efforts – including through the Bank’s normal supervision channels; (iv) lack of medium term strategy to capitalize on doors that may be opened by a PBO after formal completion. In the survey, less than a third of respondents were clearly positive when asked about the extent to which the Bank mobilizes appropriate resources for policy dialogue. In the ten countries looked at in depth, five were found to have a satisfactory framework for policy dialogue.

Policy and Institutional Framework

The existence of the 2012 PBO Policy has helped the Bank to improve and make more consistent, its approach to PBOs; however, there are areas where implementation has been wanting. The Policy succeeded in providing clarity on the authorizing environment and on a range of important issues including type of instrument, when they should be employed, on what basis and with what objectives. It is broadly aligned with good practices. The Policy clearly set out activities or changes that would need to take place in order to facilitate implementation but not all aspects of implementation have gone as planned – for example the delay in producing the supporting guidelines, the glaring lack of training, and unfinished business in ensuring an enhanced role for Country Offices. The Guidelines - described as a living document - have not been updated. For example, there has not been additional guidance on reform areas newly entered into – such as energy; and there has not been an update following the G20 principles. The survey and focus groups both also highlighted staff demand for more guidance in areas such as policy dialogue, working in post-conflict contexts and results measurement.
In terms of institutional arrangements to support PBO design and management, some of the Bank’s practices remain out of line with both its own policy and the practices in peer organizations (World Bank and European Union). First, in practice PBO design and management remains somewhat centralized, most often led by either the Governance and Public Financial Management Coordination Office (ECGF) or sector departments. The extent to which Country Offices have taken up ownership varies significantly. Second, in practice, there is no centralized unit that provides specialized support to PBO teams. Until now ECGF unit staff are task managing most of the Bank’s General Budget Support (GBS). This lack of a central support, and limited guidance and training provided to staff is in stark contrast to the support available in the two peer organizations examined.

Performance

Overall, the assessment of PBO effectiveness - which is focused on the areas covered in depth of public financial management (PFM), energy and PSE - is broadly satisfactory. The breakdown of the dimensions on which the assessment is based, highlights areas where the Bank can focus attention in order to strengthen results and specifically how it can contribute to the direction and pace of reforms. Data from project completion reports (PCRs) and IDEV country strategy and program evaluations (CSPEs) indicate that the satisfactory assessment is likely pertinent for the broader portfolio.

- All of the cases achieved or partially achieved all or the majority of the reform actions listed in the results framework. Only in one of the cases were 25% of outputs considered not achieved. In all other cases, at least three quarters of the reforms were assessed as either fully achieved/partially achieved/achieved with significant delay. With regards to achievement ratios by sector covered, no clear pattern emerges with notably higher performance in one than another. At an aggregate level, in seven of the 10 countries with in-depth studies- the effectiveness overall — in terms of achievement of objectives stated in the Results Measurement Framework (RMF) — was considered satisfactory.

- Across the 211 individual components assessed, two thirds are assessed to be satisfactory in terms of achievement of “landmark reforms”. Within a PBO RMF some actions can be much more important than others, with some including a large number of tick-box type items alongside more fundamental issues that have the potential to drive change and contribute to transformative outcomes. These latter types of indicators were identified as “landmark reforms”. Where landmark reforms were not achieved, it is worth noting that this includes a transition state (Comoros); two cases where the principal focus of the PBO was in another area (Tanzania and Seychelles); and one where the second part of the planned series never took place (Nigeria).

- Influence of the Bank on achievement of landmark policy changes is not always evident. In one third of the components, the Bank’s influence — on either the direction or pace of reforms — was evident. In those cases where influence was evident, it was through analytical work, technical input and policy dialogue. Perceptions of Bank staff gathered in the survey support the view that influence is limited, though strongest at appraisal stage.

Sustainability of PBOs in the two sectors and PFM (multi-sector) covered is assessed as unsatisfactory, particularly in relation to institutional and financial dimensions of sustainability. Only four of the ten in-depth assessments are found to have good prospects for sustainability. Almost all cases are assessed as having good foundations for sustainability in terms of government ownership and leadership – which should be at the core of the decision to proceed with a PBO. However, a minority are also assessed as having good prospects based on institutional and financial sustainability – which should be considered in PBO design and implementation. Indeed, a negative assessment on these two dimensions of
sustainability undermined positive assessments in terms of ownership. While the evidence base for this is strong and generalizable for the two sectors and PFM, other – more positive - evidence indicates that it is not possible to generalize this sustainability rating across the whole PBO portfolio.

Factors Affecting PBO Performance

Both context factors and elements of how the PBO is designed and managed influence performance. Looking across evaluation evidence not only from the Bank but other institutions providing budget support in Africa the most frequently identified factors relating to country context are: ownership, country capacity, having a “champion” for reforms, the country’s socio-economic status, and country systems. The most frequent factors relating to the budget support mechanism are: quality of design, programming, development partner coordination, quality of monitoring and choice of indicators. The single most frequently cited mechanism enabling factor is the quality of design. In terms of hindering performance, the frequently highlighted mechanism factors comprise policy dialogue; efficiency and transaction costs; choice of indicators; quality of monitoring and poor predictability.

Analysis of the significance of certain factors and combinations of factors in achievement of results, also highlighted strong country technical governance, relations with development partners and the presence of an IMF program as the most significant factors associated with achievement of landmark changes – stronger even than the country’s socio-economic status. Programming, design, efficiency, TA, the operation being part of a series and the existence of a country office were also found to combine to underwrite landmark reform achievement.

Recommendations

IDEV makes the following six recommendations to Bank management. Not all of the recommendations are administrative-budget neutral, however, their implementation will increase the ability of the Bank to achieve value for money with the funds deployed through the PBO instrument.

1. Update or complement the PBO guidelines in order to:
   a. appropriately reflect the Bank’s response to the 2017 G20 principles on coordination with the IMF; and
   b. provide detailed guidance to staff on the challenging areas of results frameworks, conducting effective and coordinated one Bank policy dialogue, post-conflict specific concerns, and examining PBOs for opportunities to push reforms in support of gender equality and environment/climate change.

2. Fully enforce the provisions of the PBO Policy, this includes:
   a. using non-programmatic operations, and operations that are not already programmed in the CSP or CSP MTR, only on an exceptional basis, as per the 2012 Policy; and if so ensuring that the reason for using this approach is convincing and based on sound analysis including against alternative options; and
   b. consistently conducting fiduciary risk assessments in the CSP context when first opting to use a PBO and updating the assessment at appraisal, while also ensuring proposed risk mitigation measures can address identified risks within the timeframe of the planned PBO.

3. Design all future PBOs with a focus on medium-term support to a limited number of reform areas from within broader government
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Reform plans identified on the basis of (i) what reforms have the potential to pave the way for landmark changes; (ii) multi-year reform paths; (iii) complementarity with other development partners and with the Bank’s wider portfolio; and (iii) the ability of the Bank to add technical value in those areas - especially in terms of analytical work, expertise and policy dialogue. The tight focus should be combined with a strengthening of the medium-term dimension in the design: i.e. support through programmatic PBOs to a clearly defined multi-year reform path, as well as attention to how the Bank might accompany reform processes over the medium term over one or more PBOs.

4. Reflect in practice the vital role of policy dialogue in PBOs by:

a. Making it unequivocally clear at design stage what the policy dialogue will entail, what mechanisms will be used, what will be the priorities, how it will be underscored by relevant technical expertise, and who will be responsible for conducting and reporting it. This could be done by including a standard annex on policy dialogue priorities and responsibilities in all PBO’s PAR technical annexes, for example, which would provide a starting point but could also be adapted over time to respond to new policy needs as they arise.

b. Aligning practices with plans in the PBO Policy and DBDM by more clearly allocating responsibility for PBO design and management to the country offices and regions – ensuring they have the resources and necessary reporting structures to take up the responsibility, and strong technical support from HQ teams. (Or, alternatively, if the Bank prefers to operate a centralized model, the Policy and DBDM documents should be adjusted to reflect this approach to remove any confusion).

c. Ensuring that budget lines for PBO appraisal and supervision take account of the need to involve the appropriate range of expertise especially in the case of PBOs that cover a range of areas.

5. Back PBOs with appropriate and timely expertise and capacity support, this will necessitate:

a. Examining how to refine and expand the Bank’s menu of options for providing expertise and technical assistance. This should include reviewing the MIC Trust Fund and other relevant trust funds with a view to make them more nimble so as to improve their relevance; investigating other instruments including short terms options – such as framework contracts with specialist companies that can provide quick and high quality technical expertise – and longer term solutions such as a fast-track TA scheme; and

b. Requiring clear justification where relevant capacity support or expertise is not already in place or at least being appraised by the time approval for any PBO is sought.

6. Invest in PBO supporting infrastructure by:

a. Investing in continuous training for staff involved in PBO design and implementation. Such training could take the form of an accreditation scheme and draw on the rich experience that has been gained internally, while also drawing on lessons from elsewhere.

b. Investing in upfront analytical work to support PBO design and the focus of policy dialogue and capacity support, which will require forward planning and resources to allow teams to conduct or commission it.

c. Reviewing the extent to which the Bank’s quality assurance processes are appropriate for PBOs, in particular (i) the readiness review; and (ii) expectations for supervision and reporting of supervision.
About this Evaluation

This report summarizes the findings of an independent evaluation of the African Development Bank Group’s (AfDB’s) Program Based Operations (PBOs) for the period 2012 to 2017. The Bank approved a new PBO Policy in 2012.

PBOs, also known as budget support, are an instrument that the AfDB uses to provide funds directly to a country’s treasury in support of the national budget. Additionally, PBOs are expected to support general economic and financial or sector-specific reforms in the country.

The Bank approved PBOs worth UA 7.2 billion (USD 10.2 billion) during the period under review. This evaluation assesses how the Bank has used PBOs since the PBO Policy was approved, and derives lessons and recommendations to help the Bank to use the PBO instrument more effectively in the future. The evaluation design is theory based and the findings draw from multiple lines of evidence, including document reviews, country visits, focus group discussions and interviews with both staff and clients of the Bank.

The evaluation finds that overall, PBOs remain a relevant and useful instrument for the AfDB and its clients, and their performance is broadly satisfactory. They are, however, challenging to design and manage effectively, and the evaluation found shortcomings in their implementation. It also finds that the Bank has insufficiently invested in its own institutional infrastructure to obtain maximum value for money from the instrument. A key advice for the Bank is to design future PBOs focusing on medium-term support to a limited number of reform areas that are identified based on certain criteria (as outlined in the report), and to better reflect the vital role of policy dialogue.