Proceedings of “Optimizing the Bank’s PBOs as a Package of Support” Workshop

Pretoria 21 May 2019
The objective of the workshop was to encourage a better understanding of the use of PBOs by the African Development Bank (AfDB or the Bank). Organized jointly by Independent Development Evaluation (IDEV) and the Governance and Public Financial Management Coordination Office (ECGF) for Bank staff, the workshop was inspired by the lessons and recommendations from the IDEV evaluation of the AfDB's PBOs over the period 2012 to 2017. The workshop was held at the Bank’s Southern Regional Office in Pretoria (RDGS). In his remarks, Director General Kapil Kapoor spoke of the huge demand for PBOs (also known as budget support) from the Bank’s regional member countries. He pointed out that the Bank did not do enough policy dialogue due to inadequate skillsets. There was not enough analytical rigor linked to policy advice, he noted, and this was reflected in the quality of the policies. He further stressed the need for the different roles in the Bank to come together and operate as “One Bank” when dealing with PBOs.

In his remarks, Abdoulaye Coulibaly cited the evaluation’s finding that policy dialogue was weak in the countries where the Bank’s presence was weak. He reaffirmed that the core of PBOs would be difficult to attain without sound analytical work.

Carina Sudgen gave insights into the Bank’s PBO Policy and guidelines in her presentation. She explained the differences between PBOs and other financial instruments of the Bank. PBOs provide funds directly to a country’s budget to be executed through the country’s financial management systems. Furthermore, the Bank does not allocate these funds to specific actions.

“**There is a need for the different roles in the Bank to come together and operate as ‘One Bank’ when dealing with PBOs**”
The Bank delivers through PBOs in three ways:

(i) Strengthening country systems and support to country-led reforms of public financial management systems.

(ii) Policy dialogue to reinforce policy reforms in the regional member country.

(iii) Financing government expenditure on its priorities, thus contributing to the overall development results of the country.

She outlined the eligibility criteria for PBOs, the types of PBOs, and the different modalities for PBO design among other issues.

Clement Banse’s presentation was on the findings of the IDEV PBO evaluation. The evaluation looked at how well PBOs were programmed, designed, implemented and managed, and sought to determine how the Bank could optimize its use of PBOs to achieve the High 5s. The evaluation gave an overall satisfactory picture of the programming, design, and management of PBOs; funds disbursement and implementation were found to be positive. Areas that were found to be in need of attention were risk assessment and mitigation, the logic of the results frameworks, and how policy dialogue was addressed.

“... Design PBOs with multi-year support to a few reform areas and to better reflect the role of policy dialogue in PBOs.”
While noting that PBOs are a vital tool for the AfDB in the High 5s context, the evaluation remarked on the Bank’s failure to invest in its own institutional infrastructure, one of the key issues that prevented the Bank from getting value for money from PBOs. One key advice from the evaluation was that the Bank should design PBOs with multi-year support to a few reform areas, and that it needs to better reflect the role of policy dialogue in PBOs.

Following the presentations, a lively discourse ensued. It clarified a few misconceptions about PBOs. One was that the existence of an IMF program was a key factor for a country to be eligible for PBOs. Participants learned that for ADB countries, the Bank could do its own assessments in the absence of an IMF program. Another issue that was explained was about Crisis Response Budget Support. For this type of PBO, the Bank does waive some of the eligibility criteria. It was observed that ADB countries were increasingly approaching bond markets rather than the Bank’s PBOs, yet their interest rates are quite high. A possible reason for this was that they needed a lot of money, yet the Bank had a cap on PBOs; another was that the funds from the bond markets were not tied to specific reforms, like those of the Bank. It was likely that these countries were not aware of the full extent of the benefits of PBOs, and Bank was urged to scale up its promotion of PBOs.
Panel Discussion:
Tuning into cases from the field - voices from the frontline

Moderator:
Carina Sugden, Principal Governance Officer, ECGF

Panelists:
Pietro Toigo, Country Manager, Mozambique;
Kalayu Gebre-Selassie, Chief Governance Expert, RDGS;
Jonathan Nyamukapa, Regional Financial Mgt. Coordinator, RDGS;
Clement Banse, Principal Evaluation Officer, IDEV

This session was a conversation about the evaluation findings in view of the Bank staff’s experience with PBOs. Findings and recommendations of the evaluation delighted the discussants as they delved into the key points raised by the evaluation. Asked about his views on the finding that the Bank was ‘punching below its weight when it came to policy dialogue’, Pietro Toigo affirmed that the Bank was seen as more of a financing institution rather than as an advisor. He stressed that a PBO is a good platform for policy dialogue. For it to be properly implemented, a PBO should not be treated as a stand-alone project. It needs to be owned by the whole country office and led by the country manager. The whole country program should be planned around the PBO, which would be the central entry point of the country office’s dialogue with the government. Pietro saw a future role for PBOs geared towards climate change, resilience, and adaptation. Kalayu Gebre added that as well as the PBO, strategic technical assistance would advance the policy dialogue for the country office.

Clement Banse stated that for analytical work to inform the policy dialogue that is tied to a PBO, it should be conducted in a timely manner, for example at the time when the PBO is programmed in the Country Strategy Paper, rather than at the start of the PBO itself.

“...a PBO should not be treated as a stand-alone project. It needs to be owned by the whole country office and led by the country manager.”
Jonathan Nyamukapa was asked why some countries had been provided a PBO while it was known that there was substantial fiduciary risk in their systems. He said that a high-risk country could be eligible for PBOs if there was evidence of sustained improvement in the public financial management systems, or evidence of commitment to improving them.

At the conclusion, participants expressed that they had learned much from the workshop. They now understood the significance of PBOs and the related package of support, and understood why they had had problems in designing PBOs in the past.

### Key takeaways

- **Teamwork.** A PBO is not a single department’s or a single task manager’s responsibility - it should be conducted as the responsibility of all of the staff in the country office. The Country Manager should lead the related policy dialogue and should be supported in the dialogue by the expertise of a team of staff (governance expert, country economist, sector experts, etc.) at the country office, regional office and/or headquarters.

- **Analytical work.** The Bank is relatively weak in policy dialogue related to PBOs, because the dialogue is not sufficiently supported by sound analytical work. However, a PBO is not the only Bank instrument that supports policy dialogue. As well as a PBO, strategic technical assistance could also advance policy dialogue.

- **The eligibility criterion, Macroeconomic Stability.** For ADF and Blend countries, an IMF assessment letter is mandatory. Where there is no regular program with the IMF, the IMF Article 4 assessment is used. For ADB countries the Bank can do its own assessment in the absence of an IMF program. Still, the Bank will undertake a PBO in the country only when the other development partners agree to the PBO. For Crisis Response Budget Support, this criterion may be waived.

- **Fiduciary risk assessment.** Even if risk is assessed as high or substantial, a country may be eligible for PBOs if there is evidence of sustained improvement in the public financial management systems, or movement from high risk to substantial risk - which shows a commitment to improve public financial management systems.

- **PBO guidelines.** There is need for sensitization and training of Bank staff on the PBO guidelines.