



<b>SESSION NUMBER &amp; TITLE</b>
Plenary 3: From crisis recovery to long term development: Role of policy-based lending
<b>SESSION TAKE AWAY</b>
Drawing on lessons from evaluations, the panel discussion will focus on the potential, the risks, and the road ahead for budget support.
<b>SUBTHEME</b>
Sustainability and resilience
<b>ORGANIZATION/S</b>
ADB
<b>PANELIST/DISCUSSANT</b> Mark Sundberg, Chief Economist and Deputy Vice-President Millennium Challenge Corporation (MCC)
<p><b>History of PBLs and why the modality has been controversial.</b></p> <ol style="list-style-type: none"> <li>1. PBL (Program-Based Lending) has a long history and has evolved over the years, but it has often been controversial and not well understood. In the late 70s through 2000, budget support, often referred to as structural adjustment lending, gained a bad reputation due to onerous conditionality and disconnection from the budget process. The Paris Declaration in 2005 aimed to reform budget lending, reducing conditionality, emphasizing country ownership, and promoting fiscal predictability. Despite the reforms, budget support has not become the dominant form of development support, and caps have been imposed by multilateral development banks. The main critiques of budget support are concerned over tangibility and the intangibility of support. Tangibility refers to the uncertainty of how funds are spent when provided as budget support. Intangibility means it's hard to justify budget support to taxpayers and lawmakers who prefer visible, tangible projects.</li> <li>2. Proponents argue that budget support promotes dialogue, government ownership, and efficiency. Opponents argue that fungibility and intangibility remain significant concerns in budget support.</li> </ol> <p><b>Looking at the future what are some of the opportunities for using PBLs in the context of emerging challenges, climate change, of course, regional public goods, catalyzing private investment.</b></p> <ol style="list-style-type: none"> <li>3. mentioned the importance of budget support during crises to prevent the collapse of public services. He discussed opportunities for innovation, including blended finance and public-based guarantees, and the significance of sub-national reform in budget operations. He stressed the It's about policy reform, and you need dialogue and policy reform to address global public goods. He concluded by emphasizing the importance of country ownership in these efforts.</li> </ol>
<b>PANELIST/DISCUSSANT</b> Ferry Irawan, Acting Deputy for Macroeconomics and Financial Coordination, Coordinating Ministry for Economic Affairs (CMEA), Indonesia`
<p><b>Importance of PBLs and how to make it useful and effective in the context of Indonesia.</b></p> <ol style="list-style-type: none"> <li>1. Highlight the economic performance of the country, with a 5% economic growth rate. Mentioning low and stable inflation at around 3% and Indicating progress in reducing the poverty rate from 10% to 9.3% through government programs.</li> <li>2. He describe the crucial role of the budget in three ways: counter-cyclical policy, handling external shocks, and enabling sector reforms stressing the importance of a strong budget in supporting various aspects.</li> </ol>

3. In the context of Indonesia, he emphasize the government's commitment to structural reform, including the job creation act and tax reforms.

**In Indonesia context, illustrate the experience regarding building reform ownership and incentivizing different ministries, particularly when these ministries may not directly receive funds due to the central budget allocation.**

4. Emphasize the importance of strong communication, coordination, and monitoring in the context of policy reform. It emphasizes the need for clear reform priorities, strong ownership of programs, and alignment with government development plans.
5. He also stresses the significance of regular meetings and clear understanding among different parties involved, including development partners, implementing agencies, and coordinating offices. Additionally, he highlighted the importance of monitoring and evaluation in the process.

**PANELIST/DISCUSSANT** Jeffrey Chelsky, Manager Economic Management and Country Programs Unit, Independent Evaluation Group (IEG), World Bank (WB)

**In terms of the available evidence, what what do you see overall trends across different modalities and sort of key findings and lessons.**

1. Budget support operations have seen a resurgence in demand and should be evaluated for their impact. Budget support operations should not be viewed as projects but as engagement tools in a broader context.
2. The financing provided through budget support operations is unrelated to the reforms they support, and this distinction is crucial. Budget support operations have been most successful in crisis contexts, such as during the COVID-19 pandemic. In crisis contexts, financing is vital for maintaining stability, basic services, and public sector salaries.
3. Reforms are more successful when there is a clear understanding of priorities and diagnostic work has been done beforehand.
4. The effectiveness of budget support operations depends on addressing binding constraints rather than pursuing easy fixes. Transparency in debt management is important but does not address the root causes of debt stress. Budget support operations are also crucial in fragile states where the revenue base is limited.

**Highlight some of the key features of the new methodology on PBLs at the conceptual level, the difference between PBL and more traditional investment loans.**

1. When evaluating a Performance-Based Loan (PBL), the focus is on assessing the bank's performance rather than the performance of the borrower or the reform program. The evaluation considers factors such as recognizing risks, mitigating measures, and the prioritization of prior actions. It also emphasizes the relevance of results indicators in demonstrating the impact of the operation. This approach aims to improve the effectiveness of budget support operations and acknowledges the importance of informed risk-taking.

**PANELIST/DISCUSSANT** Emma Veve, Deputy Director General, SERD, ADB

**Requested to share from operations approach the PBLs in different contexts, and what are some of the challenges faced?**

1. Budget support is built on three crucial pillars: quality analysis and assessment, a willing and reformed government, and a solid budget. It's essential to strike a balance between these pillars, recognizing that budget support is just one part of a broader development strategy that involves technical assistance, policy dialogue, and investments in various areas.
2. Avoid perfectionism. We have to make good solid judgments about what is enough and what will work in this situation.
3. suggests that ongoing evaluations should question whether the right criteria are being used to accurately assess these approaches. It's crucial to consider if we are looking at

and measuring the correct factors. The goal is to learn valuable lessons from these assessments and apply them to continually improve the outcomes of these operations.

**MODERATOR\_Sona Shrestha, Deputy Director General, IED, ADB**

Moderated the discussion on the role of policy-based lending in various aspects, including crisis recovery and long-term development. The discussion highlighted the importance of government ownership of reform agendas, the quality of analytical support, policy dialogue, and country engagement in policy-based lending. The potential for using policy-based lending to address climate-related risks and other regional and public issues were also added.

**Q&A SUMMARY**

**1. Insights from the panelists regarding the recommendations and experiences in analyzing or putting emphasis in the preparation of M&E plans, including M&E capacity building activities, right from the inception of development programs and projects.**

Mark said that he see no reason why institutionalization couldn't serve as an effective prerequisite or ongoing element in programmatic support. He mentioned the similarity between audit and evaluation. Audit is a function that has been supported and he thought is relatively successfully in budget support operations. He sees this as being a real opportunity that's probably already been used in some countries to fully support

**2. Emma in your talk you're talking about it's no good to put in money into a leak technically. It means budget support every year is not something sustainable for the development impacts. In fact, were in when the government has massive salary increases. Massive funding to so is it's not something that's sustainable. But I would like to know as a result of evaluation by any of you.**

Emma mentioned learning from external evaluations and from their own program completion and self-evaluations, which helps in sharing insights across teams and countries. She also highlight the significance of discussing reform strategies with government institutions and drawing lessons from experiences in other places and different types of reforms to develop effective programs; Jeff mentioned the use of PBLs to strengthen audit functions as an effective approach. He also highlighted a concrete example involving the Mozambique country program evaluation, where shortcomings in debt reporting and public investment management were identified eight years prior to a major debt scandal. He emphasized the importance of addressing such issues and points out improvements in the new partnership framework with Mozambique, although they do not claim complete credit for these improvements; Mark thinks we need to be looking at 10 year periods of evaluation to get a sense of a real policy reform in programmatic lending.

**SESSION COORDINATOR**

Jullie Ann Palomares