

Programmatic Lending: Operational Policy Perspective

Operations Policy and Country Services
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Contents

- World Bank Lending Instruments Framework
- Programmatic Approach to Lending
- APL
- PSAL/PSAC
- PRSC
- Issues and Outlook



Lending Instruments: Overview of Current Framework

- Bank has two lending instruments:
- **investment lending** and **adjustment lending**, with separate operational policies ...
- ... and different variations to learn from evolving experience and to fit country/operation specific needs
- Programmatic lending is an approach to using investment/adjustment lending, not a separate lending instrument



Two Bank Lending Instruments: Key Features and Policy Requirements

Investment Lending

- *Finances specific expenditures* identified ex ante (positive list)
- *Macroeconomic framework*: considered as part of overall context in the CAS
- *Policy conditionality*: in some operations as appropriate
- *Fiduciary requirements*: Strict project-level financial management and procurement rules aim to ensure use of Bank \$ for intended purposes (positive list)
- *Safeguard policies*: all apply (OP4.01 exemption possible for ERLs)

Adjustment Lending

- *Provides quick-disbursing assistance* supporting policy and institutional reforms in countries with external financing needs (special circumstances, normally negative list)
- *Macroeconomic framework*: satisfactory framework formally required
- *Policy conditionality*: always; also Letter of Development Policy
- *Fiduciary requirements*: No procurement. Use of \$ for intended purposes (all except negative list); no constraints on domestic counterpart funds
- *Safeguard policies*: OP4.01 applies only to SECALs



World Bank Lending: Two Instruments with Variations in Use

Investment



- Specific Investment Loan (SIL)
- Sector Investment and Maintenance Loan/Program (SIM/SIP) — “SWAps”
- Learning and Innovation Loan (LIL)
- Technical Assistance Loan (TAL)
- Financial Intermediary Loan (FIL)
- Emergency Recovery Loan (ERL)
- **Adaptable Program Loan (APL)**

Adjustment



- Structural Adjustment Loan (SAL)
- Sector Adjustment Loan (SECAL)
- Sub-National Adjustment Loan (SNAL)
- Special Structural Adjustment Loan (SSAL)
- Rehabilitation Loan (Rehab)
- Adjustment Loan with Deferred Drawdown Option (DDO)
- **Programmatic Adjustment Loan (PSAL)**
- **Poverty Reduction Support Credit (PRSC)**



Programmatic Approach to Lending Has Grown Out of Investment/Adjustment Convergence



Today's investment loans often:

- support phased step-by-step reform over time
- have a (sub)sector-wide focus beyond individual projects
- have significant policy content

Today's adjustment loans often:

- support phased step-by-step reform over time
- support (sub)sector-specific reforms
- have significant institution-building content

⇒ programmatic approach: **APLs, PSAL/Cs, PRSCs**



Programmatic Lending: APL, PSAL/PSAC, PRSC

- Programmatic lending (investment or adjustment): designed *ex ante* as a series of operations with notional amounts and dates within an integrated medium-term framework
- Sustained Bank support, with clear triggers for moving from one operation to the next
- Focus on step-by-step policy + institutional reforms and capacity building
- Often (sub) sector-wide focus “beyond projects”
- Sound basis of prior/parallel analytic and advisory work
-  Vehicle for integrated Bank-donor support of government program

Programmatic Investment Lending: Adaptable Program Loan (APL)

- Introduced in FY98; 115 operations approved to date; small but growing number of phase II APLs (e.g., Bolivia Health Sector Reform APL)
- Key features:
 - Supports implementation of long-term development program through a series of investment operations (phases)
 - Triggers indicate when ready for next phase – triggers focus on country policy and institutional actions
 - Increasingly scaling-up of fiduciary/safeguard and M&E systems to (sub) sectors



APLs: Emerging Issues

- Does experience confirm that APLs' adaptability is an advantage over other investment lending?
 - => explicit medium-term framework, with possibility of adapting triggers over time
 - => exit option
- Choice and design of triggers challenging:
 - => selectivity
- Long-term horizon and implementation in phases:
 - => premium on strong M&E.
- Importance of addressing areas of relative weakness to date:
 - => especially poverty focus; economic, financial, and technical analysis
- Emerging good practices
 - => help change initially mixed views of shareholders



Programmatic Adjustment Lending: PSAL/PSAC

- Introduced in FY00; 8 PSALs, 5 PSACs (including 3 PRSCs) approved so far
- Key features:
 - Series of typically single-tranche adjustment operations phased in line with budget and policy cycle
 - Supports medium-term structural and social reform program that involves step-by-step incremental policy changes and institution building over time
 - Clear reform progress benchmarks and triggers for moving from one operation in the series to the next
 - Platform for systematic donor coordination



PRSC: A Special Kind of PSAC

- Interim Guidelines for PRSCs adopted in May 2001; 3 credits approved so far, 4 more in current FY02 pipeline.
- Key features:
 - Strong country ownership: PRSC supports country's own program (PRSP)
 - Clear focus on poverty reduction: links to PRSP and CAS
 - Conditionality: selective, disbursements follow on-the-ground actions/results
 - Systematic analytic underpinnings required *ex ante*: (i) analysis of country policies, (ii) fiduciary assessment. Also poverty/social and environmental impact analysis
 - Enhanced Bank-Fund-donor coordination



Programmatic Lending: Some Emerging Good Practices on Triggers

- Focus on a small number of essential items.
- Make triggers specific, and monitorable,
- Select as triggers reforms under the authorities' control
- When one or more trigger/conditionality not fully met as anticipated:
 - (i) Still relevant/important; and feasible
 - wait, and/or reduce amount
 - (ii) Still relevant/important; but not feasible
 - modify, and/or reduce amount
 - (iii) Not relevant/important;
 - proceed with strong justification
- Useful to have independent assessment of whether the triggers/conditions are met



Emerging Issues and Challenges for Programmatic Lending–Country Level



- Justification of choice of programmatic approach: especially capacity, analytic underpinnings, and rationale for phased, medium term approach
- Institutional capacity building takes time:
=> monitoring and feedback/course correction are crucial
- Conditionality: selective, disbursements follow on-the-ground actions/results
- Emphasis on implementation



Emerging Issues and Challenges for Programmatic Lending—Systemic Level

- Scaling up core diagnostic, especially fiduciary, social/poverty impact, and environmental
- How to anchor programmatic lending in CAS, including in non-lending program?
- APLs: How to improve quality — especially on technical, financial, economic analysis?
- PRSCs: Coordination with the Fund and other donors; fewer PRSCs than PRGFs; harmonization of policies among donors.



Programmatic Lending: Work Program

- Third Adaptable Program Lending Retrospective
- APL Guidelines for Staff
- PRSC/Programmatic Lending Review
- Proceed with PRSCs in countries with PRSPs and analytical underpinnings
- Revision/conversion of OD 8.60 into new OP/BP 8.60 – Adjustment Lending





PRSCs: Country Business Model for Low-Income Countries

PRSC conditionality draws on
And elaborates on PRSP

