

Performance-Driven Loan: Lessons Learned

Patricia Meduña
Office of Strategic Planning and Development Effectiveness
May 19, 2014

IDB WEBSITES ON DEVELOPMENT EFFECTIVENESS

<http://www.iadb.org/en/topics/development-effectiveness>



Development Effectiveness Overview:

<http://deo.iadb.org/2013/>

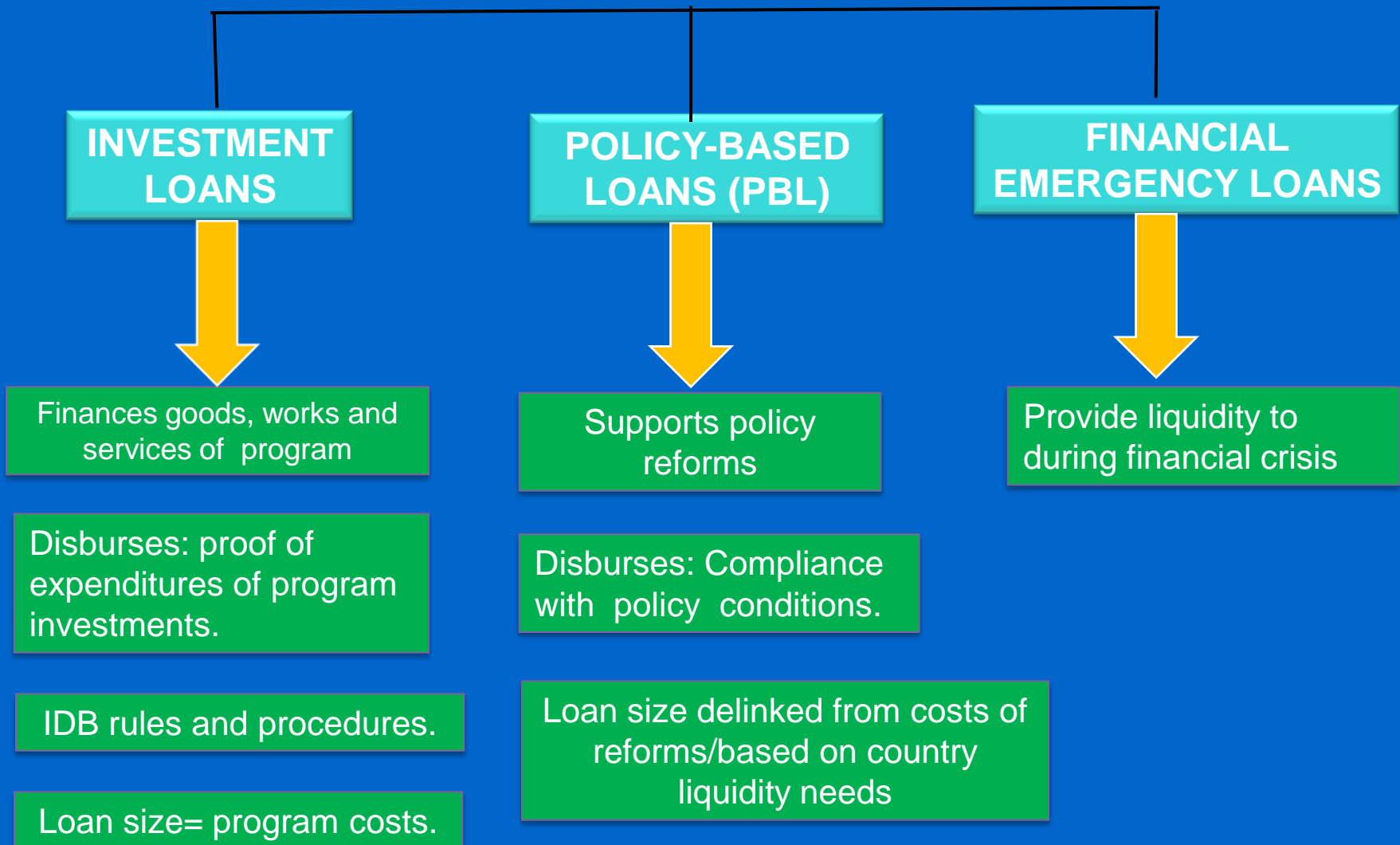
PERFORMANCE-DRIVEN LOAN

- Characteristics
- Experience
- Lessons-learned

PERFORMANCE-DRIVEN LOAN

- Implemented in 2003.
- Responded to Borrower request for:
 - Focus on results instead of fiduciary processes.
 - More flexible lending instruments.
 - Use of country systems.

CHARACTERISTICS



CHARACTERISTICS

- **Investment loan.**
- **Disburses against:**
 - Achievement of project outcomes.
 - ✓ All outcome targets assigned to tranche must be fully achieved.
 - ✓ Verification of outcome achievement by independent consultants.
 - Verification of outcome expenditures.
 - ✓ Actual amount disbursed equal to expenditures incurred for outcome achievement.

CHARACTERISTICS

- **Disbursements:**
 - Defined during project preparation specifies:
 - ✓ Number of disbursements.
 - ✓ Outcomes required for each disbursement.
 - ✓ Dollar amount per disbursement equal to estimated cost of achieving all targets linked to particular disbursement.

CHARACTERISTICS

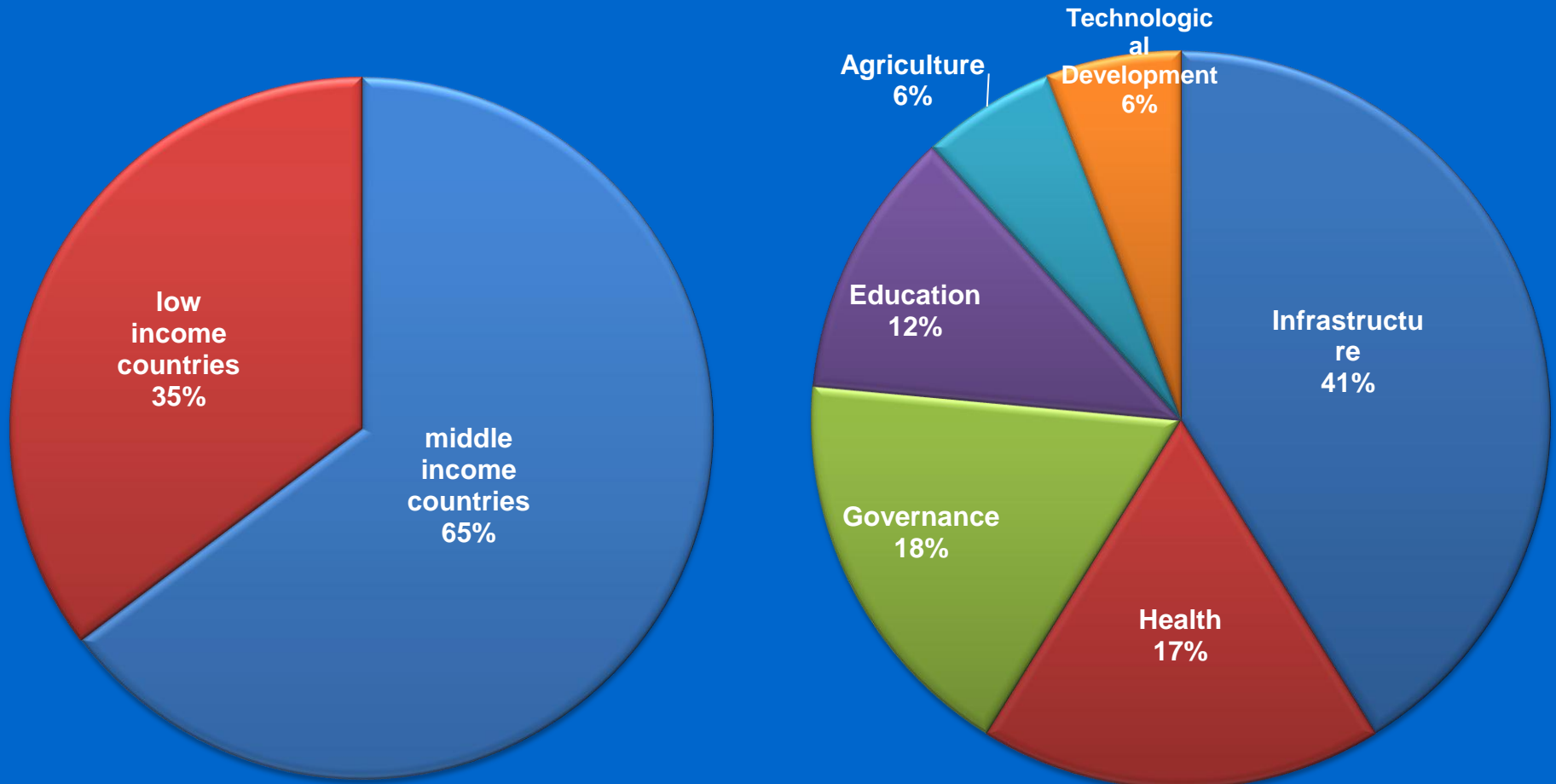
- **Loan Dimension:**
 - Estimate of expenditures for achievement of outcomes.
- **First disbursement not related to outcomes**
 - Up to 20 percent of loan.
- **Requirement for approval:**
 - Well-functioning performance measuring and monitoring system prior to project approval.

CHARACTERISTICS

- **Can use fiduciary country systems if:**
 - Legal framework on procurement allowing for:
 - ✓ Independent reviews of protests.
 - ✓ Enforcement of ensuing decisions.
 - Project entities must:
 - ✓ Follow procurement procedures governed by principles of competition, economy, transparency, equity, publicity and due process.
 - ✓ Have strong financial management, accounting and control systems.

EXPERIENCE

- Low demand (17 projects) due to greater disbursement requirements than other investment lending instruments.



EXPERIENCE

- Selection of indicators and targets:
 - Focused technical dialogue with executing agency on project results vs processes/procedures.
 - Lead to more specific, realistic and measurable project outcomes/objectives.
 - However, in some cases disbursement delays due to:
 - ✓ Confusion between outcome/outputs
 - ✓ Indicators not SMART (specific, measureable, realistic, under government influence)
 - ✓ Baselines not defined
 - ✓ Overly ambitious targets

EXPERIENCE

- Verification of outcome achievement and related expenditures:
 - Difficulty to link outcome with specific expenditures caused disbursement delays
 - Lack of clarity between role of financial auditors and results auditors
 - Difficulty finding firms to verify outcomes in some countries thus standards of verification uneven.
- Partial achievement of outcomes delayed disbursements.
- Unrealistic disbursement timing vs. country budget cycle.

EXPERIENCE

- Most projects had strong executing agencies, some lacked understanding of results-based lending.
- Use fiduciary country systems:
 - Most did not meet procurement requirement so IDB procurement systems used.
- Performance measuring and monitoring system requirement:
 - Not always met prior to approval.
 - Systems strengthened through project.

LESSONS LEARNED

- Disburse only against results not verification of expenditures.
- Allow partial disbursements with partial results achievement.
- Not limit results to outcomes, also include outputs.
- Synchronize disbursements with country budget cycles.
- Independent verification of results important:
 - Same entity to verify all disbursements.
 - Provide strengthening to entities in countries with scarce local capacity.

