Policy-based lending

There are two types of policy-based lending: programmatic and emergency lending. Programmatic lending promotes structural change or sector-wide changes, while emergency lending is usually a liquidity injection (for countries short on foreign currency). The latter puts the Bank in a role quite similar to that of the IMF - which itself has led to significant criticism. The interest rates on emergency lending are quite high to discourage the use of resources for this purpose.

Because it is used more holistically, policy-based lending (also sometimes called 'Structural Adjustment Lending') is usually fast-disbursing (countries receive more of the money up-front), and can be spent using the borrowing governments procurement methods rather than the Bank's practices.

In recent years, policy-based lending has come become a significant point of contention within the banks. While some development literature suggests that sector-wide approaches may be more effective in facilitating development, concurrently others have criticized policy-based lending as promoting a neo-liberal vision of the world that favours business interests over those of the citizenry. Empirically, it is clear that policy-based lending has become an increasingly significant part of IFI lending.

The graph below illustrates the extent to which this has occurred by plotting World Bank foreign procurement both with and without policy-based lending: