

## Assessing the Impact of Policy-Based Lending from Multilateral Development Banks on Sectoral Policy Implementation in Costa Rica

### Evaluación del impacto de los préstamos basados en políticas de los bancos multilaterales de desarrollo en la implementación de políticas sectoriales en Costa Rica

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#### How to cite:

López Brenes, D. (2026). Assessing the Impact of Policy-Based Lending from Multilateral Development Banks on Sectoral Policy Implementation in Costa Rica. *Derecho en Sociedad*, 20(2), PP. 11-40. DOI 10.63058/des.v2i2.382

**Submission received:** December 6, 2025. **Accepted:** February 4, 2026.

#### Abstract

This article explores the impact of Policy-Based Lending from Multilateral Development Banks on Sectoral Policy Implementation in Costa Rica. It analyses how Contextual Factors within Costa Rica's political and administrative environment, the level of Aid Ownership by the recipient country, and the Donor's engagement dynamics, mediate this relationship. The research aims to understand qualitatively, whether PBLs facilitate policy implementation and contribute to broader institutional effectiveness, particularly given Latin America's history of relying on foreign debt and persistent governmental challenges. Through expert interviews, the study aims to provide policymakers and development aid strategies in the region with valuable insights.

#### Keywords:

Policy diffusion, aid ownership, policy-based lending, Costa Rica

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## **Resumen**

Este artículo explora el impacto de los préstamos basados en políticas (Policy-Based Lending) de los bancos multilaterales de desarrollo en la implementación de políticas sectoriales en Costa Rica. Analiza cómo los factores contextuales del entorno político y administrativo de Costa Rica, el nivel de apropiación de la ayuda (Aid Ownership) por parte del país receptor y las dinámicas de involucramiento del donante median esta relación. La investigación busca comprender, de manera cualitativa, si los préstamos basados en políticas facilitan la implementación de políticas y contribuyen a una mayor efectividad institucional, particularmente considerando la historia de dependencia de la deuda externa en América Latina y los persistentes desafíos gubernamentales. A través de entrevistas con personas expertas, el estudio busca aportar información valiosa para quienes formulan políticas y para las estrategias de ayuda al desarrollo en la región.

## **Palabras clave:**

Policy diffusion, aid ownership, policy-based lending, Costa Rica

## **Abbreviations**

FDA - French Development Agency

IDB - Inter-American Development Bank IMF - International Monetary Fund

MAG - Ministry for Agriculture and Livestock MDBs - Multilateral Development Banks

MIDEPLAN - Ministry for National Planning and Economic Policy MINAE - Ministry for Environment and Energy

PBLs - Policy-Based Loans

## Introduction and problem definition

Few issues have shaped Latin America's development debates as profoundly as external debt, fueling public skepticism, and raising questions about the benefits the population receives from such loans. Following the consequences of the Structural Adjustment Programs imposed by International Financial Institutions after the 1980s Latin American debt crisis, a new tool was introduced: "Policy-based Lending" (Avellán, et al., 2022). Multilateral Development Banks (MDBs) often resort to Policy-Based Loans (PBLs) for countries that require rapid budget support, as well as for those seeking to strengthen specific policy areas (Avellán, et al., 2022). Due to PBLs serving this dual purpose, their implementation demands the coordination of a wide range of actors across different sectors. The use of PBLs in Latin America has grown exponentially over the last decade, accompanied by an expansion of policy areas supported, reflecting MDBs' regional reprioritization of issues such as the environment and social services.

Costa Rica has positioned itself as a strategic partner for MDBs in the region, particularly in advancing policy priorities related to sustainability and decarbonization. Its status as the first country to access the IMF's climate-focused Resilience and Sustainability Facility, as well as the growing presence of MDBs such as the French Development Agency (Solís, 2022). Since PBL-supported policies are implemented through line ministries based on the targeted sector, their execution requires effective coordination among multiple stakeholders. Therefore, highlighting the need to study the interactions between government actors and MDBs along these processes. Recognizing that Sectoral Policy Implementation is not a linear process, this study draws on the practical perspectives of policymakers and development officials to unpack how Costa Rican institutions experience Policy-Based Lending.

Despite the growing use of Policy-Based Loans, the literature reveals a significant gap in analyzing the interplay between internal and external factors shaping the impact of PBLs on Sectoral

Policy Implementation (Avellán et al., 2022; Gisselquist & Resnick, 2014). This article argues that the interplay between the implementation of internationally transferred policies and their adaptation by the local institutions and how actors align efforts is deeply understudied (Hudson et al., 2019). To address this gap, this study explores internal factors such as Policy Capacity, Political Will, and local commitment to PBL agendas; as well as the external strategies and leverage from MDBs in their role in mediating this relationship. By analyzing how these concepts interact within Costa Rica's public administration, this research will unpack the conditions that either facilitate or constrain PBL implementation. Thus, contributing to the literature on Policy Transfer, and Policy Implementation, offering insights that bridge theoretical gaps about Aid Ownership, Technical Assistance and practical design of MDB policies in the Latin American context.

Building on from the mentioned academic foundations, this study seeks to answer the research question: *“To what extent have Policy-Based Loans contributed to Sectoral Policy Implementation in Costa Rica?”*; this question will be answered qualitatively through expert interviews. To explore the mediating concepts, the following subquestions will be addressed: 1) *“How do Costa Rica’s Contextual Factors and internal conditions shape the implementation of PBL programs?”*, 2) *“To what extent does alignment between donor agendas and national priorities affect the perceived ownership and success of PBLs?”*, and 3) *“How do the engagement strategies and support mechanisms from MDBs influence the PBL policy implementation?”*.

Beyond its academic contributions, this study aims to provide insights for Costa Rican policymakers by evaluating the internal factors that either facilitate or constrain PBL implementation. Furthermore, development finance strategies in the region can benefit from the study’s focus on local ownership perspectives of PBL programs, as well as from the analysis of technical cooperation and other forms of donor engagement with implementing actors. Overall, the findings offer a meaningful contribution to stakeholder cooperation, and address the absence of an institutionalized approach to PBLs in Costa Rica.

## **Theoretical framework**

To analyze the impacts of Policy-Based Lending from Multilateral Development Banks on Sectoral Policy Implementation, this section examines the three thematic areas that influence this relationship. Existing literature has explored the role that country-specific factors, aid ownership, and donor-recipient relationships play during international Policy Transfers (Stone, 2012; Thurber, 1973; Booth 2012). Building on these insights, this section conceptualizes the key factors influencing the relationship as Contextual Factors, Aid Ownership, and Donor Agency. These themes serve as a lens through which the effects of PBLs in Sectoral Policy Implementation can be analyzed.

### ***Policy transfers***

For the purpose of this research, Policy-Based Loans are conceptualized as channels for Policy Transfers; which refer to mechanisms through which expertise on policy innovation is transmitted by Transnational Policy Networks. Stone (2012) describes these networks, of which MDBs are part, as “development authorities” advocating and pressuring developing countries to adopt policy innovations and reforms in the name of development. Seminal work by Dolowitz and Marsh (1996), defines Policy Transfers as “a process in which knowledge about policies and institutions in one time or place is used in the development of policies and institutions in another time or place”. These transfers take place within a system in which

policy innovations are communicated and its knowledge is passed on through specific channels (Berry & Berry, 1990). Furthermore, Policy Transfers are implemented into local policies through Policy Diffusion; this concept refers to the process by which a recipient country progressively adopts policy innovations prescribed by foreign entities (Stone, 2012). This research will therefore operationalize Policy Transfers through the concepts of “Transnational Policy Networks” and “Policy Diffusion”.

Foundational work by Berry & Berry (1990) and Dolowitz & Marsh (1996), has emphasized studying the spatial and temporal context in which Policy Transfers are implemented. Recent studies

reinforce these insights as they argue that Policy Transfers must be analyzed under a multi-stakeholder and nonlinear approach (Bertram, 2020). Similarly, literature from Bertram (2020) and Liu & Yi (2023) emphasize the need to explore the recipient country’s internal factors, such as stakeholder management and political leadership for a comprehensive analysis of Policy Transfers.

Political Economy perspectives argue that Policy Transfers have been driven more by the forces of globalization than by the initiatives of recipient countries (Stone, 2012). Likewise, Thurber (1973) argues that reforms and policy innovations in Latin America have historically been fueled by international interests and external political pressures. Placing Multilateral Development Banks at the center of the Policy Transfers debate, given their role in development research and dissemination of globalization forces (Stone, 2012). A key aspect of these transfers lies in the technical components of the reforms introduced; in the case of Latin America, their implementation is often weakened due to a misalignment between local policymakers and Transnational Policy Network priorities (Thurber, 1973). Under the same logic, Stone (2012) argues that global models of liberalism and democracy shape international organizations’ adoption of a Policy Transfers approach, by which policy diffusion has been prescribed to developing countries.

Nevertheless, there are contrasting views regarding the inevitability of policy diffusion. Stone (2012) emphasizes that Policy Transfers is not synonymous with policy adoption, as the sharing of knowledge has, in some cases, led to the rejection of policies and negative unintended consequences. Moreover, Policy Transfers are executed by Transnational Policy Networks, whose policy interests are often misaligned with local priorities and implementing capacities (Stone, 2012). Misalignments between the objectives of internationally promoted reforms and the capacity of local bureaucracies have been shown to undermine the effectiveness of the knowledge transfers, reinforcing the importance of national ownership for Policy Transfers (Stone, 2012). These perspectives highlight the need to evaluate whether Policy Transfers are adopted and implemented as originally intended.

## *Policy implementation*

This study explored Policy Implementation as a continuous, multi-actor decision-making process, shaped by Policy Design and the interactions among stakeholders within a specific politico-administrative context (Grindle, 1980). This approach offers a useful entry point to analyze the implementation of policies supported by PBLs. As Grindle (1980) highlights, policy goals are often undermined when programs are not adequately designed or aligned with implementation realities. Therefore, this study critically assesses the dynamics of alignment between PBLs and their implementation within the multi-stakeholder Costa Rican politico-administrative context.

Recent literature has focused on the non-linearity and multifaceted nature of the implementation process (Hudson et al., 2019; Chriqui et al., 2023). Scholars have criticized the traditional approach to implementation, since it assumes a linear and chronological approach, ignoring that policy goals can be affected by other factors outside of the scope of seeing Policy Implementation as a linear process. Hudson et al. (2019) emphasize the impact that a dispersed governance model can have on policy implementation; arguing that policies designed at one level of government and implemented at subnational levels with separate authorities have proven to pose challenges throughout implementation. Chriqui et al. (2023) on the other hand, assert that suboptimal policy outcomes often originate from a flawed design instead of ineffective implementation.

Moreover, research indicates that validity and implementability are core attributes of Policy Design that must be evaluated during the implementation process (Haruță et al., 2009). The literature emphasizes that implementation outcomes are not solely results of technical execution, but are significantly shaped by their institutional environment and level of stakeholder engagement (Grindle, 1980). Grindle (1980) identifies two primary factors influencing implementation: the policy program itself, which includes Policy Design, its objectives, and resources, and the broader socio-political environment in which the policy is enacted.

Policy administrators play a pivotal role in the implementation process, as they are responsible for ensuring responsiveness, mobilizing support, and managing the resources necessary for effective execution (Grindle, 1980). Chriqui et al. (2023) emphasize the importance of involving policy experts and government administrators early in the design stage, arguing that meaningful engagement with frontline staff, end users, and implementing agencies helps bridge the gap between Policy Design and implementation. This integration not only enhances the legitimacy of policies but also improves implementation outcomes (Haruță et al., 2009; Hudson et al., 2019). Similarly, Thurber's (1973) work on Latin American bureaucracies highlights the agency of policy administrators and underscores the critical role of stakeholder management for

effective implementation. In addition, existing literature introduced the concept of Perceived Outcomes, emphasizing the need to consider how different stakeholders interpret an effective policy implementation (Proctor et al., 2023).

The literature explored is key for this research as PBL implementation will be analyzed through a multi-stakeholder approach (Bertram, 2020). As such, a comprehensive understanding of Policy Implementation required evaluating PBLs through the lens of Policy Design, stakeholder engagement and perceived outcomes amongst actors. Therefore, Policy Implementation will be operationalized through the following concepts: “Perceived Outcomes” and “Effective Stakeholder Management”.

This research aims to explain the impact of Policy Transfers, through Policy-Based Lending as a channel of transfer, on Sectoral Policy Implementation. Policy Implementation literature highlights the importance of factors such as stakeholder engagement and administrative context for effective policy execution; these same factors also shape the dynamics of Policy Transfers (Grindle, 1980; Chriqui et al., 2023; Bertram, 2020). Overall, scholars emphasize the multi-stakeholder and nonlinear nature of both processes, highlighting the need to analyze their relationship through mediating concepts identified throughout existing literature.

### *Contextual factors*

Scholars have emphasized the importance of the recipient country’s contextual factors for successful implementation (Gisselquist & Resnick, 2014; Santiso, 2001; Thurber, 1973). Contextual factors such as Policy Capacity, Bureaucratic Entrepreneurship, Ministerial Separatism, and the Politico-Administrative Contexts have been identified as influential to the relationship between lending mechanisms and Sectoral Policy Implementation.

The key Contextual Factor emphasized by Multilateral Development Banks and International Financial Institutions is Policy Capacity of the borrowing country, as it is used as a determinant of the prospects of aid effectiveness (Howes, 2013). Studies on Aid Effectiveness and Public Administration show the relationship between public institutions’ capacity on the effectiveness of governance aid interventions (Howes, 2013 & Gisselquist & Resnick, 2014). To conceptualize this Contextual Factor, this study makes reference to Policy Capacity literature (Domorenok et al, 2021). Policy capacity refers to the “set of skills and resources, or competences and capabilities, necessary to perform policy functions” (Howlett et al, 2015). Thus, Policy Capacity captures a critical aspect of the institutional context in which PBLs are implemented, and serves as a lens through which the variability in policy implementation outcomes can be better understood (Domorenok et al, 2021).

The Politico-Administrative Context plays a central role in shaping policy implementation outcomes, acting as the space where political authority and administrative execution intersect. Grindle (1980) defines it as the interplay between decision-makers, institutions, and administrative structures that determine how policies are translated into practice. Haruță et al. (2009) emphasize that implementation outcomes depend not only on technical Policy Design but also on the broader governance environment in which policies operate. Therefore, this study understands the Politico-Administrative Context not only as a structural background but as a mediating factor that can either enable or constrain the effectiveness of Policy-Based Lending mechanisms.

Furthermore, the book *Development Administration in Latin America*, by Thurber (1973), explores two relevant concepts that facilitate the understanding of regional bureaucracies' interactions with foreign aid. The first concept is Bureaucratic Entrepreneurship, which refers to an individual, often an outsider to the organization, who displays both organizational and political skills, enabling them to articulate their concern for the social purposes and values that their organization serves (Thurber, 1973). From leadership positions, Bureaucratic Entrepreneurs perform creative executive leadership to develop ideas or policies which are respected among policymakers, reinforcing their ability to instill public confidence. Thurber (1973) argues that such organizational leadership brings together the vital factors that lead to a development oriented organization, therefore facilitating mechanisms such as Policy Transfers.

Thurber (1973) also elaborates on the concept of Ministerial Separatism as a core characteristic of Public Administration in Latin America. Ministerial Separatism refers to the isolated nature and processes of different ministries within a government (Thurber, 1973). The separate and often "impenetrable" dynamics among ministries make effective coordination very difficult (Thurber, 1973). In the case of Policy-Based Lending, as the process involves multiple government agencies, these dynamics could hinder the Sectoral Policy Implementation. In conclusion, Contextual Factors are expected to have a determining influence on Policy Implementation, as region-specific literature has emphasized the centrality of institutional and political factors in Latin American bureaucracies. Therefore, this analysis reaches its first hypothesis:

1. (H.1) Costa Rica's country specific Contextual Factors will mediate the impact of Policy-Based Lending on their targeted Sector's Policy Implementation.

### *Aid ownership*

Across the Development Aid literature, local Ownership is an important concept for shaping the outcomes of lending strategies, such as Policy-Based Lending (Gisselquist & Resnick, 2014). The core factor in

this relationship is the “reconciling governance with Ownership”, which refers to the level of alignment of aid

mechanics designs with national policy priorities. Ownership theories argue for recipient countries to have substantial influence over the Policy Design and conditionalities to address priority issues but still require donor funding or Technical Assistance in order to implement the reform; resulting in “locally directed, donor-supported” loan programs (Gisselquist & Resnick, 2014). Furthermore, Booth (2012) argues that support for local Ownership of the global development agenda implies that the government’s priorities are aligned with the “International Policy Culture” described in Policy Transfers literature; meanwhile in reality many local policy priorities are short-term political goals (Stone, 2012).

Contrarily, Faust (2010) argues that the current administration’s policy agenda might not be in complete alignment with a broader societal consensus regarding policy directions, adding another level of complexity to the Ownership debate. Therefore, governments may be hesitant to engage with certain agendas from MDBs that support practices that could undermine their national priorities or threaten their interest (Faust, 2010). For the context of PBLs, these theories reinforce the importance of analyzing local levels of Ownership within the implementing ministries responsible for PBL-supported policies.

Another key issue within Ownership literature is Political Will, with arguments highlighting its influence on the performance of development aid programs (Santiso, 2001). Recent research on the political economy of such programs, argues that the influence of Political Will on the implementation of MDB loans is pivotal (Santiso, 2001). Booth (2012) suggests that the successful adoption of the loan conditionalities and policy programs can be predicted by a country’s institutional and political features. Building on the previous discussion, the second hypothesis for this study is the following:

2. (H.2) Aid Ownership Levels of Policy-Based Loans’ policy programs from Costa Rican line ministries will mediate the extent to which PBLs manage to influence Sectoral Policy Implementation.

### ***Donor agency***

Scholars argue that historically, donor engagement has significantly influenced the effectiveness of foreign financial aid (Howes, 2013). The focus on donor influence contrasts with views that primarily blamed the recipient country for suboptimal outcomes in aid transfers. However, Gisselquist & Resnick (2014)

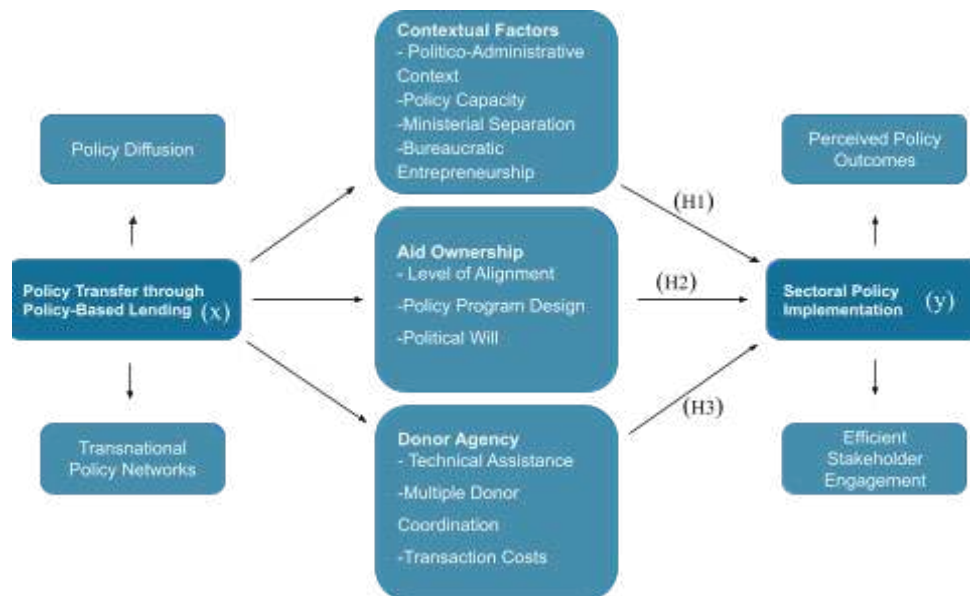
emphasize that problems with aid effectiveness often come from the donor's administrative environment and processes. An effective donor, acting as the "principal" in the aid relationship viewed as agent-principal, must be well-intentioned and well-informed to ensure agreements with recipient governments lead to positive development outcomes (Howes, 2013). This requires donors to engage with local administrators of Policy Implementation throughout the stages of the loan program (Howes, 2013).

Core theories about Technical Assistance argue for the need of technical consultants to start at the same level of understanding and skills as the local bureaucrats, with the purpose of consultants developing technical assistance schemes which respond to the needs of the people at the core of Policy Implementation (Thurber, 1973). Therefore, especially in the case of PBLs since the disbursements are fungible, meaning funds are intended for specific sectors but can be allocated by the Finance Ministry at its discretion, the technical assistance component plays the biggest role directly assisting the sectoral Ministry with the loan's policy objectives.

A key aspect of Donor Agency is the issue of Multiple-Donor Coordination, since recipient countries work with different development agencies each with their own processes and agendas (Gisselquist & Resnick, 2014). The complexity of aid delivery creates "transaction costs", which Howes (2013) argues contribute to reduced aid effectiveness. Moreover, the quality and performance of the Multilateral Development Bank's Donor Agency are considered key to evaluate the impact of development finance tools like PBLs (Gisselquist & Resnick, 2014; Howes, 2013; Thurber, 1973). After analyzing several studies on the relationship between Donor Agency dynamics in Latin America, this study developed a third hypothesis:

3. (H.3) Multilateral Development Banks' dynamics for engagement and coordination will mediate the impact of Policy-Based Lending on Sectoral Policy Implementation in Costa Rica.

## Conceptual model



**Figure 1.** Conceptual Model

This research takes Sectoral Policy Implementation in Costa Rica as the dependent variable, presumed to be influenced by Policy Transfers through the mediating concepts of Contextual Factors, Aid Ownership and Donor Agency. Figure 1 offers a visual representation of the expected interactions between Policy Transfers ( $x$ ) and Sectoral Policy Implementation ( $y$ ). Given the analyzed literature, the relationship between  $X$  and  $Y$  cannot be assessed without the mediating concepts as they are intrinsic to the implementation process of internationally supported policies in Costa Rica (Santiso, 2001; Booth, 2012; Howes, 2013).

## Methodology

### *Methodological justification*

In order to academically test the hypotheses posed in the previous section, this research utilizes a qualitative approach. The insights used in the analysis were gathered through semi-structured expert interviews and later analyzed with thematic coding. This section will discuss the justification of the research design, the data gathering process, analysis method, validity and reliability aspects of the research, and ethical considerations.

The aim of using semi-structured interviews as a data collection method is to obtain expert insights portraying different stakeholders' experiences with PBLs (Creswell & Poth, 2018). Scholars in the field of Development Aid argue for the use of qualitative approaches to analyze impact evaluation of financial aid transfers, such as PBLs (Gisselquist & Resnick, 2014). The chosen methodological approach allows for a recognition of the multifaceted nature of PBL implementation. By analyzing qualitative insights from experts working across different institutions, the study captures a wide range of perspectives on PBL implementation in Costa Rica.

### *Research design*

Thirteen semi-structured interviews were conducted with experts from relevant MDBs as well as from Costa Rican government agencies. This study is adopting an online interview modality in order to reach experts based in Costa Rica, and elsewhere. The purpose of using semi-structured interviews is to open the possibility for experts to delve deeper into certain topics, depending on their area of expertise. The question guide for the interviews is based on the operationalization of the themes used in the literature review to analyze each mediating concept (Creswell & Poth, 2018).

The sampling process was done through purposeful sampling as well as snowball sampling; due to respondent referrals, this sampling strategy guarantees that all respondents are directly involved with

Policy-Based Lending (Creswell & Poth, 2018). Interviewees are purposefully chosen from Multilateral Development Banks such as the Inter-American Development Bank, World Bank, International Monetary Fund, and the French Agency for Development, to collect a clear perspective of how different MDBs approach Policy-Based Lending in Costa Rica. Likewise, in order to collect information from implementing actors, government officials from the Finance Ministry, Ministry of National Planning and Economic Policy, Ministry of Environment and Energy, and Ministry of Agriculture and Livestock were interviewed. Additionally, an interview was held with an expert on Policy-Based Lending from the Bank Information Center, an NGO watchdog for MDBs, in order to get an external perspective on MDB lending. The respondent distribution allowed for a multidisciplinary analysis of the relationship between PBL implementation and Contextual Factors, Aid Ownership and Donor Agency. The proposed method faces limitations in respect to the scope of respondents accessed, a bigger pool of respondents particularly from line ministries would have offered broader perspectives on implementation dynamics.

**Table 1.** Operationalization of concepts

| Variable           | Indicators                                                                                                                                                                                                                          |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Contextual Factors | <p>How does your organization manage Policy-Based Loans?</p> <p>What institutional characteristics impact PBL in your organization?</p> <p>What is the role of policy administrators in the successful implementation of PBLs ?</p> |
| Aid Ownership      | <p>What is your perspective on priority alignment between PBLs and national policies?</p> <p>Does political Ownership over PBLs influence their implementation?</p>                                                                 |
| Variable           | Indicators                                                                                                                                                                                                                          |
| Donor Agency       | <p>How does technical assistance influence PBL implementation?</p> <p>How do different Multilateral Development Banks manage PBLs?</p>                                                                                              |

### *Validity, reliability and ethics*

Triangulation of results through comparison across respondents from the same institutions reinforced the study's strong internal validity (Creswell & Poth, 2018). Additionally, the use of a question guide constructed deductively from the identified concepts in literature review, ensured the validity and reliability of the research (Creswell & Poth, 2018). Table 1 exhibits the operationalization of the aforementioned question guide concepts. External validity is addressed by providing a detailed description of the characteristics of the Costa Rican case to make precise interpretations and indicate which aspects of the research can be transferable to other PBL receiving countries. The potential transferability of the findings to similar middle-income or Latin American cases is emphasized by the author throughout the policy-oriented recommendations in section 5.

Privacy and ethical considerations are strongly considered throughout this study with the purpose of protecting the respondents' identities. Previous to conducting the interviews, the researcher informed respondents about the anonymity of the interviews, data storage policies, and methodology of the research. Informed consent forms will be signed by each respondent to attest to the voluntary and non remunerative participation in the research.

### ***Data analysis***

The appropriate strategy for this research is a deductive coding strategy due to the predefined list of codes based on the theoretical framework. After the completion of the transcription and translation of the interviews, transcripts were coded using the program Atlas.ti. The initial approach to the transcripts identified Deductive codes in each interview, followed by a thematic analysis in which Deductive codes were grouped into Axial codes (Creswell & Poth, 2018). Finally, four Selective codes, or core categories, were identified; a visual representation of these results is exhibited in the Code Tree in the Appendix. The deductive approach applied to this research accounts for expert insights strictly related to the hypotheses derived from the literature review (Creswell & Poth, 2018).

## **Results and discussion**

In order to evaluate the three hypotheses posed in the Theoretical Framework, this section analyzes the results gathered through the 13 expert interviews. The findings will be presented per theme starting from Contextual Factors, Aid Ownership, and concluding with Donor Agency. Through the analysis, respondents' quotes will be used to illustrate the mediating dynamics these concepts showed between Policy Transfers and Sectoral Policy Implementation. While presenting the findings per sub-theme, this section will draw on the literature reviewed in section 2 to relate the results to the theoretical framework.

### ***Contextual factors theory***

Findings revealed that Contextual Factors, especially Policy Capacity and Ministerial Separation, significantly mediate PBL implementation. Line ministry officials from MAG and MINAE consistently emphasized a lack of Policy Capacity, as they mentioned insufficient personnel, time and institutional structures for timely execution, factors which align with Howlett et al. 's (2015) definition of Policy Capacity. Respondent 11 (MAG) noted that *“the institutional framework does not have sufficient*

*management capacity to be able to execute them (PBL policies) in a timely manner*". This reinforces theories by Domorenok et al. (2021) about the negative impact of weak Policy Capacity on implementation outcomes. Furthermore, respondents from MIDEPLAN called for implementing agencies to adopt a "long-term vision", highlighting the need for structured frameworks to manage PBL policies.

*"I believe that the Ministry of Planning should define a procedure for the design and orientation of cooperation, especially when it is linked to loans"* (Respondent 11, MAG)

The challenge of Policy Capacity is intrinsically connected to Ministerial Separatism, a prevalent issue identified by both government and MDB officials, given that PBL implementation involves multiple ministries. Respondent 13 (MINAE), recounted negative experiences of miscommunication and confrontation between ministries. This directly resonates with Thurber's (1973) literature on Latin American Ministerial Separation, to which Costa Rica appears to be no exception. This is further exemplified through descriptions of ministries as "impenetrable" due to their history of operating in isolation. Such descriptions align with Thurber's (1973) metaphor "Islands of Development", which refers to fragmented governance structures that hinder policy implementation. As respondent 12 (FDA) observed:

"Ministries have their own way of working and they do not often talk to each other ... many times the FDA or the other cooperating partners serve as a link between ministries."

(Respondent 12, FDA)

Conversely, Policy Administrators emerged as pivotal for efficient PBL-supported policies' implementation, embodying characteristics of Bureaucratic Entrepreneurship as described by Thurber (1973). Respondents frequently cited the agency that policy administrators have on the policy agenda to move forward to an execution stage. Respondent 11 (MAG) emphasized the critical agency of technical government officials in selecting the policies and ensuring they reach implementation, stating that "it is more our management than the management of the cooperant" (Respondent 11, MAG). Similarly,

Respondent 13 from the FDA, highlighted the essential role of the interlocutor between the Finance Ministry and line ministries for the policy program to be executed smoothly. This sentiment is reinforced by Respondent's 3 (IMF) comments stressing the need of "willingness to work" and "flexibility" from the multiple stakeholders. These findings resonate with the attitudes essential for Bureaucratic Entrepreneurship such as innovative leadership, creativity, and respect among policymakers, which drive positive policy outcomes and are shown to facilitate PBL implementation (Thurber, 1973).

Finally, the Politico-Administrative Context emerged as a significant inhibitor for PBL implementation, particularly due to the complex interplay between institutions and the broader governance system, as highlighted by Grindle (1980) and Haruță et al. (2009). The most frequently coded characteristic within this subtheme was the challenging relationship between the executive government and the National Assembly concerning loan approvals. Respondent 2, from the Finance Ministry, detailed how the constitutional requirement for legislative approval of every PBL, despite prior external debt ceilings approvals, causes significant delay. Furthermore, MDB experts and line ministry officials echoed these concerns; Respondent 13 (FDA) recounted that in 2024 a decarbonization credit was cancelled due to “*failed discussions on the use of resources*” and “*complicated*” legislative configuration. Such delays with loans “*stuck in the Legislative Assembly for almost a year and a half*” (Respondent 2, Finance Ministry), not only damage the relationships between the government and MDBs but also place an extra burden on implementing ministries. Similarly, Haruță et al. (2009), emphasize the influence of the broader governance system on Policy Implementation, reinforcing these findings as the authors argue that even well-designed PBLs can be hindered by an unsupportive complex Politico-Administrative Context. This is exemplified by the comments from Respondent 12 (MINAE), who noted that line ministries are pressured to move forward with policies based on the negotiated matrix even when legislative approval is still pending. As the respondent explained:

*“Since there are so many problems right now between the executive and legislative branches, this is complicated ... Meanwhile, the rest of the team has to keep doing its job to comply with the policy matrix”* (Respondent 12, MINAE)

In conclusion, Contextual Factors significantly mediate the relationship between Policy Transfers and Policy Implementation, therefore confirming H.1. Politico-Administrative factors negatively affected the implementation process due to a lack of capacity, defined structures and inter-institutional issues. Contrarily, Policy Administrators adopting the role of Bureaucratic Entrepreneurs had a pivotal positive impact in the implementation process, by fostering institutional commitment.

### ***Aid ownership***

Building on from the previous analysis, the first subtheme to be evaluated within the Aid Ownership debate is Political Will. It can be concluded that a positive Political Will in leadership positions is essential for a successful PBL implementation, as expected after analyzing Santiso’s (2001) work on the interconnectedness between Political Will and Aid Effectiveness. When asked about their perception on the influence of Political Will in Ownership and Implementation, all respondents agreed upon its relevance for a Policy-Based Loan to yield positive outcomes. As mentioned by Respondent 5:

*“Political support is vital as long as there is a technical team behind it to back up that the preparation of this document is in line with national priorities or the government’s interest in a particular matter”* (Respondent 5, MIDEPLAN)

On the other hand, participants argued that a lack of Political Will often led to a failed implementation, as Respondent 3, from the IMF, noted *“... if there is no political will it is very difficult to take it forward.”*. This shows how MDB officials’ perspectives resonate with those from government officials. Particularly for execution purposes, government officials highlighted the importance of Political Will, not only to maintain PBL-supported policies as institutional priorities, but also to ensure the

allocation and mobilization of resources necessary for their implementation. As mentioned by Respondent

4 (MIDEPLAN) *“... political support is definitely a driver towards compliance and towards the management of having access to resources”*. Therefore, the evidence presented regarding the determining influence of Political Will in Costa Rican institutions, aligns with arguments made by Santiso (2001). This critical role of Political Will suggests that this factor is not only a driver for accessing resources but a requisite for their effective adoption.

The Ownership debate remains a contested issue among the consulted stakeholders, since the policy areas chosen for each PBL are chosen by MDBs but the program design is built in close consultations with implementing agencies. Firstly it is important to clarify that when asked about Ownership, respondents emphasized the fact that *“... PBLs are requested by the government, in other words, they are demand driven”* (Respondent 8, IDB), which means that the Costa Rican government requests these loans as they see budgetary needs. Nevertheless, respondents across all sectors mentioned that MDBs are restricted to offer a “menu” of policies which they are interested in supporting, then as a result of negotiations a policy line is chosen. This is exemplified by the following comment from Respondent 13 from the French Development Agency:

*“... the FDA has a mandate that is quite focused on certain development issues, particularly the fight against climate change, adaptation, mitigation, and other environmental issues...”*

(Respondent 13, FDA)

However, respondents from the Ministry of National Planning, whose role is to approve the PBL's alignment with the National Development Plan, observed that there are often low levels of alignment between PBL-targeted policies and national priorities. As one respondent noted, *"not everything that is managed with Banks is always aligned or prioritized exclusively with the National Development Plan"* (Respondent 4, MIDEPLAN). Such comments create a dissonance between the Ownership perspectives of government officials and MDB experts, exposing a lack of alignment of PBLs implemented in Costa

Rica. This observed dissonance is consistent with Faust's (2010) argument that governments may be hesitant to engage with MDB agendas that could undermine their national priorities. Furthermore, Booth (2012) argues that misalignment between Transnational Policy Networks and local policy agendas is common, which reinforces the importance of assessing Ownership throughout PBL processes.

Regardless of the weaknesses throughout the PBL design process, higher levels of Ownership were identified among the interviews regarding the PBL implementation stage. This process was described as highly inclusive, particularly with line ministries and sectoral stakeholders. Evidence from the interviews with government officials shows that levels of Ownership increase as policy administrators have a higher agency in the Policy Design. Respondent 11 (MAG) reflected on the dynamics of stakeholder consultations conducted by MDBs, emphasizing the positive relationship between participation and Ownership. As they noted, *"... opening up participation tends to slow things down a bit, but I think it generates better Ownership"* (Respondent 11, MAG). This finding aligns with the literature on Policy Implementation, which argues that stakeholder collaboration is essential for effective policy execution and legitimacy of reforms (Chriqui et al., 2023; Haruță et al., 2009).

To evaluate levels of Ownership, it is essential to focus on the perspectives of implementing ministries. However, this analysis also finds that the attitudes of Multilateral Development Banks towards open dialogue and inclusive cooperation with the local authorities provided a crucial basis to foster high Ownership for PBLs. Respondents from different MDBs stressed on the importance of fostering Ownership, as they described Policy-Based Loans as the *"culmination of a long-term accompaniment process"* (Respondent 8, IDB) and being *"designed with the consent of the authorities"* (Respondent 3, IMF). These attitudes are exemplified in Respondent's 10 contributions:

"It's important that these goals are set with Ownership of the government. So it's not the Bank imposing goals, It's the Bank working with the authorities on goals that both sides consider important for

*the country and agree on the pace that these goals will be met."* (Respondent 10, World Bank)

Aid Ownership in Costa Rica's PBL implementation is assessed along two dimensions, first it was found that there is low Ownership during the negotiation and design stages, primarily due to influence of MDB policy agendas. Secondly, there is higher Ownership during the implementation stage among line ministries who are responsible for executing them. These findings resonate with the concept "locally directed, donor supported", which can be partially attributed to MDBs' role in fostering Ownership and common goals, hence emphasizing the important role of Political Will in creating institutional Ownership (Gisselquist & Resnick, 2014; Santiso, 2001). Therefore, H.2 is accepted, as high levels of implementation Ownership, despite low Ownership at a broader country level, enhance the influence of PBLs on Sectoral Policy Implementation.

### *Donor agency*

The final mediating concept is Donor Agency, analyzed across three subthemes that emerged during the expert interviews. The first subtheme is Technical Assistance, which showed to be influential on Sectoral Policy Implementation, although often not in a positive way. The findings emphasize the importance of MDBs developing a comprehensive understanding of the institutional structures and expertise levels within Costa Rica's line ministries, as emphasized in literature by Howes (2013) and Thurber (1973). The respondents expressed that Technical Cooperation often lacked the depth and innovation that policy administrators expected, supporting the arguments proposing that a disconnect between external support and domestic institutional needs can hinder Policy Implementation (Howes, 2013). Thurber (1973) puts forward that if external consultants have a clear understanding of local administrator's expertise levels, the dissonance can be solved. As Respondent 11 (MAG) reinforced by the following explanation:

*"... I would expect the development worker to say "Look, I have a sustainable agriculture unit in France, I am going to put you in touch with you so that you know what is happening in the rest of the world on this issue and can better orient your strategy." (Respondent 11, MAG)*

A second key issue regarding Technical Assistance, was a lack of transparency in respect to the fund allocation for Technical Assistance. Such perceptions of line ministry respondents are reflected in comments criticizing the delegation of consultancies or project execution to third parties during the technical cooperation stage of the PBLs. These practices from certain MDBs resulted in increased skepticism from policy administrators. These issues with technical assistance delivery reflect the problems within the donor's administrative environment and processes that hinder the aid's outcomes (Gisselquist & Resnick, 2014). These negative experiences shape the "Perceived Outcomes" from the implementing ministries' perspective, undermining their trust in PBLs and reducing their willingness to engage with future programs, as illustrated by the following comment:

“We were left with the bitter taste of having lost resources. Most of those resources were lost due to poor management by the third-party operator. So, that is upsetting and demotivating, and even

discourages us from continuing to handle this type of work.”

(Respondent 12, MINAE)

Similarly, frustration among several government officials regarding the misalignment between PBL funding and policy demands, further deepened skepticisms toward these financing mechanisms. Policy Administrators in implementing ministries, must comply with a series of policies agreed upon during PBL negotiation, with the support from Technical Assistance programs. As revealed in the interviews, what ministries need in order to comply with these policies is extra resources, staff, or time to undertake their additional work from PBLs. These results reinforce the arguments by Gisselquist & Resnick (2014) and Grindle (1980) regarding the potential hindering effects of donor processes and Policy Design on aid effectiveness. Respondents expressed their hopes to see financial compensation for their efforts on implementing PBL agendas, as noted by Respondent 11:

“I would expect that at some point in time, having a developed agenda, these projects will have a direct investment component for the agricultural sector. It is something we have not yet seen.”

(Respondent 11, MAG)

Although Multilateral Development Banks do not aim to dictate how Policy-Based Loan funds should be allocated, Respondents argued that greater financial support would significantly enhance implementation outcomes. As Respondent 10 (World Bank) explained, “*We don’t have the ability nor the intention of checking where each dollar is spent, we accept their fungibilities.*”. However, this flexibility can have unintended consequences, as several Respondents from MDBs acknowledged that such design characteristics may negatively affect implementation. Due to the lack of targeted funding, policy administrators showed to be increasingly demotivated when facing higher workloads without appropriate resources. These sentiments are exhibited by Respondent 13:

“... in certain cases they (policy administrators) find themselves saying “Don’t bother me because I already did what I could to support the policy and anyway that money is not for us”

(Respondent 13, FDA)

Despite these challenges, policy administrators generally recognized the positive influence of Technical Assistance on Policy Implementation. As Respondents 11 & 12 highlighted, in many cases the policies supported by PBLs are already in the ministries' plans but often lack the political momentum necessary for execution. Since the timeline to implement PBL-supported policies is negotiated with the MDB during the design stage, policy administrators face external pressures to execute the policy programs accordingly. The conclusion that MDBs have influence in how and when PBL-supported policies are implemented, resonates with Howes' (2013) arguments about well-informed and well-intentioned donors acting as a catalyst for implementation. Respondent 12 from MINAE, described

their experience in relation to this topic through the comment: *"If this loan had not existed, the institutional apparatus would not have been obliged to comply."*

Donor agency is also explored through the lens of Multiple-Donor Coordination, given the presence of several MDBs operating in Costa Rica. Respondents pointed out differences in how MDBs operate in the country, reinforcing existing literature on the importance of donor collaboration to enhance aid effectiveness (Howes, 2013; Thurber, 1973). MDB Respondents highlighted ongoing efforts to maintain a consistent dialogue to avoid duplications and align strategies. However, these efforts still leave room for improvement as Respondent 13 (FDA) acknowledged, *"...we know that in many cases there is always redundancy"*. In contrast, Respondent 10, from the World Bank, described the dynamics and goals of multiple-donor collaboration in the country, stating that they aim *"...first to avoid duplications ... also sometimes to reinforce messages and make sure things move in the right direction."* Similarly, Respondent 13, from the French Development Agency, observed that inter-institutional dialogue is strong in the country as *"Costa Rica is a small country, so almost everyone knows each other, and frequently there are development worker roundtables"*. The scope of Multi-Donor Coordination in Costa Rica is further exemplified through Respondent's 3 response:

*"We have a very good dialogue with the IDB, the World Bank, the French Development Agency, with the United Nations ... they also have a lot of expertise in areas that we don't have, that has also been key ... In other words, the whole is more than the sum of the parts."*

(Respondent 3, IMF)

The sentiment that MDBs work for the long-run development of the country was present across all MDB respondents. Commitment with Costa Rican society's well-being from MDB experts is illustrated as Respondent 8 stated that *"... in the end we work for the country's development and our clients are the citizens."* (Respondent 7, IDB). In spite of their good intentions, this dialogue must keep

improving in order to optimize the use of resources and build positive development outcomes (Howes, 2013).

Ultimately, the analysis of Donor Agency dynamics reveals a complex yet meaningful relationship between external support and domestic implementation realities, leading to the acceptance of this study's third hypothesis. While Policy Administrators acknowledged that Technical Assistance under PBLs can catalyze Sectoral Policy Implementation, they also underlined the deep concerns about its limited quality and misalignment with their operational needs. However, the findings highlight that constant dialogue and solid Multiple-Donor Coordination, have played a significant role in promoting collaboration among donors and for working towards reducing duplications. These findings resonate with Aid Efficiency literature, which argues for more integration of technical officers in Technical Assistance design, and improved donor cooperation to align strategies (Howes, 2013; Thurber, 1973; Gisselquist & Resnick, 2014).

## **Conclusion and recommendations**

This research aims to assess the impact of Policy-Based Lending from Multilateral Development Banks on Sectoral Policy Implementation in Costa Rica, with the goal of contributing to Policy Transfers literature and offering actionable insights for MDB and government actors. Overall, PBLs have played an accelerating role for advancing implementation by introducing time pressure that contributes to ministries' efforts to complete their execution. Based on the findings, this study accepts all three hypotheses, confirming that the mediating concepts have a meaningful role for Sectoral Policy Implementation, however, their roles vary, while some are facilitating, others emerged as constraints for policy execution. In conclusion, PBLs have the potential to accelerate Sectoral Policy Implementation when aligned with national priorities and operational realities, are endorsed by Policy Administrators, and are supported by appropriate technical cooperation.

Contextual Factors were found highly influential, particularly low Policy Capacity, due to lack of personnel and time, Ministerial Separation, and legislative-executive tensions led to delays and overall constrained the PBL process. However, as expected from the literature, the role of Policy Administrators emerged as an essential enabler, characteristics such as leadership, innovation and professional respect contributed to overcoming the administrative challenges (Thurber, 1973).

Aid Ownership was confirmed as essential for successful implementation, yet findings revealed that Costa Rican bureaucrats often perceive a dissonance between MDB agendas and national policy priorities (Gisselquist & Resnick, 2014). Political Ownership was a key enabling factor, determining whether PBL-su-

ported policies would receive the necessary conditions to be successfully executed. Moreover, Ownership from Policy Administrators appeared to be essential for implementation and showed to increase when technical officers have agency during Policy Design.

Donor Agency emerged as the more nuanced mediating concept, as the findings found Technical Assistance programs often insufficient, lacking depth and transparency; overall failing to support the ambitious policy goals. In contrast, Multiple-Donor Coordination appears to be beneficial for the MDB ecosystem in Costa Rica as the sustained dialogue aims to avoid duplications and reinforce shared priorities. These findings reinforce the literature calling for a closer and even relationship between Multilateral Development Banks and Policy Administrators, seeing the potential that Donor Agency has to enable Sectoral Policy Implementation.

Furthermore, the study's results align with recent Policy Transfers scholars such as Bertram (2020), whose critique of linear approaches to Policy Transfers is reinforced by these findings. The acceptance of the three hypotheses which confirms that external factors play a major role shaping the impact of PBLs on Sectoral Policy Implementation; particularly through the interplay of Aid Ownership and Donor Agency in the PBL process. This research addresses the gap in the literature on Aid Ownership, by identifying two dimensions of Ownership throughout the Policy Transfers, the first being

at the national agenda level and the second observed through Ownership levels from Policy Administrators towards Policy Design. This multi-level understanding of Aid Ownership is often overlooked by existing studies such as Gisselquist & Resnick (2014), therefore highlighting the relevance of studying Ownership beyond the national level.

Perceived outcomes of PBL implementation, from both the government and Multilateral Development Banks perspectives, emphasize stakeholder collaboration as a critical factor for success. While scholars like Hudson et al. (2019), and Chriqui et al. (2023) analyze the importance of stakeholder collaboration as a key factor for Policy Design, this research fills the gap regarding the importance of a more equitable collaboration between MDBs and line ministries during the implementation stages of Policy Transfers.

This study highlights a significant gap in the existing Policy Transfers literature, noting that Policy-Based Loans are notably understudied within this field, primarily because PBLs represent a recent development within Multilateral Development Banks. Therefore, as a result of this in-depth analysis of PBLs, this study expands the available case studies for Policy Transfers and enriches the empirical understanding of how internationally transferred policies are implemented. Furthermore, the multidisciplinary nature of this research, which tests theories from both the Development field and Public Administration, creates a bridge for the intersection of these disciplines through Policy Transfers.

Moreover, these findings shed light on the strengths and limitations of PBL management in Costa Rica, offering relevant insights to other Policy-Based Loan receiving countries. The practical implications are significant for government officials, as the findings emphasize how administrative challenges, discussed in the Contextual Factors results, can impact Sectoral Policy Implementation. A clear understanding of why these internal dynamics constrain the PBL process can help guide both Costa Rican bureaucracies and MDBs in improving management and coordination. Notably, one of the most relevant findings was the misalignment between policy priorities and the allocation of funds within implementing

ministries, this is a factor that ministry leadership and Policy Design officials at MDBs must assess for future PBLs. This disconnect generated confusion and frustration among Policy Administrators, emphasizing the importance of both MDBs and Finance Ministries to clearly communicate the fungibility and intended use of funds, as this significantly shapes how implementing ministries perceive and engage with PBL instruments.

Despite the value of these findings for future PBL management, this study recognizes its academic limitations. The most significant is the limited sample size, while 13 expert interviews effectively identified the conceptual relationships, they are not representative of every institution and unit within the Costa Rican government. Due to time constraints and limited access to line ministries, the findings are limited to Sectoral Policy Implementation in the agricultural and environment sectors. Although efforts were made to include perspectives from the Ministry of Human Development and Social Inclusion, time constraints limited the possibility to expand the pool of respondents. Nonetheless, further research could explore PBL dynamics in sectors underrepresented in this study and existing literature.

### ***Recommendations***

The following section will include academic and policy recommendations derived from the research findings. Regarding recommendations for further research, the concept of democratic quality was identified by one respondent as a contextual factor that facilitated PBL-supported Policy Implementation. Further research on Policy Transfers could explore whether democratic quality plays a role facilitating internationally transferred policy processes.

Additionally, the findings emphasized the importance of MDB administrative practices and processes in shaping donor influence on Sectoral Policy Implementation. Given that Costa Rica's engagement with Multilateral Development Banks has been predominantly through traditional International Financial Institutions, the study of an emerging MDB like the New Development Bank in

other countries presents an opportunity for innovation and further research within the Policy Transfers literature.

The research highlights the urgent need to strengthen Policy Capacity and cross-ministerial collaboration. Institutions such as the Ministry for National Planning and Economic Policy (MIDEPLAN), could take a leading role in facilitating this process. This recommendation responds directly to findings that internal challenges, such as limited personnel, time, and weak institutional structures for long-term planning, undermine PBL implementation (Howlett et al, 2016; Howes, 2013; Gisselquist & Resnick, 2014). Based on inputs from respondents, a key recommendation is the development of an inter-institutional strategy to support line ministries throughout the PBL cycle.

Finally, echoing the societal contributions of this research, greater emphasis should be placed on fostering transparent communication and dialogue between MDBs and government actors, particularly implementing ministries on the issue of funds and policy misalignment (Haruță et al., 2019; Chriqui et al., 2023). This challenge emerged as a major source of frustration and skepticism towards Policy-Based Loans among Policy Administrators, who often face increased workload without proportional resource support. Enhancing communication around the Loans' fungibility can build trust in PBL instruments, improve implementation, and start a base for future discussions on performance based funding in Costa Rica.

Ultimately, Policy-Based Loans not only represent an essential funding instrument for Costa Rica, but also have the opportunity to introduce policy innovations and international expertise into the country. Across all interviews, it was evident that Multilateral Development Banks recognize a great potential for Costa Rica's development. Therefore, to realize this potential, it is crucial to open the dialogue, and listen to the voices of technical ministries, ensuring that MDB efforts are aligned with the most pressing issues central to achieving the country's development goals.

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Appendix

**Table 2.** Code Scheme

| Selective Code        | Axial Codes                     |
|-----------------------|---------------------------------|
| Policy Transfer       | Policy Diffusion                |
|                       | Transnational Policy Networks   |
| Policy Implementation | Policy Administrators           |
|                       | Stakeholder Management          |
|                       | Policy Program                  |
| Contextual Factors    | Politico-Administrative Context |
|                       | Policy Capacity                 |
|                       | Ministerial Separation          |
|                       | Bureaucratic Entrepreneurship   |
| Aid Ownership         | Level of Alignment              |
|                       | Political Will                  |
| Donor Agency          | Technical Assistance            |
|                       | Multiple Donor Coordination     |
|                       | Transaction Costs               |

**Figure 2.** Code Tree

