



# 2001 Annual Review of Development Effectiveness

## Making Choices

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## FOREWORD

In the face of a rapidly changing development

agenda, the World Bank has proven remarkably flexible in adapting and expanding its operational toolkit. New lending instruments, analytical tools, and partnership arrangements have emerged to respond to the myriad needs and preferences of borrowers and to implement corporate strategies. These innovations have contributed to improvements in project and program performance.

The broad endorsement of the Millennium Development Goals within the development community has put the spotlight on the results of development activities. Accordingly, attainment of tangible, measurable, and sustainable improvements in the health, education, and standard of living of the world's poor is the overarching challenge facing the Bank and its development partners.

This is the fifth *Annual Review of Development Effectiveness* (ARDE). The 1997 Review concentrated on the linkages between aid and development. The 1998 Review reflected the lessons of the East Asia financial crisis. The 1999 Review looked at the challenges of implementing the Comprehensive Development Framework, and identified promising practices for dealing with them, predicated on strong country commitment to poverty reduction and sustainable growth. The 2000 Review concluded that the Bank could implement its strategies more effectively by judicious

## PREFACIO

En el actual contexto de rápida transformación de las

actividades de desarrollo, el Banco Mundial ha demostrado una notable flexibilidad para adaptarse y ampliar sus instrumentos operacionales. Han aparecido nuevos dispositivos crediticios, herramientas analíticas y mecanismos de asociación en respuesta a las innumerables necesidades y preferencias de los prestatarios y para aplicar las estrategias institucionales. Estas innovaciones han significado mejoras en los resultados de los proyectos y los programas.

La amplia aceptación de los objetivos de desarrollo del milenio entre las instituciones interesadas en el desarrollo ha puesto en primer plano los resultados de las actividades de desarrollo. En consecuencia, el logro de mejoras tangibles, cuantificables y sostenibles en los terrenos de la salud, educación y nivel de vida de los pobres de todo el mundo es el desafío general con que se enfrentan el Banco y sus asociados en el desarrollo.

Este es el quinto *Examen anual de la eficacia en términos de desarrollo*. El Examen de 1997 se centró en las vinculaciones existentes entre la ayuda y el desarrollo. En el de 1998 se consideraron las enseñanzas extraídas de la crisis financiera de Asia oriental. En el de 1999 se analizaron los desafíos que representaba la aplicación del Marco Integral de Desarrollo, y se identificaron las prácticas más prometedoras para

## AVANT-PROPOS

Confrontée à l'évolution rapide de l'ordre du jour du

développement, la Banque mondiale a réussi à adapter et élargir la gamme de ses instruments opérationnels avec une souplesse remarquable. Elle a su répondre aux besoins multiples des emprunteurs et satisfaire leurs préférences en créant de nouveaux instruments de prêt et de nouveaux outils d'analyse, et en forgeant des accords de partenariat. Ces innovations ont contribué à améliorer les résultats des projets et des programmes.

L'adoption des « Objectifs de développement pour le millénaire » par l'ensemble de la communauté internationale a mis en évidence l'importance des résultats des activités de développement. La mission primordiale que se sont fixée la Banque et de ses partenaires pour le développement, d'améliorer de façon tangible, mesurable et durable la santé, l'éducation et le niveau de vie des pauvres du monde entier, est donc plus que jamais d'actualité.

Nous publions cette année la cinquième édition de l'*Examen annuel de l'efficacité du développement* (ARDE). L'examen de 1997 décrivait les liens entre l'aide et le développement et celui de 1998 tirait les leçons de la crise financière d'Asie de l'Est. L'examen de 1999 se penchait sur les problèmes de mise en œuvre du Cadre de développement intégré et dégageait des moyens prometteurs pour les résoudre, reposant sur la ferme volonté des

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adaptation to diverse institutional and social environments, as well as by acknowledging and managing differences between client and Bank priorities.

This year's Review highlights the choice of lending and nonlending instruments and activities to achieve development objectives. It complements the Quality Assurance Group's annual assessment of the active lending portfolio and of recent analytical and advisory services. As in prior years, the Review concentrates on long-term development effectiveness trends. It finds that selecting the right combination and sequence of activities for a particular set of objectives can make the difference between success and failure.

This conclusion holds at all levels—the individual project, the country assistance program, and the Bank's global, sectoral, and thematic priorities. At each level there is unexploited potential to make judicious use of lending and nonlending activities, to choose instruments that are adapted to the problems faced, and to leverage work done by partners. Such strategic selectivity is especially important in countries with a poor policy framework, small or newly reactivated lending programs, or acute institutional development needs.

The findings of the 2001 ARDE demonstrate sustained progress in portfolio performance and suggest several directions for future Bank operations. First, the ongoing updating of the policy framework for investment and adjustment lending offers a good opportunity to offer operational guidance and

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superarlos, basadas en un decidido compromiso de los países con la reducción de la pobreza y el crecimiento sostenible. En el Examen de 2000 se concluyó que el Banco podría aplicar sus estrategias con

mayor eficacia si se adaptaba prudentemente a los distintos entornos institucionales y sociales, y reconocía y resolvía las diferencias entre las prioridades de los clientes y del Banco.

En el Examen del presente año se hace hincapié en la gama de instrumentos y actividades de financiamiento y de otro tipo disponibles para el logro de los objetivos del desarrollo. Es un complemento de la evaluación anual del Grupo de garantía de calidad sobre la cartera de préstamos activos y sobre los recientes servicios de análisis y asesoría. Como en años anteriores, el Examen se concentra en las tendencias a largo plazo de la eficacia en términos de desarrollo. Se comprueba que la selección de la combinación y secuencia adecuadas de actividades para un conjunto determinado de objetivos puede representar la diferencia entre el éxito y el fracaso.

Esta conclusión es válida en todos los niveles: proyectos individuales, programas de asistencia a los países y prioridades mundiales, sectoriales y temáticas del Banco. En cada nivel, hay margen para utilizar sabiamente las actividades de financiamiento y otro tipo, elegir instrumentos que estén en consonancia con los problemas existentes, y conseguir un efecto multiplicador con las actividades realizadas por las instituciones asociadas. Esta selectividad

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pays de faire reculer la pauvreté et de promouvoir une croissance durable. L'examen de 2000 notait en conclusion que la Banque pourrait mettre en œuvre ses stratégies plus efficacement en s'adaptant judi-

cieusement au contexte institutionnel et social, tout en prenant en compte et en gérant les différences entre les priorités des clients et celles de la Banque.

L'examen de cette année met en évidence la gamme des instruments de prêt et des services hors prêt qui permettent d'atteindre les objectifs de développement. Il complète l'évaluation annuelle du portefeuille actif et des services récents d'analyses et de conseil effectuée par le Groupe d'assurance de la qualité. Comme les années précédentes, l'examen se concentre sur les tendances de l'efficacité du développement à long terme. Il aboutit à la conclusion que la différence entre le succès et l'échec réside dans le dosage et l'échelonnement d'activités adaptées à une série particulière d'objectifs.

Cette conclusion est valable à tous les niveaux – les projets individuels et les programmes d'aide aux pays comme les priorités globales, sectorielles et thématiques de la Banque. Il existe à chaque niveau un potentiel que l'on pourrait exploiter en utilisant judicieusement des services de prêt et hors prêt, en choisissant des instruments adaptés aux problèmes qui se posent et en tirant parti des travaux accomplis par les partenaires. Il est particulièrement important de faire preuve de cette sélectivité stratégique dans les pays où le cadre de

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improve instrument choice. Second, in poorly performing low-income countries, simple operations, pilot projects, and nonfinancial activities have particular potential to deliver results.

Third, for adjustment operations—a growing share of Bank lending—success is more likely when the domestic consensus for reform is strong and other Bank instruments are brought to bear both upstream and downstream of the adjustment process.

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estratégica es especialmente importante en los países con un marco de políticas poco adecuado, programas de financiamiento de pequeña escala o recientemente reactivados o con necesidades

agudas de desarrollo institucional.

Las conclusiones de este Examen anual de la eficacia en términos de desarrollo revelan un continuado progreso en los resultados de la cartera y parecen indicar varias orientaciones para las operaciones futuras de Banco. En primer lugar, la actualización constante del marco de políticas para la inversión y los préstamos de ajuste representa una buena oportunidad de ofrecer asesoramiento operacional y mejorar la gama de instrumentos disponibles. En segundo lugar, en los países de ingreso bajo con resultados inadecuados, pueden resultar especialmente eficaces las operaciones de pequeña envergadura, los proyectos piloto y las actividades no financieras. En tercer lugar, por lo que se refiere a las operaciones de ajuste —una parte creciente de los préstamos del Banco— es más probable que se consigan éxitos cuando el consenso interno en favor de la reforma es firme y se cuenta con otros instrumentos del Banco tanto en las fases iniciales como finales del proceso de ajuste.

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l'action des pouvoirs publics est défaillant, dont les programmes de prêts sont limités ou ont été réactivés depuis peu ou dont les besoins de développement institutionnel sont aigus.

L'Examen annuel de l'efficacité du développement 2001 révèle que des progrès durables ont été réalisés en matière de performance du portefeuille, et propose plusieurs orientations pour les opérations futures de la Banque. Premièrement, une mise à jour régulière du cadre dans lequel s'inscrivent les prêts d'investissement et les prêts à l'ajustement est un bon moyen d'imprimer des orientations opérationnelles et d'améliorer le choix des instruments. Deuxièmement, dans les pays à faible revenu dont les résultats sont médiocres, des opérations simples, des projets pilotes et des activités autres que financières sont les plus aptes à donner des résultats. Troisièmement, les opérations d'ajustement – qui représentent une part croissante des prêts de la Banque – ont davantage de chances de réussir lorsque le consensus national en faveur des réformes est solide, et que d'autres instruments de la Banque interviennent tant en amont qu'en aval du processus d'ajustement.



Robert Picciotto  
Director-General, Operations Evaluation



## EXECUTIVE SUMMARY

The challenge of development, never straightforward, has become even more complex as the number of actors has grown and the desire for demonstrable results has intensified. In seeking to implement its poverty reduction mission, the World Bank has to match over 100 client countries tackling innumerable development issues with a financial product line ranging from small grants to large loans, a diverse nonfinancial product line, and a growing cast of public, private, and civil society partners. If the Bank is to continue improving its development effectiveness, it will have to make the right choices about how, when, and with whom to engage (and disengage). Making the right choices with client countries and other development partners—what is often called selectivity—is the theme of this Review.

The Bank exercises selectivity through the choices it makes in three dimensions: its corporate goals, strategies for countries, and specific activities or instruments. Decisions on each of these dimensions help determine the institution's development effectiveness. The overarching corporate mission—to reduce poverty through a focus on results—has been translated into corporate goals and institutional initiatives in support of them. Individual country strategies are expected to reflect the Bank's corporate goals, while at the same time matching client needs and the comparative advantages of partners in particu-

## RESUMEN

El desafío del desarrollo, siempre complicado, ha adquirido mayor complejidad todavía a medida que se ha multiplicado el número de agentes y se ha intensificado el deseo de resultados demostrables. El Banco Mundial, empeñado en cumplir su misión de reducción de la pobreza, tiene que integrar la realidad de sus más de 100 países clientes —con innumerables problemas de desarrollo— con una línea de productos financieros que van desde pequeñas donaciones a grandes préstamos, una amplia línea de productos no financieros y un grupo cada vez más numeroso de interlocutores del sector público y privado y de la sociedad civil. Para que el Banco continúe mejorando su eficacia en términos de desarrollo, tendrá que tomar las decisiones adecuadas sobre cómo, cuándo y con quién va a mantener (o dejar de tener) relaciones. El tema del presente Examen es precisamente cómo tomar las decisiones adecuadas con los países clientes y otras instituciones interesadas en el desarrollo: lo que suele conocerse con el nombre de selectividad.

El Banco ejerce la selectividad a través de las decisiones que adopta en tres dimensiones: sus metas institucionales, las estrategias para los países y las actividades o instrumentos específicos. Las decisiones sobre cada una de estas dimensiones ayudan a determinar la eficacia en términos de desarrollo de la institución. La misión institucional general —reducir la pobreza mediante una

## RÉSUMÉ ANALYTIQUE

Le défi du développement, qui n'a jamais été simple, devient encore plus complexe à mesure que davantage d'acteurs interviennent et que la volonté d'obtenir des résultats tangibles s'intensifie. Pour accomplir sa mission de faire reculer la pauvreté, la Banque mondiale doit offrir à plus d'une centaine de pays clients confrontés à d'innombrables problèmes de développement l'accès à ceux de sa ligne de produits financiers, allant de dons modestes à des prêts importants, et à ceux de sa vaste gamme de produits non financiers dont ils ont précisément besoin chacun, et les mettre en rapport avec les partenaires de plus en plus nombreux des secteurs public et privé et de la société civile qui conviennent. Si la Banque veut continuer à améliorer l'efficacité du développement, elle devra choisir judicieusement dans quelles conditions, quand et avec qui prendre des engagements (ou se désengager). Faire les choix qui s'imposent avec les pays clients et les autres partenaires du développement, ce qu'on appelle souvent la sélectivité, sera le thème du présent Examen.

La Banque fait des choix sélectifs dans trois domaines : ses objectifs institutionnels, les stratégies pour les pays et les activités ou les instruments particuliers. Les décisions prises dans chacun de ces domaines contribuent à déterminer l'efficacité de l'institution en matière de développement. La mission institutionnelle primordiale, à savoir de faire reculer la

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lar settings. Even with the right strategies in place, results on the ground depend on choosing the right instruments—the focus of this report.

The ARDE's review of selectivity identifies three themes common to the project, sector, and country levels of analysis:

- Good diagnosis, provided by high-quality economic and sector work, is critical for establishing realistic development objectives. Country assistance strategies, sector strategies, and operational guidance all inform the matching of instruments with objectives.
- The choice of instrument should reflect not only the objectives of the individual operation, but also past performance in the country and sector context. Appropriate sequencing and tapping of complementarities among instruments help improve outcomes.
- A poor policy and institutional environment compromises the effectiveness of both lending and nonlending interventions and calls for a nuanced selection of instruments. In weak country environments, stand-alone technical assistance operations have performed best, while structural adjustment lending tends to be the riskiest instrument. Simple project designs—or a series of simple interventions—provide better results than complex and multifaceted undertakings. Even if lending is constrained by poor performance, carefully selected nonlending activities can be

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mayor atención a los resultados— se ha traducido en metas e iniciativas institucionales en apoyo de éstos. Se espera que las estrategias de los distintos países estén en consonancia con las metas institucionales del

Banco, y que al mismo tiempo correspondan a las necesidades del cliente y a las ventajas comparativas de los socios en los diferentes contextos. Aun cuando se apliquen las estrategias pertinentes, los resultados sobre el terreno dependen de la elección de los instrumentos adecuados: ese es precisamente el tema del presente informe.

El examen sobre la selectividad revela la existencia de tres temas comunes en los tres niveles de análisis (proyectos, sectores y países):

- Un diagnóstico correcto, conseguido a través de estudios económicos y sectoriales de alta calidad, es condición decisiva para establecer objetivos de desarrollo realistas. Las estrategias de asistencia a los países, las estrategias sectoriales y la orientación operacional contribuyen a emparejar los instrumentos con los objetivos.
- La elección de instrumento debe corresponder no sólo a los objetivos de cada operación sino también al rendimiento anterior del país y el contexto sectorial. Los resultados pueden mejorar gracias a una adecuada selección del orden de los instrumentos y al aprovechamiento de las complementariedades entre distintos instrumentos.
- Un entorno normativo e institucional desacertado pone en

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pauvreté en se concentrant sur les résultats, se concrétise par des buts et des initiatives institutionnels adaptés. Les stratégies adoptées pour chaque pays doivent refléter les buts institutionnels de la Ban-

que, tout en faisant coïncider les besoins des clients et les avantages comparatifs des partenaires en fonction des circonstances particulières. Même si des stratégies adéquates sont mises en place, les résultats sur le terrain ne peuvent être obtenus qu'en choisissant les instruments adéquats. C'est l'objet de ce rapport.

L'examen de la sélectivité, dans le cadre de l'ARDE, permet de définir trois thèmes communs aux trois niveaux de l'analyse (projet, secteur et pays) :

- il est essentiel, pour fixer des objectifs de développement réalistes, de réaliser un bon diagnostic à l'issue d'études économiques et sectorielles de qualité. Les stratégies d'aide-pays, les stratégies sectorielles et les orientations opérationnelles sont autant de moyens de faire coïncider les instruments et les objectifs ;
- le choix d'un instrument doit cadrer non seulement avec les objectifs d'une opération particulière, mais également avec les antécédents du pays et du secteur. En choisissant le moyen approprié d'échelonner les instruments et d'exploiter leurs complémentarités, on peut améliorer les résultats ;
- la médiocrité des politiques et des institutions compromet l'efficacité des interventions de prêt et hors prêt et exige un choix nuancé des instruments.

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useful, especially to keep the Bank prepared for possible re-engagement.

### An Evolving Toolkit

Development effectiveness depends on selecting the right instruments and deploying them in appropriate sequence and combination, in light of country and sector characteristics. The framework for the Bank's activities, as set out in the Articles of Agreement, is sufficiently broad to permit a wide range of development assistance activities as well as innovation over time as circumstances have changed and understanding of the development process has improved. Many innovations to the Bank's financial and nonfinancial toolkit were introduced over the 1990s. For example, the new adaptable lending instruments promise to increase the Bank's flexibility, reduce risks to borrowers and the Bank, and facilitate exit from floundering operations. Similarly, nonfinancial activities became more diversified and participatory with greater emphasis on nurturing reform and enhancing the quality of partnerships.

Distinctions among lending instruments reflect their ability to address differing development objectives and their costs, synergies, and complementarities. Sharper operational guidance would help country assistance strategies choose instruments appropriate to specific objectives and to sector and country conditions. In particular, now that considerable effort has been devoted to establishing the standards and scope of diagnostic instruments,

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peligro la eficacia de las intervenciones crediticias y no crediticias y requiere una selección matizada de instrumentos. En los países donde las circunstancias son poco favorables, las

operaciones de asistencia técnica independientes han dado los mejores resultados, mientras que el préstamo para fines de ajuste estructural suele ser el instrumento de mayor riesgo. La sencillez del diseño de los proyectos —o de una serie de intervenciones— permite obtener mejor resultado que iniciativas complejas y en distintos frentes. Aun cuando los créditos se vean limitados por un mal desempeño, una selección esmerada de actividades no crediticias puede resultar útil, sobre todo para que el Banco esté preparado para un posible nuevo compromiso.

### Instrumentos en evolución

La eficacia en términos de desarrollo depende de la selección de los instrumentos adecuados y de su utilización en un orden y con una combinación adecuados, teniendo en cuenta las características de cada país y sector. El marco para las actividades del Banco, establecido en el Convenio Constitutivo, es lo suficientemente amplio como para permitir una gran variedad de actividades de asistencia para el desarrollo así como para introducir innovaciones a lo largo del tiempo a medida que vayan cambiando las circunstancias y se llegue a una mejor comprensión del proceso de desarrollo. Durante el decenio de 1990 se introdujeron muchas

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Dans les pays où le cadre d'action est faible, les opérations de pure assistance technique donnent généralement les meilleurs résultats, tandis que les prêts à l'ajustement structurel

sont les instruments les plus risqués. La formulation de projets simples, ou une série d'interventions simples, donnent de meilleurs résultats que des opérations complexes et multidimensionnelles. Même dans les cas où les prêts sont limités par une performance médiocre, des activités hors prêt choisies avec soin peuvent se révéler utiles, en particulier pour préparer la Banque à un éventuel réengagement.

### Un éventail d'instruments en évolution

Le développement ne peut être efficace que si l'on choisit les instruments adéquats et si on les déploie en les échelonnant et en les combinant de façon appropriée, en fonction des caractéristiques du pays et du secteur. Le cadre des activités de la Banque, tel qu'il est défini dans les Statuts, est suffisamment large pour permettre non seulement de mener une vaste gamme d'activités d'aide au développement, mais aussi d'innover à mesure que la situation évolue et que le processus de développement est mieux compris. Dans les années 90, la Banque a introduit de nombreux instruments financiers et non financiers novateurs. Ainsi, les nouveaux prêts évolutifs promettent d'augmenter la souplesse de la Banque, de réduire les risques auxquels s'exposent les emprun-

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they should be deployed to ensure priority coverage of countries with high vulnerability.

### Improved Instrument Performance

As forecast in last year's Review, the Strategic Compact target of 75 percent satisfactory outcomes for lending has been met. The latest project evaluation data confirm significant improvement in the Bank's lending performance, especially for FY00 exiting projects. The upward trend continues into FY01. The first half of FY01 exiting projects, now evaluated by OED, has 82 percent satisfactory outcome ratings. Solid improvements in sustainability and institutional development impact are also evident. Seventy-one percent of projects exiting during the FY00–01 period are rated to have likely or highly likely resilience to future risks; one of every two projects evaluated during the same period also shows substantial or better institutional development impact ratings.

Recent evaluations show improved performance from projects in the Africa Region following its portfolio improvement drive. Looking at lending instrument groups, the outcomes of adjustment operations declined slightly for the FY00–01 exit period, while investment project outcomes improved markedly. The quality of project-level inputs remains a key determinant of project success. The outcomes of projects are also closely correlated with the Bank's Country Policy and Institutional Assessment (CPIA) ratings. Moreover, investment interventions cost signifi-

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innovaciones en el instrumental financiero y no financiero del Banco. Por ejemplo, los nuevos instrumentos crediticios adaptables ofrecen posibilidades de aumentar la flexibilidad del Banco, reducir los riesgos para los prestatarios y el Banco y facilitar el abandono de operaciones condenadas al fracaso. De la misma manera, las actividades no financieras son ahora más diversificadas y basadas en la participación, y hacen mayor hincapié en fomentar la reforma y mejorar la calidad de las asociaciones.

Las distinciones entre los instrumentos crediticios responden a su capacidad de abordar los diferentes objetivos del desarrollo y sus costos, sinergias y complementariedades. Una orientación operacional más acertada ayudaría a las estrategias de asistencia los países a elegir instrumentos adaptados a objetivos específicos y a la situación de cada sector y país. En particular, ahora que se han desplegado notables esfuerzos por establecer las normas y alcance de los instrumentos de diagnóstico, deberían utilizarse éstos para garantizar una cobertura prioritaria de los países más vulnerables.

### Mejor desempeño de los instrumentos

Como se preveía en el Examen del año pasado, se ha alcanzado el objetivo del Pacto Estratégico de un 75% de resultados satisfactorios para las actividades crediticias. Los datos más recientes de las evaluaciones de proyectos confirman una significativa mejora en el desempeño de los presta-

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teurs et la Banque et de faciliter le retrait en cas d'échec. De même, les activités non financières sont devenues plus diversifiées et participatives et privilégient davantage les réformes et l'amélioration de la qualité des partenariats.

Ce qui distingue les instruments de prêt, c'est leur capacité à viser des objectifs de développement différents ainsi que leurs coûts, les synergies qu'ils permettent et leurs complémentarités. Des directives opérationnelles plus précises aideraient à choisir les instruments qui conviennent à des objectifs particuliers et qui sont adaptés à la situation d'un secteur et d'un pays donnés dans le cadre des Stratégies d'aide aux pays. Alors que des efforts considérables sont aujourd'hui déployés pour définir les normes et la portée des outils de diagnostic, il est particulièrement important d'appliquer ces outils en priorité aux pays les plus vulnérables.

### Des instruments plus performants

Comme le prévoyait l'examen de l'an dernier, l'objectif du Pacte stratégique, qui fixait à 75 % la proportion des prêts devant obtenir des résultats satisfaisants, a été atteint. Les dernières données sur l'évaluation des projets confirment que les résultats des prêts de la Banque se sont sensiblement améliorés, en particulier pour les projets sortis du portefeuille durant l'exercice 00. Cette tendance s'est poursuivie durant l'exercice 01. La première moitié des projets sortis du portefeuille durant l'exercice 01 (qui ont aujourd'hui été évalués par

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cantly more, per amount disbursed, when undertaken in low CPIA countries.

The Strategic Compact goal—of 85 percent satisfactory—has also been achieved in nonlending

services. Self-evaluation results show a broad improvement in the quality of economic and sector work (ESW) as it becomes more participatory, client-oriented, and result-focused. There remains room for improvement in the poverty focus of these instruments, as well as in the quality and impact of ESW in poorly performing countries, especially fiduciary reviews.

### Instrument Choice Affects Country-Level Results

The outcome of country programs, as measured in the more than 50 Country Assistance Evaluations (CAEs) conducted thus far by OED, depends in part on how well selectivity has been exercised at the corporate, country, and instrument levels. Corporate priorities are conveyed to individual country programs through the Bank's support for the Comprehensive Development Framework and the Poverty Reduction Strategy Initiative, inter-country lending allocation decisions, and the distribution of administrative resources among Regions and Networks. OED's recent IDA Review finds that the performance-based lending allocation system has evolved over the past decade to reflect new development knowledge and evolving corporate priorities. These changes have strengthened the link between countries' policy

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mos del Banco, sobre todo en lo que respecta a los proyectos vigentes en el ejercicio de 2000. La tendencia ascendente se prolonga en el ejercicio de 2001. La primera mitad de los proyectos finalizados

en este último ejercicio, evaluados ahora por el Departamento de Evaluación de Operaciones (DEO), ha merecido un 82% de calificaciones satisfactorias. Se observan también mejoras consistentes en la sostenibilidad y en los efectos del desarrollo institucional. Se considera que el 71% de los proyectos existentes durante los ejercicios 2000–01 resistirán probablemente —o muy probablemente— a los riesgos futuros; uno de cada dos proyectos evaluados durante el mismo período tendría efectos cuando menos considerables en el desarrollo institucional.

Evaluaciones recientes revelan una mejora en los resultados de los proyectos en la región de África tras la campaña emprendida para mejorar su cartera. Si se consideran los grupos de instrumentos crediticios, los resultados de las operaciones de ajuste disminuyeron ligeramente en el período de salida correspondiente a los ejercicios de 2000–01, mientras que los resultados de los proyectos de inversión mejoraron notablemente. La calidad de los insumos de los proyectos continúa siendo un determinante clave del éxito de los mismos. Los resultados están también estrechamente correlacionados con las calificaciones de la evaluación de las políticas e instituciones nacionales (EPIN), del Banco Mundial. Además, las intervenciones en

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l'OED) ont obtenu des résultats satisfaisants pour 82 % d'entre eux. De nettes améliorations en matière de viabilité et d'impact sur le développement institutionnel sont également évidentes. Soixante et onze

pour cent des projets sortis du portefeuille durant les exercices 00–01 ont été jugés susceptibles ou très susceptibles de résister à des risques futurs. Parmi les projets évalués durant cette même période, un sur deux est considéré comme ayant au moins un impact appréciable sur le développement institutionnel.

Les évaluations récentes indiquent que les résultats des projets de la région Afrique se sont améliorés grâce au lancement du programme d'amélioration du portefeuille. En matière d'instruments de prêt, le résultat des opérations d'ajustement a légèrement décliné pour les projets sortis du portefeuille durant les exercices 00–01, alors que le résultat des projets d'investissement s'est notablement amélioré. La qualité des apports aux projets reste un élément déterminant du succès des projets. Le résultat des projets est également étroitement lié à la note qui leur est attribuée dans le cadre de l'Évaluation de la politique et des institutions nationales (EPIN). En outre, les opérations d'investissement sont beaucoup plus coûteuses, par montant décaissé, lorsqu'elles sont entreprises dans des pays dont la performance est jugée faible dans le cadre de l'EPIN.

L'objectif du Pacte stratégique, d'obtenir 85 % de projets satisfaisants, a également été atteint pour les services hors prêt. Les résultats

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and institutional performance and lending levels. In its allocation decisions for IBRD (International Bank for Reconstruction and Development; also World Bank) borrowers, the Bank has also recognized that better development prospects result from lending under good country policies and institutions. There is untapped potential to select and sequence instruments more strategically in individual country programs, linking them more explicitly to objectives. When country circumstances require unanticipated changes in the assistance program, it is important to use timely CAS updates and progress reports to provide an agreed-upon strategic context for Bank activities.

A special challenge is getting better results in poor policy and institutional environments. Reviews of country and project evaluations show that the performance of both lending and non-lending instruments is undermined by weak policies and institutions. In such adverse environments, stand-alone technical assistance fares better than other forms of lending, suggesting that the Bank should continue focusing on capacity and institution building in such countries. Particular care is needed for adjustment operations, which tend to have a lower likelihood of success in low CPIA countries. For all lending, recent CAEs show that a series of simple interventions provides better results than complex undertakings. Pilot programs also provide a valuable instrument to test uncertain environments and to build capacity. The success of

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forma de inversión tienen un costo significativamente mayor, por cantidad desembolsada, cuando se realizan en países donde la EPIN ha ofrecido calificaciones bajas.

Se ha conseguido también la meta de Pacto Estratégico —85% de calificaciones satisfactorias— en los servicios no crediticios. Los resultados de la autoevaluación revelan una amplia mejora de la calidad de los estudios económicos y sectoriales, que ahora están más basados en la participación, más orientados a los clientes y más centrados en los resultados. Sigue habiendo margen de mejora en la orientación de estos instrumentos hacia la pobreza, así como en la calidad y efectos de los estudios económicos y sectoriales en los países con resultados deficientes, sobre todo en los exámenes fiduciaros.

### La elección del instrumento influye en los resultados obtenidos en los países

Los resultados de los programas por países, cuantificados en más de 50 evaluaciones de asistencia a los países realizadas hasta ahora por el DEO, dependen en parte del acierto con que se ha practicado la selectividad en cuanto a la institución, el país y el instrumento. Las prioridades institucionales se transmiten a los programas de cada país a través del apoyo del Banco al Marco Integrado de Desarrollo y la iniciativa de lucha contra la pobreza, las decisiones de asignaciones crediticias entre los distintos países y la distribución de los recursos administrativos entre regiones y redes. En el reciente examen de

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des auto-évaluations révèle une nette amélioration de la qualité des études économiques et sectorielles (ESW), qui font davantage appel à la participation et sont plus axées sur les besoins des clients et les

résultats. Ces instruments doivent encore accorder davantage d'importance au problème de la pauvreté, et il y a également nature à améliorer la qualité et l'impact des ESW, en particulier les examens fiduciaires, dans les pays dont la performance est jugée faible.

### Le choix des instruments conditionne les résultats au niveau des pays

Les résultats des programmes par pays, mesurés d'après plus de cinquante évaluations de l'aide aux pays (CAE) effectuées jusqu'à présent par l'OED, dépendent en partie de la qualité de la sélectivité au niveau de l'institution, du pays et de l'instrument. La Banque fait passer ses priorités dans les programmes-pays en apportant son soutien au Cadre de développement intégré et au Cadre stratégique de réduction de la pauvreté, en décidant de l'affectation des prêts entre les différents pays et en répartissant les ressources administratives entre les Régions et les Réseaux. L'examen de l'IDA récemment réalisé par l'OED révèle que le système d'octroi des crédits en fonction des résultats a évolué en dix ans, et reflète les nouvelles connaissances acquises en matière de développement, ainsi que l'évolution des priorités institutionnelles. Ces changements renforcent le lien entre l'efficacité des politiques et des institutions

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pilot initiatives suggests scope for their expanded use in poorly performing countries—with a gradual shift to up-scaling as implementation conditions improve. Diagnostic studies are critical in these coun-

tries to ensure accurate assessment of borrower ownership and program risks.

Across the spectrum of country environments, recent evaluative evidence confirms country capacity and borrower commitment as key drivers of effectiveness. The evidence suggests that the Bank can do more to take these factors into account—for example, through better assessments of implementation capacity and greater reliance on local knowledge. Since many borrowers are unfamiliar with the full menu of Bank instruments, the Bank needs to keep them abreast of the choices offered by the Bank’s expanding toolkit so as to secure their full ownership.

### Implementing Sector and Thematic Strategies

The evolution of the Bank’s corporate priorities is reflected in the recent expansion of lending for social protection, economic policy, and finance, and in a stronger focus on public sector management and institutional reform. Declines in the share of lending for rural development and education, by contrast, seem inconsistent with defined priorities and highlight the need for updated operational strategies in these sectors. Specific investment loans continue to be the predominant lending instrument, and the use of new programmatic lending instru-

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la AIF realizado por el DEO se observa que el sistema de asignación de créditos en función del resultado ha evolucionado durante el pasado decenio de acuerdo con la nueva concepción del desarrollo

y las nuevas prioridades institucionales. Estos cambios han intensificado la relación entre la política y resultados institucionales de los países y el volumen de financiamiento. En sus decisiones de asignación para los prestatarios del Banco Internacional de Reconstrucción y Fomento (BIRF), el Banco ha reconocido también que los préstamos en el marco de políticas e instituciones nacionales adecuadas se manifiestan en mejores perspectivas para el desarrollo. Sigue habiendo posibilidades de seleccionar y ordenar debidamente los instrumentos en forma más estratégica en los programas de los distintos países, vinculándolos más expresamente con los objetivos. Cuando las circunstancias de un país requieren cambios imprevistos en el programa de asistencia, es importante utilizar actualizaciones oportunas de las estrategias de asistencia a los países e informes de situación para ofrecer un contexto estratégico convenido para las actividades del Banco.

Un desafío especial es conseguir mejores resultados cuando las condiciones normativas e institucionales no son las mejores. Del examen de las evaluaciones sobre países y proyectos se desprende que el desempeño de los instrumentos crediticios y no crediticios se ve afectado cuando las políticas e instituciones son débiles. En estas condiciones adversas, la asistencia técnica por sí

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nationales et les niveaux de financement. Dans ses décisions relatives à l’affectation aux emprunteurs des ressources de la Banque internationale pour la reconstruction et le développement (BIRD, ou Banque mondiale) la Banque tient

compte aussi du fait que les perspectives de développement sont meilleures lorsque les prêts sont accordés dans le cadre de bonnes politiques nationales et d’institutions solides. Il est possible, dans le cadre de chaque programme-pays, de choisir les instruments et d’échelonner leur utilisation de manière plus stratégique, en les liant plus précisément aux objectifs. Lorsque les circonstances particulières d’un pays obligent à apporter des modifications imprévues au programme d’aide, il est important d’utiliser les actualisations de la Stratégie d’aide au pays et les rapports établis sur l’avancement de sa mise en oeuvre pour convenir du contexte stratégique des activités de la Banque.

Il est particulièrement difficile d’améliorer les résultats dans les pays où le cadre directif et institutionnel est défavorable. L’examen des évaluations nationales et des évaluations des projets révèle que la performance des instruments de prêt et services hors prêt est compromise lorsque les politiques et les institutions laissent à désirer. Dans ces conditions défavorables, les opérations d’assistance technique pure donnent alors de meilleurs résultats que les prêts, ce qui tend à indiquer que la Banque devrait continuer à se concentrer sur le renforcement des capacités et des institutions dans ces pays. Il faut être particu-

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ments is growing. Overall, the sequencing of operations and the synergies between them are particularly important when objectives include complex institutional reforms. In particular, success is more likely where lending is underpinned by upstream analytical work together with parallel support for piloting and flexible downstream implementation, and by continuity in policy dialogue where relevant.

The Bank's crosscutting thematic objectives, such as environmental sustainability and gender, can best be achieved through complementary use of both lending and nonlending tools. Of the strategies recently reviewed by OED, environmental sustainability has exploited the widest range of instruments, leveraging effective implementation of safeguards, along with direct environmental lending and substantial reliance on regional and global partnerships. Successful mainstreaming of thematic initiatives requires the strategic use of instruments as well as clearer Regional and Network accountability.

For the successful implementation of both sector and thematic strategies, several broad lessons emerge. Making the right choice of instrument when undertaking institutional reform requires clarity about the operation's objectives and a good understanding of country and sector conditions. For example, programmatic investment lending may be appropriate where the emphasis is on a sustained medium- to long-term program of phased policy and institution-building reforms—

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sola da mejores frutos que otras formas de financiamiento, lo que parece indicar que el Banco debería continuar concentrándose en el fortalecimiento de la capacidad de las instituciones de esos países. Debe prestarse especial atención a las operaciones de ajuste, que suelen ofrecer menor probabilidad de éxito en los países donde la EPIN no ha sido satisfactoria. En relación con el conjunto de todos los préstamos, las recientes evaluaciones sobre la asistencia a los países revelan que una serie de intervenciones sencillas permite mejores resultados que iniciativas más complejas. Los programas piloto son también un instrumento valioso para comprobar entornos inciertos y para el desarrollo de la capacidad. El éxito de las iniciativas piloto indica que hay margen para una mayor utilización en los países con resultados bajos, donde se podría avanzar gradualmente hacia iniciativas de más envergadura a medida que mejoren las condiciones de aplicación. Los estudios de diagnóstico son fundamentales en estos países para garantizar una evaluación adecuada de la identificación de los prestatarios y de los riesgos de los programas.

Evaluaciones recientes confirman que, cualquiera que sea la situación nacional, la capacidad del país y el compromiso del prestatario son factores decisivos de la eficacia. Los testimonios parecen indicar que el Banco puede hacer más para tener en cuenta estos factores —por ejemplo, mejorando las evaluaciones de la capacidad de aplicación y recurriendo más al conocimiento local. Como muchos prestatarios

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lièrement vigilant pour les opérations d'ajustement, qui ont en général moins de chances de réussir dans les pays dont la performance est jugée faible dans le cadre des EPIN. Les évaluations de l'aide aux pays réalisées récemment montrent que dans toutes les opérations de prêt, une série d'interventions simples donne de meilleurs résultats que des opérations complexes. Les programmes pilotes sont également un moyen précieux d'évaluer des situations mal connues et de renforcer les capacités. Le succès des programmes pilotes indique aussi qu'il y a matière à les utiliser davantage dans des pays dont la performance est médiocre, en élargissant progressivement leur champ d'application à mesure que les conditions de mise en œuvre s'améliorent. Les études de diagnostic sont essentielles dans ces pays, afin d'évaluer précisément l'adhésion des emprunteurs et les risques du programme.

Quel que soit le contexte qui prévaut dans les différents pays, les évaluations récentes confirment que les capacités des pays et le degré d'engagement de l'emprunteur sont les facteurs déterminants de l'efficacité. Tout porte à croire que la Banque peut faire plus pour tenir compte de ces facteurs, par exemple en évaluant mieux la capacité de mise en œuvre et en faisant davantage appel au savoir local. Étant donné que de nombreux emprunteurs ne connaissent pas toute la gamme des instruments de la Banque, celle-ci doit les tenir informés des options que leur offre l'éventail toujours plus grand d'instruments

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especially when the range of stakeholders and institutions involved is large, and when there are substantial challenges for consultation, consensus building, piloting, monitoring, and evaluation. The Bank's systematic interactions with international and national stakeholders have improved Bank policies and helped build a broad consensus around some of its thematic priorities, but consultative processes need to become more expeditious and businesslike. At the country level, partnerships have a crucial role in setting the pace and direction of reform, particularly in large countries where selectivity is essential to leveraging the Bank's relatively small share in external assistance. The transaction costs can be high in some cases, and more strategic attention is needed to improve cost effectiveness and selectivity in the use of partnerships. Finally, the effectiveness of lending operations for sector and thematic objectives is strongly influenced by the extent and quality of stakeholder participation.

### Corporate Implications

In the continuing drive to enhance the impact of development assistance on poverty and growth, this Review has highlighted areas in which the Bank can further increase its development effectiveness—by making the right choices in line with country performance and potential, corporate priorities, and comparative advantage.

At the instrument level, a uniform treatment covering each instrument's role, design, and les-

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no están familiarizados con todos los instrumentos del Banco, éste debe ayudarles a actualizar sus conocimientos sobre las opciones cada vez más amplias ofrecidas por el Banco, con el fin de conseguir su total identificación.

### Aplicación de estrategias sectoriales y temáticas

La evolución de las prioridades institucionales del Banco se pone de manifiesto en la reciente expansión del crédito para fines de protección social, las políticas económicas y el financiamiento, y la mayor atención a la gestión del sector público y la reforma institucional. La disminución de la parte de los préstamos para desarrollo rural y educación, por el contrario, parece estar en contradicción con las prioridades establecidas y subraya la necesidad de estrategias operacionales actualizadas en esos sectores. Los préstamos orientados expresamente a la inversión continúan siendo el instrumento crediticio predominante, y está aumentando la utilización de nuevos instrumentos de financiamiento programático. En términos generales, la secuencia de las operaciones y las sinergias entre ellas adquieren especial importancia cuando entre los objetivos se incluyen complejas reformas institucionales. En particular, es más probable que se consiga el éxito cuando los préstamos están sustentados en estudios analíticos previos —junto con un apoyo paralelo a la experimentación y una aplicación más flexible en etapas sucesivas— y en un continuado diálogo sobre políticas, cuando convenga.

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à leur disposition, afin de s'assurer de leur pleine adhésion.

### Mise en œuvre de stratégies sectorielles et thématiques

L'évolution des priorités institutionnelles de la Banque se traduit par l'accroissement récent des prêts destinés à la protection sociale, des opérations portant sur la politique économique et les finances, et par une attention accrue à la gestion du secteur public et aux réformes institutionnelles. Par comparaison, la baisse de la proportion des prêts en faveur du développement rural et de l'éducation semble aller à l'encontre des priorités définies, et souligne la nécessité d'actualiser les stratégies opérationnelles dans ces secteurs. Les prêts d'investissement spécifiques continuent d'être l'instrument prédominant, et les nouveaux instruments de prêt programmatiques sont de plus en plus utilisés. Dans l'ensemble, l'échelonnement des opérations et les synergies sont particulièrement importants lorsque les objectifs comprennent des réformes institutionnelles complexes. En particulier, les chances de succès sont accrues lorsque les prêts sont étayés par des travaux analytiques en amont, parallèlement à un appui à des expériences pilotes et à une mise en œuvre souple en aval, et à un dialogue permanent sur les mesures à prendre, le cas échéant.

Le meilleur moyen pour la Banque d'atteindre ses objectifs thématiques pluridisciplinaires, tels que la préservation à long terme de l'environnement et la parité des sexes, est d'utiliser de

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sons from past performance could constructively inform instrument choice for Bank managers and borrowers. The ongoing update and conversion of the Operational Policy on adjustment lending, to be followed by a similar process for investment lending, will offer a good opportunity to incorporate these improvements.

The Bank is devoting renewed attention to achieving better results in countries with poor policy and institutional environments, with a current focus on nonlending support. It has established a high-level task force devoted to improving Bank support to low-income, poorly performing countries. This Review presents evaluation findings that are germane to this difficult task. Recognizing the significant performance differential across instruments is an important first step. In addition, over-complexity of projects when country capacity is limited leads to excessive risks. More conscious tailoring of instruments and partnerships to country conditions should bring precious development effectiveness gains in difficult operating environments. Experimentation with outcome-based operations and innovative partnerships with private and voluntary sector organizations should be encouraged. Lastly, the role of nonfinancial activities in poorly performing countries deserves special attention, even when clients are not actively borrowing.

Implementation of sector strategies within countries requires clarity about the country's development objectives and a good understanding of country and sec-

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Los objetivos temáticos transversales del Banco, como la sostenibilidad ambiental y el género, pueden lograrse más fácilmente mediante la utilización complementaria de instrumentos crediticios y no crediticios. De las estrategias recientemente examinadas por el DEO, la sostenibilidad ambiental es la que ha utilizado la mayor variedad de instrumentos, habiendo multiplicado la aplicación eficaz de salvaguardias junto con el financiamiento ambiental directo y una considerable utilización de asociaciones regionales y mundiales. La incorporación eficaz de las iniciativas temáticas requiere la utilización estratégica de instrumentos así como una delimitación más clara de responsabilidades entre regiones y redes.

En lo que se refiere a la aplicación eficaz de las estrategias sectoriales y temáticas, pueden extraerse varias enseñanzas generales. Para elegir adecuadamente el instrumento cuando se emprende la reforma institucional se requiere claridad acerca de los objetivos de la operación y una comprensión adecuada de las condiciones del país y el sector. Por ejemplo, los préstamos para inversiones programáticas pueden resultar indicados cuando lo que interesa es un programa continuado a mediano o largo plazo de reformas escalonadas normativas y de fortalecimiento institucional — sobre todo cuando la variedad de partes interesadas e instituciones es considerable, y cuando existen dificultades notables para entablar consultas o lograr el consenso y para las actividades de experimentación, seguimiento y evaluación.

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façon complémentaire les instruments de prêt et les services hors prêt. Parmi les stratégies récemment examinées par l'OED, c'est celle ayant trait au développement écologiquement viable qui a exploité la plus vaste gamme d'instruments, en tirant parti des mécanismes de protection efficaces mis en place et de prêts directs en faveur de l'environnement, et en forgeant de nombreux partenariats régionaux et mondiaux. L'intégration réussie des initiatives thématiques passe par une utilisation stratégique des instruments, et par une définition plus claire des responsabilités des Régions et des Réseaux.

On peut tirer plusieurs leçons générales en vue de la bonne mise en œuvre de stratégies sectorielles et thématiques. Pour choisir judicieusement l'instrument adéquat lorsqu'on veut réaliser des réformes institutionnelles, il faut une bonne connaissance des objectifs de l'opération, ainsi que de la situation du pays et du secteur. Ainsi, des prêts programmatiques peuvent être indiqués lorsque l'accent est mis sur un programme continu à moyen/long terme de réformes progressives – en particulier lorsque les parties prenantes et les institutions concernées sont nombreuses et qu'il existe des besoins importants de consultation, de recherche de consensus, d'interventions pilotes, de suivi et d'évaluation. Les contacts étroits que la Banque entretient systématiquement avec les parties prenantes au niveau national et international ont amélioré les politiques de la Banque et

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tor conditions. Adjustment lending, supported as necessary by capacity-building assistance, is more effective when national ownership and consensus on sector reforms are strong and when monitoring and evaluation arrangements are in place. In sectors where these prerequisites are lacking—for example, education and health in some countries—programmatically investment lending may be the preferred approach, supported where relevant by Learning and Innovation Loans (LILs) and targeted capacity building. Support of the Bank's crosscutting, thematic objectives depends less on the use of specific lending instruments than on genuine mainstreaming of these operational emphases across instruments and on strategic application of safeguards and partnerships.

The findings in this Review have implications for evaluation:

- Nonfinancial activities continue to grow in importance. A strong evaluative framework is needed to ensure their continued effectiveness, building on the Quality Assurance Group's current assessments of their quality at entry—extending quality assurance to all services of the Knowledge Bank.
- The quality of Poverty Reduction Strategy Papers (PRSPs) is critical to the Bank's development effectiveness because PRSPs provide the framework for a comprehensive approach to ownership, partnership, and results orientation. PRSPs already emphasize monitoring progress on selected indicators; this now should be comple-

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Las interrelaciones sistemáticas del Banco con las partes interesadas internacionales y nacionales han mejorado las políticas de éste y ayudado a conseguir un amplio consenso en torno a algunas de las prioridades temáticas, pero los procesos consultivos deben ser más acelerados y sistemáticos. Dentro de los países, las asociaciones pueden desempeñar un papel decisivo para establecer el ritmo y orientación de la reforma, sobre todo en los grandes países donde la selectividad es fundamental para multiplicar los efectos de la parte relativamente pequeña del Banco en la asistencia externa. Los costos de transacción pueden ser elevados en algunos casos, y se requiere más atención estratégica para mejorar la eficacia en función de los costos y la selectividad en el uso de asociaciones. Finalmente, la eficacia de las operaciones crediticias con respecto a los objetivos sectoriales y temáticos depende fuertemente del alcance y calidad de la participación de las partes interesadas.

### Repercusiones institucionales

En el constante esfuerzo por aumentar los efectos de la asistencia para el desarrollo en la pobreza y el crecimiento, en el presente Examen se han destacado las áreas en que el Banco puede aumentar todavía su eficacia en términos de desarrollo, adoptando las decisiones adecuadas de conformidad con el desempeño y potencial de un país, las prioridades institucionales y las ventajas comparativas.

En lo que se refiere a los instrumentos, un tratamiento uni-

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contribué à forger un vaste consensus autour de certaines de ses priorités thématiques. Le processus de consultation doit cependant devenir plus rapide et professionnel. Au niveau des pays, les partenariats ont un rôle crucial à jouer en fixant le rythme et l'orientation des réformes, en particulier dans les grands pays où la sélectivité est essentielle pour assurer un maximum d'efficacité à la part relative-ment faible de la Banque dans l'aide extérieure. Les coûts de transaction peuvent être élevés dans certains cas, et il faut s'attacher davantage, sur un plan stratégique, à recourir aux partenariats de façon plus économique et sélective. Enfin, l'efficacité des opérations de prêt du point de vue des objectifs sectoriels et thématiques est fortement influencée par le degré et la qualité de la participation des parties prenantes.

### Implications pour l'institution

S'inscrivant dans la ligne de l'action menée pour accroître l'impact de l'aide au développement sur la pauvreté et la croissance, le présent Examen appelle l'attention sur les domaines dans lesquels la Banque peut encore améliorer son efficacité sur le développement, en opérant les choix qui s'imposent compte tenu de la performance et du potentiel du pays, de ses priorités institutionnelles, et de son avantage comparatif.

En ce qui concerne les instruments, une étude analysant de la même manière le rôle de chaque instrument, leur conception et les leçons à tirer des résultats obtenus par chacun pourrait éclairer

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mented by comparable attention to capacity building for systematic program evaluation of interventions and their results.

- Country and sector strategies can be strengthened through a more transparent and objective record of past performance. A stronger independent and self-evaluation focus would be facilitated by a closer alignment of inputs to results, using a logical results chain and verifiable performance indicators—Country Assistance Strategies and Sector Strategy Papers.
- Finally, since evaluation findings testify to the importance of instrument selection and sequencing for development effectiveness, country, sector, and thematic evaluations should address more systematically whether the right instruments were used for the development goals selected, and whether the complementarity of instruments was exploited judiciously. Similarly, project-level evaluation should capture synergies from complementary or sequenced instruments (for example, adjustment loans and stand-alone technical assistance).

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forme en que se considere la función, diseño y enseñanzas del pasado de cada uno de ellos podría orientar a los administradores del Banco y a los prestatarios a tomar decisiones con conocimiento de causa. El

actual proceso de actualización y conversión de la Política Operacional sobre financiamiento para fines de ajuste, que deberá ir seguida de un proceso semejante con los préstamos para proyectos de inversión, ofrecerá una buena oportunidad de incorporar esas mejoras.

El Banco está dedicando renovada atención a lograr mejores resultados en los países con entornos normativos e institucionales poco adecuados, y actualmente insiste en los instrumentos no crediticios. Ha establecido un grupo de trabajo de alto nivel cuya finalidad es mejorar el apoyo del Banco a los países de ingreso bajo y con resultados poco satisfactorios. En este Examen se presentan las conclusiones de la evaluación relacionadas con esta difícil tarea. El reconocimiento de la importante diferencia de resultados entre los distintos instrumentos es un primer paso importante. Además, unos proyectos demasiado complejos cuando la capacidad del país es limitada generan excesivos riesgos. Una adaptación más consciente de los instrumentos y asociaciones a la situación del país debería permitir valiosas mejoras de la eficacia en términos de desarrollo en condiciones reales difíciles. Deberían alentarse la experimentación con las operaciones basadas en los resultados y las asociaciones renovadoras con

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utilement les choix des responsables de la Banque et des emprunteurs. L'actualisation et l'adaptation en cours de la Politique opérationnelle sur l'ajustement structurel, ainsi que la démarche similaire prévue

pour la politique relative aux prêts d'investissement, offrent une bonne occasion d'introduire ces améliorations.

La Banque s'emploie plus que jamais à obtenir de meilleurs résultats dans les pays où les politiques et les institutions laissent à désirer, en privilégiant une assistance hors-prêt. Elle a mis en place un groupe de travail de haut niveau ayant pour mandat d'améliorer la qualité de son action en faveur des pays à faible revenu peu performants. L'Examen de cette année présente les conclusions de l'évaluation se rapportant à cette tâche difficile. Il est important, dans un premier temps, de constater les écarts significatifs qui existent entre la performance des différents instruments. Par ailleurs, opter pour des projets trop complexes lorsque le pays a des capacités limitées introduit des risques excessifs. Un plus grand souci d'adaptation des instruments utilisés et des partenariats à la situation du pays devrait conduire à des améliorations fructueuses de l'efficacité du développement dans les contextes opérationnels difficiles. Il faut encourager des opérations dont le financement est subordonné à l'obtention de résultats, ainsi que des partenariats novateurs avec le secteur privé et les organismes du secteur associatif. Enfin, dans les pays peu performants, il faut consacrer des efforts particuliers à

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organizaciones del sector privado y el voluntariado. Finalmente, merece especial atención la función de las actividades no financieras en los países con desempeño poco satisfactorio, aun cuando los clientes no sean prestatarios activos.

La aplicación de estrategias sectoriales en todos los países requiere claridad acerca de los objetivos de desarrollo del país y una comprensión adecuada de las condiciones nacionales y sectoriales. El préstamo para fines de ajuste, respaldado en la medida necesaria con ayuda para el fortalecimiento de la capacidad, es más eficaz cuando el protagonismo nacional y el consenso sobre las reformas sectoriales son sólidos y cuando se han instaurado mecanismos de seguimiento y evaluación. En los sectores en los que no se dan esos requisitos —por ejemplo, la educación y la salud, en algunos países— quizás sea más adecuado el préstamo para inversiones programáticas, respaldado cuando convenga con préstamos para el aprendizaje y la innovación y actividades selectivas de fortalecimiento de la capacidad. El apoyo a los objetivos transversales y temáticos del Banco no depende tanto de la utilización de instrumentos específicos de financiamiento cuanto de una auténtica incorporación de esos enfoques operacionales en los distintos instrumentos y de la aplicación estratégica de salvaguardias y asociaciones.

Las conclusiones de este Examen tienen repercusiones para la evaluación:

- Las actividades no financieras son cada vez más importantes.

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des activités autres que financières qui peuvent jouer un rôle important, même lorsque les pays clients ne sont pas des emprunteurs actifs.

La mise en œuvre de stratégies sectorielles nationales exige que les objectifs de développement du pays soient clairs, et la situation du pays et du secteur bien connue. Les prêts à l'ajustement, appuyés en tant que de besoin par une aide au renforcement des capacités, sont plus efficaces lorsque le pays est véritablement aux commandes et que les réformes sectorielles recueillent l'adhésion de la population, en même temps que des dispositions de suivi et d'évaluation ont été mises en place. Dans les secteurs où ces conditions préalables ne sont pas réunies, par exemple, ceux de l'éducation et de la santé dans certains pays, il peut être préférable de recourir à des prêts d'investissement programmés, confortés le cas échéant par des Prêts au développement des connaissances et à l'innovation (LIL) et par un renforcement ciblé des capacités. L'engagement en faveur des objectifs thématiques pluridisciplinaires qu'a adoptés la Banque est davantage fonction d'une véritable prise en compte de ces priorités opérationnelles dans le cadre de l'utilisation de tous les instruments et de l'application stratégique de politiques de sauvegarde et de la formation de partenariats que de l'utilisation de tel ou tel instrument de prêt.

Les conclusions du présent Examen ont des conséquences pour l'évaluation des opérations :

- Les activités autres que financières continuent de se dévelop-

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Un sólido marco de evaluación es condición necesaria para conseguir una eficacia continuada, basada en evaluaciones actuales del Grupo de garantía de calidad acerca del nivel de

calidad inicial —que amplía la garantía de calidad a todos los servicios del Banco de conocimientos.

- La calidad de los documentos de estrategia de lucha contra la pobreza (DELP) es fundamental para la eficacia del Banco en términos de desarrollo, ya que ofrecen el marco para un planteamiento integrado de la identificación con las actividades, las relaciones de asociación y la orientación hacia los resultados. Los DELP hacen ya hincapié en la supervisión de los progresos con respecto a algunos indicadores seleccionados; ello debería completarse ahora con una atención comparable al fortalecimiento de la capacidad para la evaluación programática y sistemática de las intervenciones y de sus resultados.
- Las estrategias relativas a los países y sectores se pueden reforzar mediante un registro más transparente y objetivo del rendimiento anterior. Se puede conseguir una atención mayor, independiente y basada en la autoevaluación mediante una armonización más estrecha entre los insumos y los resultados, utilizando una cadena de resultados lógicos e indicadores de desempeño verificables: estrategias de asistencia a los países y documentos de estrategia sectorial.

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per. Il faut les doter d'un cadre d'évaluation solide pour préserver leur efficacité, en s'appuyant sur les évaluations de leur qualité à l'entrée qu'effectue actuellement le Groupe d'assurance

de la qualité – il s'agit d'élargir l'assurance de la qualité à tous les services assurés par la Banque du Savoir.

- L'efficacité de l'action de la Banque en faveur du développement repose sur la qualité des Documents de Stratégie pour la Réduction de la Pauvreté (DSRP), car ceux-ci permettent d'aborder l'appropriation par le pays de ses objectifs de développement, les partenariats et la mise en avant de l'obtention de résultats dans une perspective globale. Les DRSP mettent d'ores et déjà l'accent sur le suivi de certains indicateurs ; il faut maintenant porter la même attention aux renforcement des capacités en vue d'une évaluation de programme systématique des interventions et de leurs résultats.
- Dresser un bilan plus objectif et transparent des résultats antérieurs contribue à renforcer les stratégies nationales et sectorielles. Une mise en correspondance plus étroite des apports avec les résultats, à l'aide d'un enchaînement logique des résultats et d'indicateurs de performance vérifiables (fournis par les Stratégies d'aide-pays et les Documents de stratégie sectorielle) faciliterait un renforcement de l'auto-évaluation et de l'évaluation indépendante.

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- Finalmente, como los resultados de la evaluación acreditan la importancia de la selección y ordenación cronológica de los instrumentos para la eficacia en términos de desarrollo, las eva-

luaciones nacionales, sectoriales y temáticas deberían considerar de forma más sistemática si se utilizaron los instrumentos adecuados para los objetivos de desarrollo seleccionados, y si se aprovechó sensatamente la complementariedad de los instrumentos. De la misma manera, la evaluación de los proyectos debería aprovechar las sinergias entre instrumentos complementarios o debidamente escalonados (por ejemplo, préstamos para fines de ajuste y asistencia técnica independiente).

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- Enfin, puisque les conclusions de l'évaluation attestent de l'importance du choix des instruments et de l'échelonnement des interventions pour l'efficacité du développement, les éva-

luations nationales, sectorielles et thématiques devraient étudier plus systématiquement si l'on a utilisé les instruments adaptés aux objectifs retenus et si l'on a exploité comme il convenait la complémentarité des instruments. De même, l'évaluation d'un projet devrait analyser les synergies qui naissent de l'utilisation échelonnée ou complémentaire de divers instruments (par ex., prêts à l'ajustement et assistance technique autonome).



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# ABBREVIATIONS AND ACRONYMS

AFR	Africa Region
APL	Adaptable Program Loan
APPI	Aggregate Project Performance Index
ARDE	Annual Review of Development Effectiveness
AROE	Annual Report on Operations Evaluation
BP	Bank procedures
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CFA	Communaute Financiere Africaine
CFAA	Country Financial Accountability Assessment
CODE	Committee on Development Effectiveness
CPAR	Country Procurement Assessment Report
CPFA	Country Profile of Financial Accountability
CPIA	Country Policy and Institutional Assessment
DDO	Deferred Drawdown Option
DRL	Debt Reduction Loan
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ERL	Emergency Recovery Loan
ESW	Economic and sector work
FIL	Financial Intermediary Loan
FRM	Resource Mobilization Department
FSAP	Financial Sector Assessment Program
GEF	Global Environmental Facility
HNP	Health, nutrition, and population
IBRD	International Bank for Reconstruction and Development (World Bank)
ICR	Implementation Completion Report
ID	Institutional development
IDA	International Development Association
IFC	International Finance Corporation
IGR	Institutional Governance Review
IMF	International Monetary Fund
LCR	Latin America and the Caribbean Region
LIL	Learning and Innovation Loan
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
MT	Montreal Protocol Fund
NGO	Nongovernmental organization
NSSI	National Social Security Institute
OED	Operations Evaluation Department
OP	Operational Policy
OPCS	Operations Policy and Country Services
PA	Poverty Assessment
PBA	Performance-based allocation

PER	Public Expenditure Review
PPAR	Project Performance Assessment Report
PRSC	Poverty Reduction Support Credit
PRSI	Poverty Reduction Strategy Initiative
PRSP	Poverty Reduction Strategy Paper
PSAL	Programmatic Structural Adjustment Loan
PSM	Public sector management
QAE	Quality at entry
QAG	Quality Assurance Group
RIL	Rehabilitation Import Loan
SAL	Structural Adjustment Loan
SAR	South Asia Region
SECAL	Sector Adjustment Loan
SF	Special Financing Grants
SIL	Specific Investment Loan
SIM	Sector Investment and Maintenance Loan
SNAL	Sub-National Adjustment Loan
SSAL	Special Structural Adjustment Loan
SSP	Sector Strategy Paper
SSR	Social and Structural Review
SWAP	Sectorwide approach
TAL	Technical Assistance Loan
UNDP	United Nations Development Program
WID	Women in Development



# Making Development Choices

**T**he challenge of development, never straightforward, has become even more complex as the number of actors has grown and the desire for demonstrable results has intensified. In seeking to implement its poverty reduction mission, the World Bank has to match over 100 client countries tackling innumerable development issues with a financial product line ranging from small grants to large loans, a diverse line of nonfinancial products, and a growing cast of public, private, and civil society partners. If the Bank is to continue improving its development effectiveness, it will have to make the right choices about how, when, and with whom to engage (and disengage). Making the right choices with client countries and other development partners—what is often called selectivity—is the theme of this Review.

Some of the emerging challenges emanate from the development community. Donors are under rising pressure to satisfy taxpayers that aid achieves results. Donors and recipients alike are impatient with the high transaction cost of aid and seek to eliminate overlap and “aid bombardment,” especially in small countries. The Millennium Development Goals—with their spotlight on measurable outcomes—set daunting benchmarks. Progress (or lack of progress) toward the goals will be plain for all to see. Meanwhile, the operating environment has become subject to new threats—the AIDS pandemic, illegal drugs, terrorism, armed conflicts, and failed states—that intensify the underlying structural causes of poverty. The attacks of September 11,

2001, have exacerbated a global economic slowdown, pushing hundreds of thousands of people below the poverty line. Concern is rising that demands for urgent liquidity and humanitarian assistance to directly affected countries may sideline or supplant longer-term efforts toward social and structural development in these and other low-income countries.

Against these challenges, the World Bank has learned from experience, amassed a store of knowledge, and diversified its toolkit. These assets have been enhanced in three significant ways. First, research has demonstrated that policies, institutions, and governance are critical to development success. These factors are now squarely “on the table” in the allocation of aid

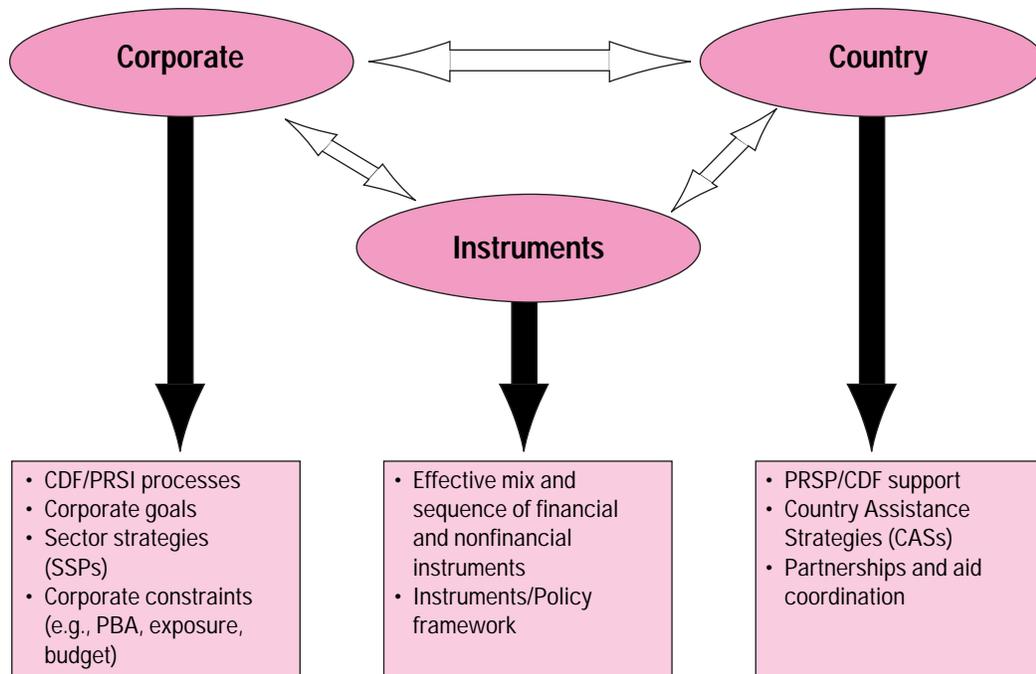
resources. Second, attention to quality assurance and evaluation—as noted by OED’s *2000–2001 Annual Report on Operations Evaluation*<sup>1</sup>—has helped lending and nonlending products to deliver improvements in performance. Third, new development paradigms and aid processes (such as the Comprehensive Development Framework [CDF], the Poverty Reduction Strategy process, and sectorwide approaches) have been created to address problems collaboratively—at the country, regional, and global levels.

OED’s *Annual Review of Development Effectiveness* (ARDE) tracks the Bank’s imprint on this complex landscape. Over the past few years, evaluations at the project, country, sector, and global levels—as synthesized in successive ARDEs—have pointed to **selectivity** as a vital tool for achieving development results, and as a continuing area of challenge for the Bank. Most recently, the 1999 ARDE, *Toward a Comprehensive Development Strategy*, showed that the CDF means that a “one-size-fits-all” mentality needs to be replaced by a “customization” mind-

set and that the CDF principle of partnership implies that the Bank should “let go” of areas where it does not have a comparative advantage. The ARDE for 2000, *From Strategy to Results*, explored how the Bank’s strategies translate into results on the ground. It demonstrated that development interventions are more successful when they are judiciously selected so as to match country circumstances and leverage the comparative advantage of the Bank and its partners. Selectivity does not necessarily mean doing less. Instead, it implies making informed choices about the right kind and number of activities to increase development effectiveness. In this year’s ARDE, *Making Choices*, with a special focus on instrument selection, selectivity takes center stage as a privileged driver of development effectiveness.

The Bank exercises selectivity through the choices it makes in three dimensions, as modeled in figure 1.1: its corporate goals, strategies for countries, and specific activities or instruments.<sup>2</sup> Selectivity at each level contributes to development effectiveness.

Figure 1.1 Three Dimensions of Selectivity



Today's **corporate** goals are more clearly articulated and understood than ever before. The overarching mission—to reduce poverty through a focus on results—has been translated into corporate processes (e.g., Sector Strategy Papers, new budget priorities). The Bank has also taken on a broad range of institutional initiatives in support of its core goals. At the country level, exposure limits and the administrative budget have served to define the overall financial envelopes for what the Bank can take on. Selectivity at the corporate level, based on an appreciation of the Bank's unique knowledge and partnership assets, is an important tool to help ensure that corporate initiatives enrich, but do not overcrowd, the institutional agenda. However, the Bank's adoption of a country focus and of a comprehensive development perspective means that operational selectivity is essentially a country-level challenge.

**Country** Assistance Strategies are expected to reflect the Bank's corporate goals, while at the same time matching the needs and comparative advantages of partners in particular settings, as provided for under the Bank's business model.<sup>3</sup> This involves the resolution of inevitable tensions between client ownership and corporate priorities as well as between responsiveness and budget limits. As the 2000 ARDE demonstrated, it is therefore critical to understand what strategies succeed in different country circumstances and to fully exploit the potential of partnerships in shaping and delineating the Bank's own role.

Even with the right strategies in place, results on the ground depend on the effectiveness of the **instruments** available within the Bank's toolkit. Over the past decade, the Bank has devoted effort and creativity to adapting its financial and nonfinancial services to meet a wide variety of client needs and to implement corporate initiatives. New instruments have been created, others phased out. What has stimulated this attention to instruments? First, many

Bank clients have gained access to a spectrum of alternative financing sources—some involving transaction costs lower than the Bank's. Second, for poor and highly aid dependent borrowers, there is a continuing drive to enhance the impact of development assistance on poverty and growth. Third, most borrowers can access global knowledge—whether through the Internet or through local knowledge networks—more readily than in the past, thereby raising the bar for the value added of the Bank's knowledge products. Finally, it has become increasingly clear (see 2000 ARDE, *Aid and Reform in Africa*) that development outcomes depend on country policies and capacities, making a correct understanding of the country context critical to the choice of instruments and their development effectiveness. Accordingly, this year's ARDE focuses on effective choice of activities and instruments to implement poverty reduction strategies.

This Review describes the Bank's toolkit and its evolution (Chapter 2), tracks the performance of Bank instruments and operations (Chapter 3), examines the use of instruments at the country level (Chapter 4), provides a sector/thematic perspective (Chapter 5), and summarizes the findings and implications of the analysis (Chapter 6). In addition to sources outside OED and the World Bank, it draws upon OED evaluation findings from:

- Project performance assessment reports (formerly audit reports) and evaluation summaries for 348 projects evaluated since the last Review. In addition, over 5,000 previously evaluated projects in OED's database allow assessment of long-term trends.
- Country Assistance Evaluations of 50 borrowing countries, especially the 15 completed most recently.
- Studies of sectors and thematic areas, a study of the IDA10 through 12 replenishment periods, and the Annual Report on Operations Evaluation.





# Instruments of Bank Assistance

**D**evelopment effectiveness depends on selecting the right instruments and deploying them in appropriate sequence and combination, in light of country and sector characteristics. This chapter sets the stage for later discussions of performance, by providing an overview of the Bank's instrument toolkit and analyzing recent instrument choices. Innovations have been introduced over the 1990s, in both the financial and nonfinancial areas. To leverage these improvements, effective instrument selection in diverse environments requires clear operational guidance in a comprehensive and consistent framework.

The Bank's development effectiveness depends on the judicious choice of instruments from its diversified toolkit. At the broadest level, Bank assistance is either financial or nonfinancial (figure 2.1). Traditionally the Bank has focused on the former. More recently attention has been paid to the role of nonfinancial assistance, especially in poorly performing countries. Greater differentiation is being introduced between diagnostic services and client-driven advisory services, and within diagnostic services clearer standards and structure of core products are emerging.

## Financial Services

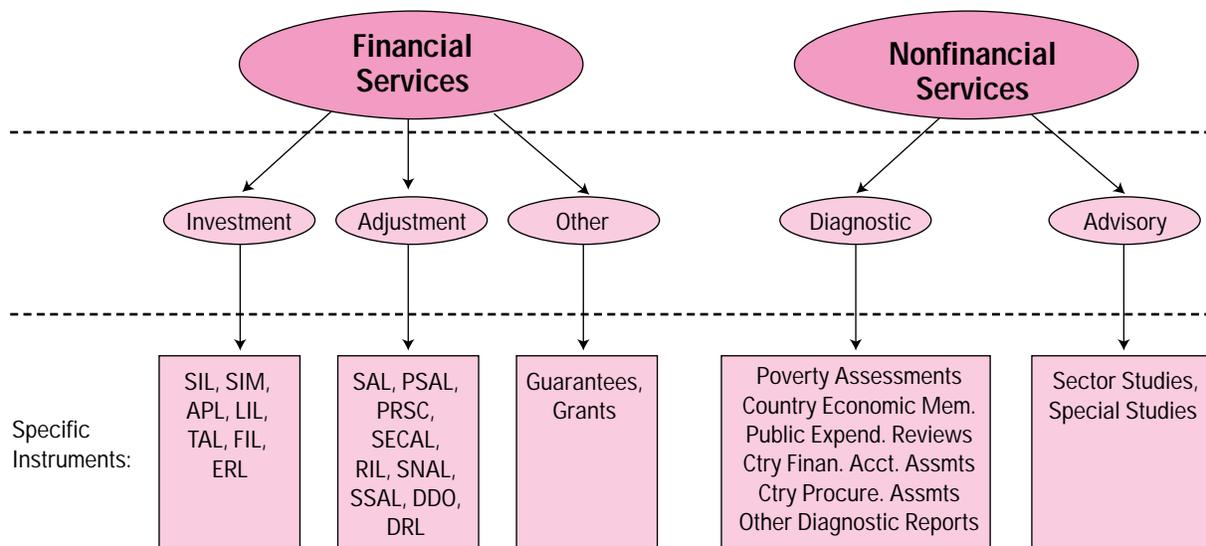
### Investment, Adjustment, and Other Instruments

The use of financial services is prescribed in the Bank's Articles of Agreement. These Articles are

facilitative rather than restrictive, promoting the use of funds for productive purposes while highlighting that Bank funds must be used only for the purposes intended. They are sufficiently broad and flexible to permit a wide range of lending instruments to have evolved over time as circumstances have changed and understanding of the development process has improved. This flexibility allowed the introduction of adjustment lending in the early 1980s, and the subsequent classification of Bank lending into two basic types of instruments: investment and adjustment. Specific instruments reflect variations within these broad groups. The specific policies and guidance governing the instruments used and their design are left to the Board and management to elaborate as needed.

Over the past 10–12 years, the Bank's menu of financial instruments has changed in response

Figure 2.1 The Instrument Toolkit

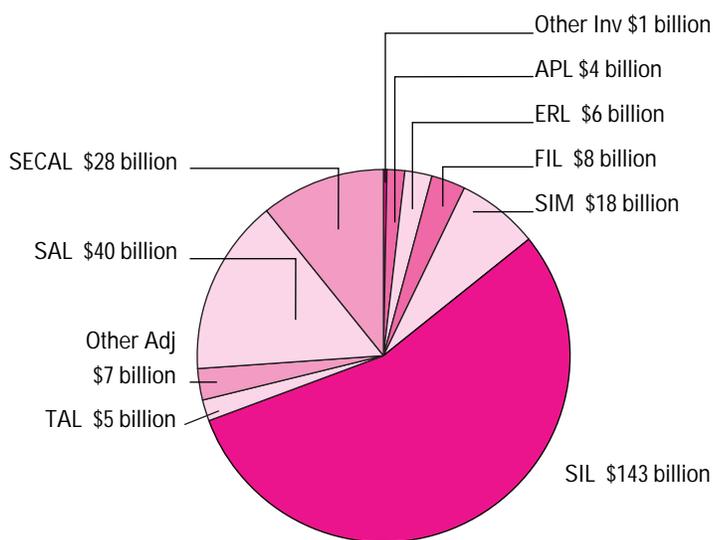


Note: Abbreviations and acronyms for specific investment and adjustment lending instruments are defined in Annex A.

to an increasingly complex economic and social environment. As figure 2.2 shows, investment lending remains the Bank’s lending workhorse, and, with the exception of the period of the East

Asia crisis, has always constituted the largest share of Bank lending activities.

Figure 2.2 Lending Instrument Choice (FY90-01)



Note: Abbreviations and acronyms are defined in Annex A.

**Innovations in specific investment lending instruments.** Within the broad investment category of investment lending, several specific instruments have been developed. *Sector Investment and Maintenance Loans (SIMs)* made up about a quarter of investment lending until the 1990s. During the 1990s their share dropped to less than 10 percent of total lending as they were partially replaced by new adaptable lending such as *Adaptable Program Loans (APLs)* and *Learning and Innovation Loans (LILs)*, introduced by the Bank in 1998. The main motivation for introducing APLs and LILs was to increase the Bank’s flexibility, to reduce risks to borrowers and the Bank when operating in areas of uncertainty, and to facilitate exit from floundering operations. The APL supports long-term development programs with a phased approach, which is more easily adapted to changes in the country environment. This allows subsequent phases to leverage lessons learned and build necessary capacity or consensus in early phases. The purpose of LILs is to pilot innovations, build consensus, and learn in order to scale

up and apply promising models to other regions in the country. These new instruments now account for a quarter of active investment operations, or 10 percent by dollar volume, with annual commitments of about US\$1 billion for APLs and US\$100 million for LILs. The volume for LILs is lower than expected. An effort is under way to reduce processing requirements, preparation time, and costs for LILs, which have been greater than originally anticipated.

Experience on completed APLs and LILs is limited, with only a few APLs having completed their first phase, including projects in India power, Philippines urban water, and Tunisia transport. One of these, the Haryana Power Project in India, was discontinued after it failed to meet trigger requirements, an illustration of the automatic exit feature of APLs.

**Innovations in specific adjustment lending instruments.** The broad instrument category of adjustment lending has been dominated by use of the *Structural Adjustment Loan* (SAL), covering more than half of the adjustment lending projects approved between FY98 and FY00. SALs and *Sector Adjustment Loans* (SECALs) constitute the Bank's "traditional" adjustment lending instrument set, to which, in the early 1990s, the Bank added two new instruments—the *Debt Reduction Loan* (DRL) and the *Rehabilitation Import Loan* (RIL). The use of these instruments has been modest given the recent introduction of new programmatic lending instruments—the *Special Structural Adjustment Loan* (SSAL), the *Sub-National Adjustment Loan* (SNAL), the *Programmatic Structural Adjustment Loan* (PSAL) and its specific derivative for IDA countries, the *Poverty Reduction Support Credit* (PRSC). The focus of the PSAL is on medium-term policy and institution building, while the PRSC supports the implementation of poverty reduction strategies.

**Guarantees.** The Bank's 14 approved guarantees represent roughly US\$2 billion in contingent liabilities. Ten of the 14 are accompanied by Bank loans, and most of these are targeted to the power sector. A review of the guarantee program prepared for the Board in December 2000 suggested that the Bank guarantees have not only helped catalyze private finance to im-

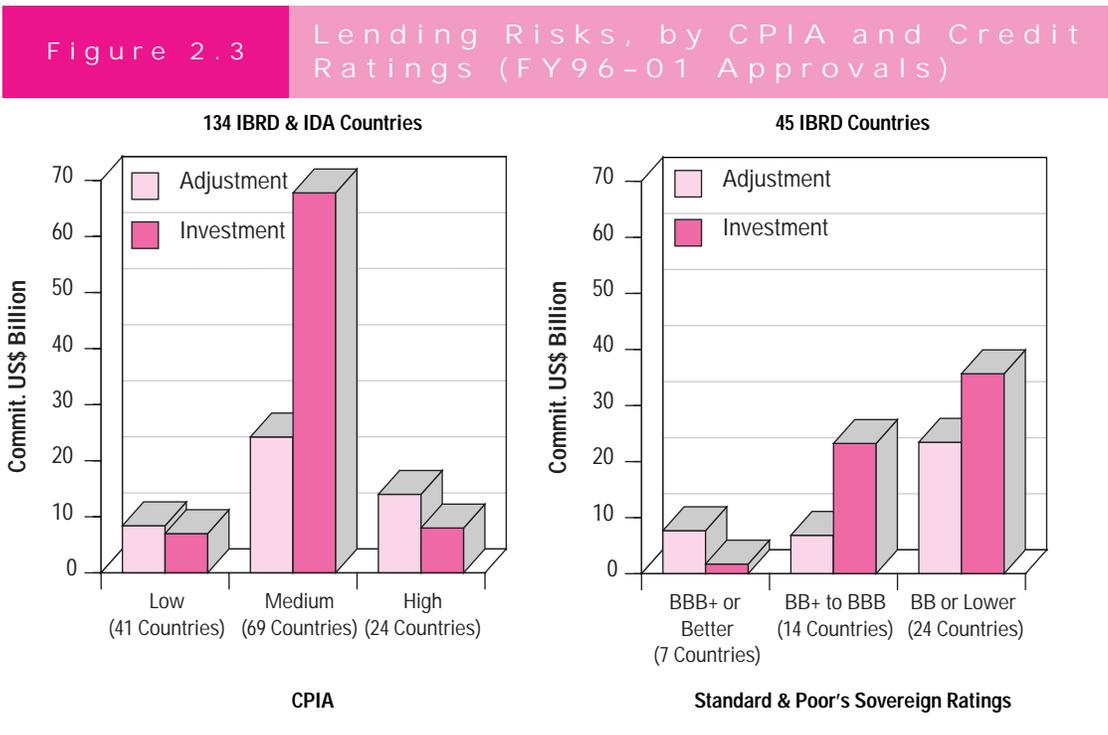
portant transactions, but also improved the financial viability of transactions, and helped client countries to access or re-enter financial markets, establish a track record, and build market confidence. Another review of the IDA partial risk guarantees program prepared for FRM in the context of the IDA13 replenishment in October 2001 points to similar conclusions. To clarify the relation of the IDA/IBRD guarantee with IFC and MIGA instruments, the December 2000 Board report included a matrix that set out the role of the various World Bank Group guarantee instruments. The Board called for greater collaboration among the Bank, IFC, and MIGA to ensure that guarantees and other Bank services are used in a synergistic fashion.

### Recent Lending Choices

Instrument choice is influenced by many factors, including the riskiness of the country's implementing environment and internal considerations such as corporate priorities and budget implications. The following section examines lending instrument choice along these related dimensions.

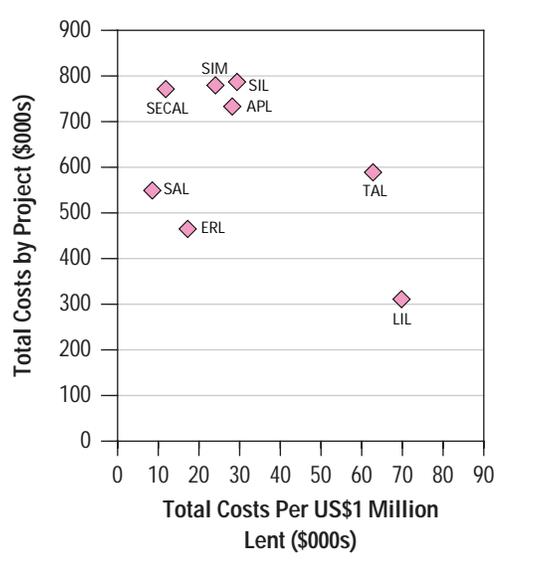
As part of its risk management procedures, the Bank takes into account the country's risk environment in deciding whether and how much to lend and with what instrument. Lending allocations to countries with low Country Policy and Institutional Assessment (CPIA) ratings have to balance the possible rewards against the risks. Where the policy environment is weak, non-lending services are often a more appropriate option. The Bank is also proactive in seeking to achieve policy reform through lending. Among the 44 IBRD borrowers rated by Standard and Poor's, it is those with the lowest sovereign ratings that received the majority of recent Bank commitments. For higher-rated countries, which have better access to international capital markets, Bank commitments have been limited. As figure 2.3 shows, the amount of adjustment lending in low CPIA performers has been larger than for investment, even though outcomes for adjustment lending interventions in low CPIA countries have been particularly weak (Chapter 3).

*Costs differ by specific lending instruments.* Figure 2.4 provides a breakdown of the total costs



(preparation and supervision) by lending instruments per projects approved as well as per

**Figure 2.4 Costs Differ by Lending Instrument (FY96-01 Exits)**



dollar amount disbursed. These cost differences are highly relevant to country managers facing choices among instruments and relatively rigid budget ceilings. Per project, SILs, SIMs, and SECALs have the highest lending costs. LILs have the highest costs per dollar disbursed, whereas SALs, given their large size, had the lowest costs. As mentioned earlier, the LILs' higher-than-expected costs and preparation time have resulted in a more modest roll-out of LILs than expected.

A noteworthy application of adjustment lending has been in response to major financial crisis. During the 1990s, developing countries in Asia and Latin America experienced economic and financial crises that halted their economic growth and severely threatened the gains from previous reforms. The Bank responded to IBRD borrowers' demands for quick disbursing lending with adjustment operations. Overall the Bank approved 15 "crisis lending" operations.<sup>1</sup> All were to IBRD borrowers and involved large resource transfers. Commitments, totaling US\$17 billion, were fully disbursed. The objectives of these operations were to supply balance of payments support, weather short-term risks,

strengthen social safety nets, and induce structural improvements in the policy framework.

### Nonfinancial Services

Formal nonfinancial services encompass knowledge services of two main types: diagnostic and advisory, as categorized in figure 2.1.<sup>2</sup> The diagnostic reports refer to the standardized non-financial products that have their own toolkits and quality assurance arrangements, and are divided at the specific instrument level into five core diagnostic products which underpin the analysis for the CAS and the Bank's overall policy dialogue, and other diagnostic reports that address sector-specific or thematic issues of high priority and provide upstream analysis to support future lending opportunities.<sup>3</sup> The advisory reports are customized to provide advice on special topics, and include sector and special studies.

### ESW Reflecting Corporate Priorities

Through the 1980s, most economic and sector work (ESW) was advisory in nature; the type and number of ESW products were driven by the need to support the lending program and by borrowers' particular needs for technical advice.

Beginning in the early 1990s, economic and sector work became increasingly influenced by corporate mandates and priorities. As table 2.1 shows, there has been a surge in the production of poverty and environmental assessments in direct response to the priority given by the IDA donors, the Board, and Management to the broadening of the Bank's development agenda. The number of PERs tripled between the 1980s and 1990s, reflecting concerns about growing emphasis on reviewing a country's overall public expenditure allocations and expenditure management, rather than tracking specific loan proceeds. Gender assessments have likewise shown a large jump following the issuance of operational directives and increased attention by Bank stakeholders to issues of gender inequality. During FY98–01, there has been a significant change in the allocation of ESW expenditures; the share of core diagnostics reports has increased, while the shares of other diagnostic and advisory reports have declined.

Poverty Reduction Strategy Papers, although produced by the borrower authorities, typically require extensive Bank support. The sourcebooks and other materials that underpin PRSPs

Table 2.1

Evolution of Diagnostic ESW

Fiscal year	FY80–89	FY90–99	FY00	FY01 (est)
<b>Core Diagnostics:</b>				
Poverty Assessments	1	112	11	14
Public Expenditure Reviews	29	89	14	14
Country Profile of Financial Accountability	–	40	4	0
Country Financial Accountability Assessments	–	15	1	11
Country Procurement Assessment Reports	–	–	15	15
<b>Other Diagnostics:</b>				
Environmental Assessments	10	87	3	3
Private Sector Assessments	40	55	1	2
Gender Assessments	1	30	5	8
Financial Sector Assessment Programs	–	–	12	20
Social and Structural Reviews	–	–	4	2
I-PRSP/PRSP	–	–	9	32

Note: Gender assessments for FY90–00 exclude regional gender action plans and country gender profiles and are likely to be undercounts, as many reports never reached the final stage.

Source: OPCS.

have helped to provide a poverty-focused framework for much of the ESW program. Table 2.1 also reveals the quick ramp-up of CFAAs and CPARs, two core fiduciary diagnostic products which, along with an integrative, crosscutting assessment of a country's social, structural, and key sectoral development policies, are expected to underpin the development of Poverty Reduction Support Credits. Finally, the FSAP is an ESW product stimulated by the corporate response to the East Asia crisis. It is a collaborative Bank/IMF instrument that attempts to identify vulnerable countries and to recommend remedial measures to reduce their vulnerability to financial crises. Initially funded with exceptional resources, its continuation and coverage will depend on the future availability of resources from Bank budgets and trust funds.

### Clear Instrument Guidance Is Key

For financial instruments, the policy framework, as it has evolved, gives considerable discretion to Bank managers in the selection of instruments. Optimal selection of instruments requires clear guidance on the appropriateness of each instrument to specific objectives and conditions, as well as consistent coverage of all instruments (investment and adjustment) in an explicit framework. Functionally driven choices require clear operational guidance.

The current guidance on instruments could be strengthened along three main dimensions. First, the distinctions among the different instruments—currently linked mainly to different internal processing procedures—should instead be anchored in their differing development objectives. Investment and adjustment instruments should be covered within a common policy framework, so that their costs, synergies, and complementarities are clear. Instrument choices should be driven by development considerations, without regard to the varying applicability of safeguards or other procedures. Second, each instrument should be associated with the sector and country conditions to which it has proven suitable or successful. It is important for staff and borrowers to receive guidance which draws on available experience of the effectiveness of instrument variations in different country circumstances. Third, the rules, procedures, and guidance concerning different instruments, which are now set out in a non-uniform variety of OPs, BPs, memos, and websites, should be consolidated and clarified.

For nonfinancial instruments, budget and strategic considerations are important. In an individual country program, the core diagnostic products such as poverty assessments, CEMs, and PERs produce important baselines for monitoring progress on the outcomes of assistance on basic objectives. At the corporate level, the over-

Table 2.2

## Country Coverage of Fiduciary Diagnostic ESW (FY97-01)

	# of countries	CPAR	CFAA	PER
<b>By Lending Volume:</b>				
Largest Adjustment Borrowers	10	30%	30%	50%
Largest IBRD Borrowers	10	60%	40%	80%
Largest IDA Borrowers	10	50%	50%	80%
<b>By Policy Environment:</b>				
Low CPIA Countries	24	42%	4%	42%
Medium CPIA Countries	60	57%	28%	52%
High CPIA Countries	13	38%	31%	31%

*Note:* It is generally recommended to update fiduciary diagnostics every five years. Largest adjustment borrowers are based on total net commitment value of adjustment operation approvals in FY00-01. Largest IDA/IBRD borrowers are based on net commitments values in the FY01 ARPP. CPIA breakdown excludes small countries or borrowers under suspension or those with net commitments below US\$50 million as of June 30, 2001.

*Source:* OPCS.

all coverage of core diagnostics has increased in FY01. Attention is needed to ensure these diagnostics cover country programs involving the greatest fiduciary risk and the largest vulnerability to governance dysfunctions. As shown in table 2.2, in terms of volume of lending, fewer than half of the 10 largest IDA and IBRD borrowers have been subject to a CFAA. Only 4 percent of the Bank's active borrowers with low CPIA scores have had a CFAA, compared with 28–31 percent by higher-scoring borrowers. In the Africa Region, only 16 percent of borrowers have a current CFAA.<sup>4</sup> Among large IBRD borrowers, Brazil has the least coverage among core ESW products—it does not have an updated PER, CPAR, or CFAA. All such gaps for active borrowers are expected to be addressed in FY02–04.

While increased production of CPARs and CFAAs is underway and considerable effort has been devoted to establishing the standards and scope of diagnostic instruments, it is paradoxical that those completed to date have not been focused on poor policy environments. Of the 22 CFAAs carried out between FY98 and FY01, only one was conducted in a poor policy environment (borrowers with a low CPIA score).<sup>5</sup> Of the 49 CPARs conducted by end FY01, 10 (20 percent) were undertaken in borrowers with low CPIA scores; the corresponding figure for the 45 PERs is 10 (22 percent). With the figures in table 2.2, this suggests that fiduciary diagnostics may need to be better aimed at countries where the potential vulnerability to development risks is the greatest.



# Performance at the Instrument Level

**T**he Strategic Compact targets of 75 percent satisfactory outcomes for lending and 85 percent satisfactory quality for nonlending have been met. The latest project evaluation data confirm a significant improvement in the Bank's lending performance, especially for FY00 exiting projects. The upward trend continues into FY01. The first half of FY01 exiting projects evaluated by OED have 82 percent satisfactory outcome ratings. There are solid improvements in sustainability and institutional development impact as well. Recent evaluations also show strong performance from the Africa Region following its internal portfolio improvement drive. Self-evaluation results for nonlending instruments show a broad improvement in quality, with particular gains in the likely impact of economic and sector work as it becomes more participatory, client-oriented, and result-focused. There remains room for improvement in the poverty focus of these instruments, as well as in the quality of fiduciary reviews and of ESW in poorly performing countries.

Bank lending has a mature evaluation system, grounded in self-evaluation and independent desk review by OED of every IDA/IBRD operation, as well as OED field performance assessments for one in four operations. The evaluation results produced by this system provide the basis for the first section on lending performance. The section on nonlending performance relies on self-evaluation evidence as well as selected OED studies on public expenditure reviews and poverty assessments.

## Performance of Lending Assistance

Since last year's ARDE, OED has evaluated 348 closed projects covering US\$33.8 billion in nominal commitments and US\$29.5 billion in nominal disbursements. The evaluations, most of which cover projects exiting the Bank's portfolio during FY00 and FY01, comprise 279 ICR reviews of completed projects and performance assessments of 69 completed projects. This evaluated cohort includes the first closed APL as well as the second-ever-evaluated LIL. The majority of the recently evaluated adjustment operations

were approved in the past three years, as shown in figure 3.1, while most of the investment projects were approved during the mid-1990s.

This section is divided into two parts. The first part describes the trends of the Bank's main performance dimensions—outcome, sustainability, and institutional development (ID) impact—for the projects that exited during the FY96–01 period. The second, focusing on *Determinants of Success*, discusses the factors contributing to the lending performance trends.

**Performance Trends**

**Outcome Trends**

*The Strategic Compact target of 75 percent satisfactory outcomes has been met.* Of the projects that exited the portfolio in FY00, 76 percent had satisfactory outcomes, meeting the Strategic Compact target outcome rate of 75 percent. As figure 3.2 shows, the upward trend continues into FY01.<sup>1</sup> Of the first half of FY01 exits evaluated by OED, 82 percent had satisfactory outcomes. Results for the entire FY01 exiting portfolio will be available by the end of FY02 and are expected

to achieve roughly 80 percent satisfactory outcomes.

Since achieving a peak of 84 percent satisfactory for FY99 exits, satisfactory outcomes weighted by disbursements have been lower for the FY00–01 period. Strong performance from the second half of FY00 exits, as forecast in last year's Review, brought satisfactory outcomes for the FY00 exiting portfolio to 80 percent. Satisfactory outcomes for the preliminary FY01 disbursement-weighted portfolio continue to fall below the project-weighted portfolio, at 78 percent satisfactory, as shown in figure 3.2.

The overall results weighted by disbursements confirm the portfolio's sensitivity to the effects of jumbo loans. The outcome of a US\$1 billion operation can make a difference of up to 4 percentage points in the disbursement weighted aggregate outcome. The unsatisfactory performance of two Russia adjustment operations, as assessed by the Region and validated by OED's independent review, has depressed the aggregates not only for ECA but also for adjustment lending and for the economic policy and social protection sectors.<sup>2</sup> This volatility is likely to continue given the number of large adjustment

**Figure 3.1** Approval Years of Recently Evaluated Projects

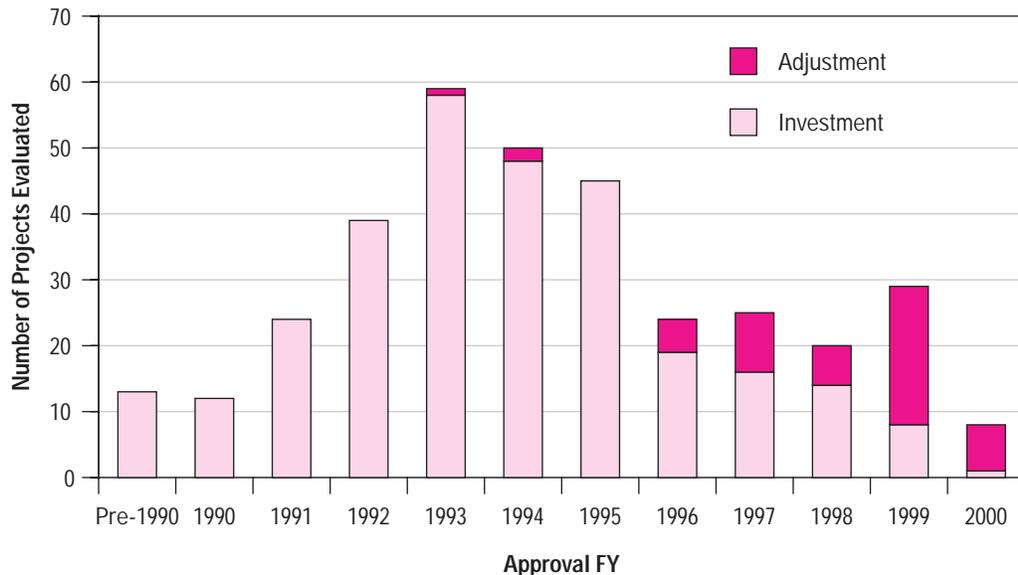
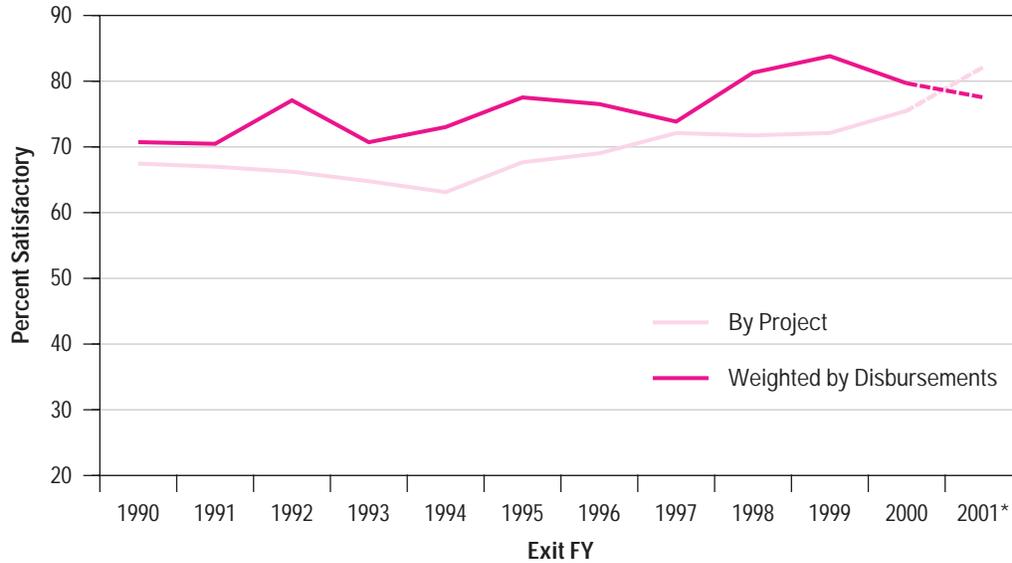


Figure 3.2 Trends in Outcomes



\*Preliminary; see chapter 3 endnote 1.

loans in the active portfolio. As risk management in the Bank receives more attention, it may be useful to consider adding special quality assurance arrangements for very large projects.

### ***Institutional Development Impact***

*One of every two projects evaluated during the FY00–01 exit cohort had substantial or better ID impact.* Improvement in the ability of the borrower to make more efficient, equitable, and sustainable use of its resources is fundamental to move further toward full borrower ownership of lending operations. As figure 3.3 shows, 52 percent of projects that exited the portfolio during the FY00–01 period had substantial or better institutional development ratings, an increase of 15 percentage points over the FY96–99 period average. The results for the first half of FY01 exits are the highest on record, weighted by projects and by disbursements.

Analysis of institutional development objectives by lending instrument shows that adjustment operations in general have given more emphasis to reform of policies and the institutional environment, whereas investment operations have tended to address skills formation and

organizational capacity. All lending instruments addressed both aspects of institutional development—strengthening organizations and reforming the institutional environment. This suggests that appropriate use of instruments is being made from an institutional development perspective.

### ***Sustainability***

*Sustainability continues to improve for the FY00–01 exit cohort.* Seventy-one percent of projects exiting during the FY00–01 period were rated to have likely or highly likely resilience to future risks, using a recently introduced 4-point rating scale.<sup>3</sup> This represents continued improvement since the mid-1990s, though the higher risks of the operating environment and the partial sample of FY01 exits raise concerns about the durability of those gains, as figure 3.4 shows. Similar results are found when weighted by disbursements.

### ***Aggregate Project Performance Index (APPI)***

The APPI combines ratings of outcome, sustainability, and ID impact into a “bottom line” for development effectiveness of lending.

Figure 3.3

Trends in Institutional Development Impact

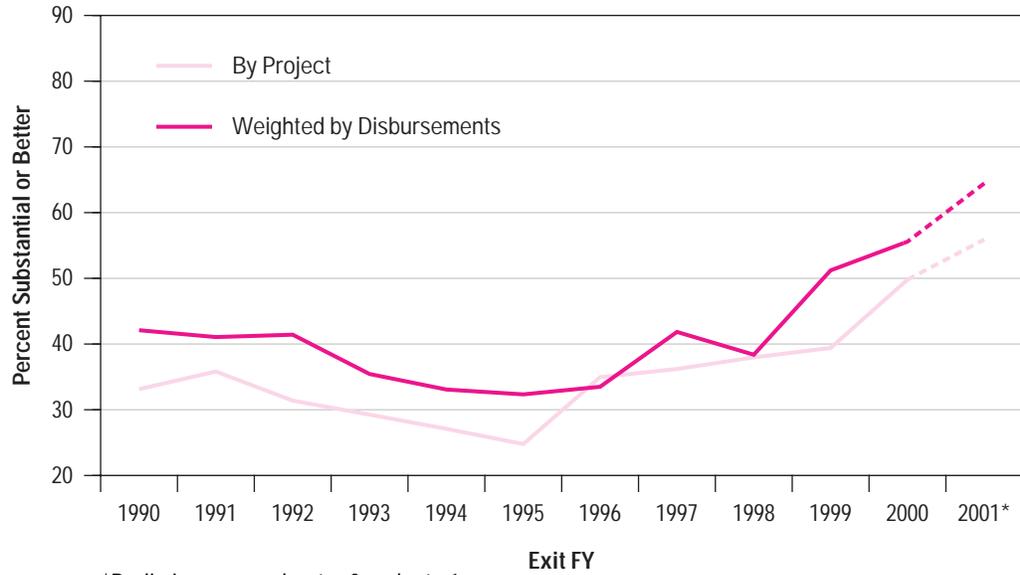
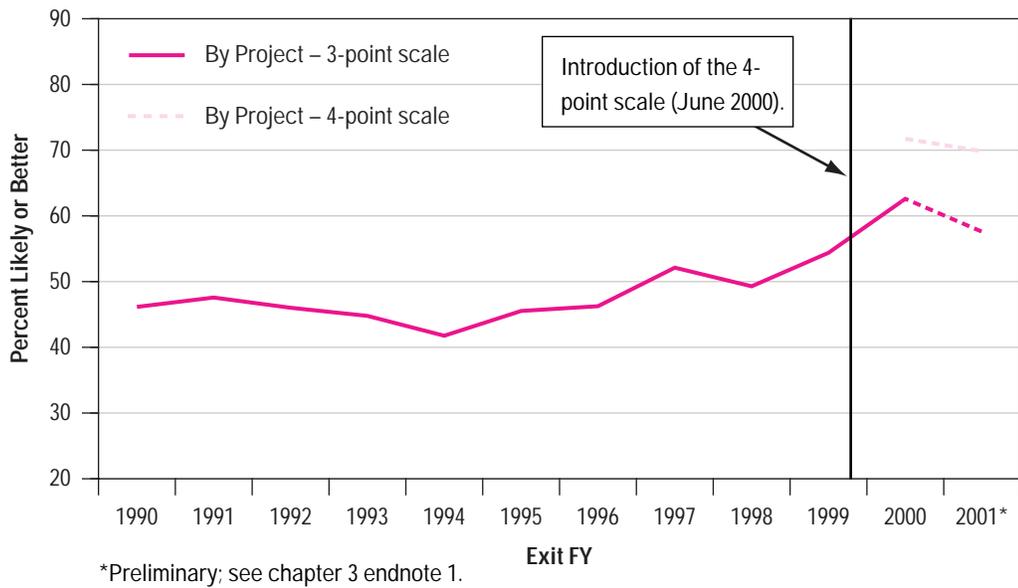


Figure 3.4

Trends in Sustainability



Weighted by projects, the APPI index is at a 12-year high for the projects exiting during the FY00–01 period, with an average of 7.1. This increase largely reflects the improvement in satisfactory outcomes. Using OED’s 6-point outcome scale, there has been a modest decrease in the share of moderately satisfactory projects and a subsequent increase in the number of projects rated fully or highly satisfactory. For the FY00–01 exits, the APPI index weighted by disbursements also stands at a 12-year high.

### Performance by Region

*Africa narrows the performance gap.* The Africa Region continues its record of improvement with 71 percent satisfactory outcomes for the preliminary FY01 exits. This reduces the Region’s satisfactory outcomes gap with the Bank’s other Regions, as figure 3.5 shows.

For the FY00–01 exiting portfolio, MNA and SAR are the top performers, followed by EAP, LCR, and ECA. Comparing the latest evaluated cohort, FY00–01, with the active regional portfolio, AFR shows the largest improvement, 19 percentage points, between the latest satisfactory outcome ratings for the evaluated cohort and the

“not at risk” ratings for the active cohort, as figure 3.6 shows. MNA is the only region for which deterioration in future outcomes is suggested by the Quality Assurance Group (QAG) ratings. This is mostly due to a difficult operating environment in Lebanon, with a US\$729 million lending portfolio, the fourth largest in the region, 65 percent of which is “at risk.”

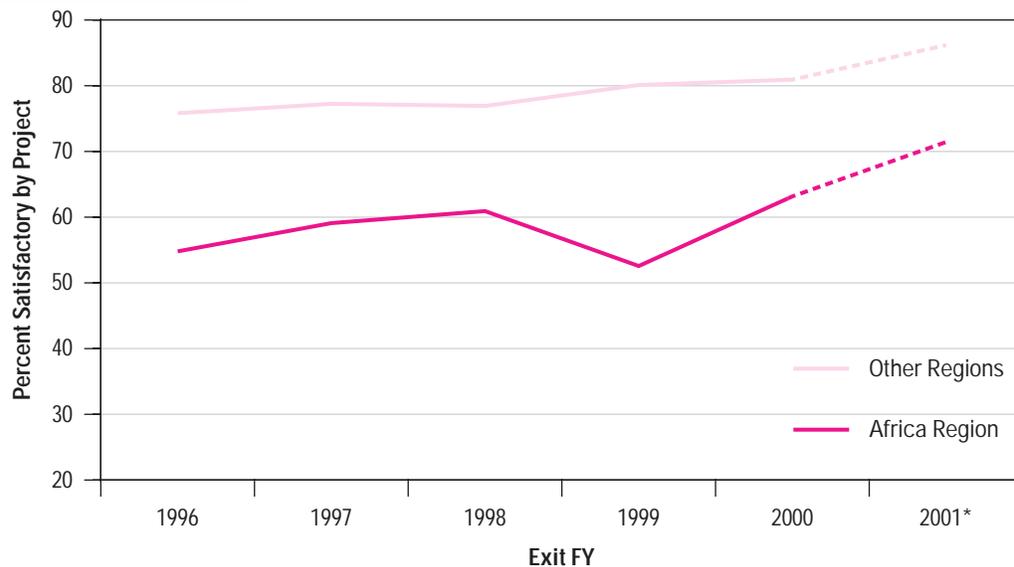
### Performance by Sector

Transportation, education, and public sector management are the best-performing sectors for the FY00–01 exiting portfolio, as figure 3.7 below shows, while the energy sector continues to lag. The high ratings for projects in the transportation sector are partially due to an increased focus on the independence of borrower’s financial resources, together with improved budget allocations for maintenance works. A similar sectoral performance pattern is obtained when weighted by disbursements.

Using the QAG “projects at risk” ratings as a leading indicator of future satisfactory outcomes, the results for the active portfolio show a considerable improvement in the agriculture and energy sectors. The closing and restructuring of

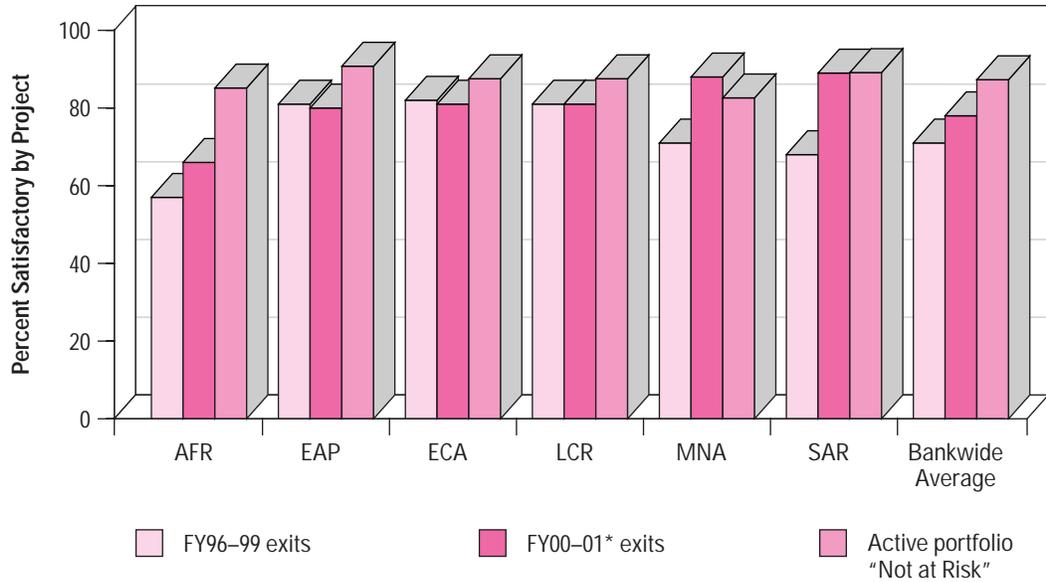
Figure 3.5

### Trends in Outcomes for Africa and Other Regions



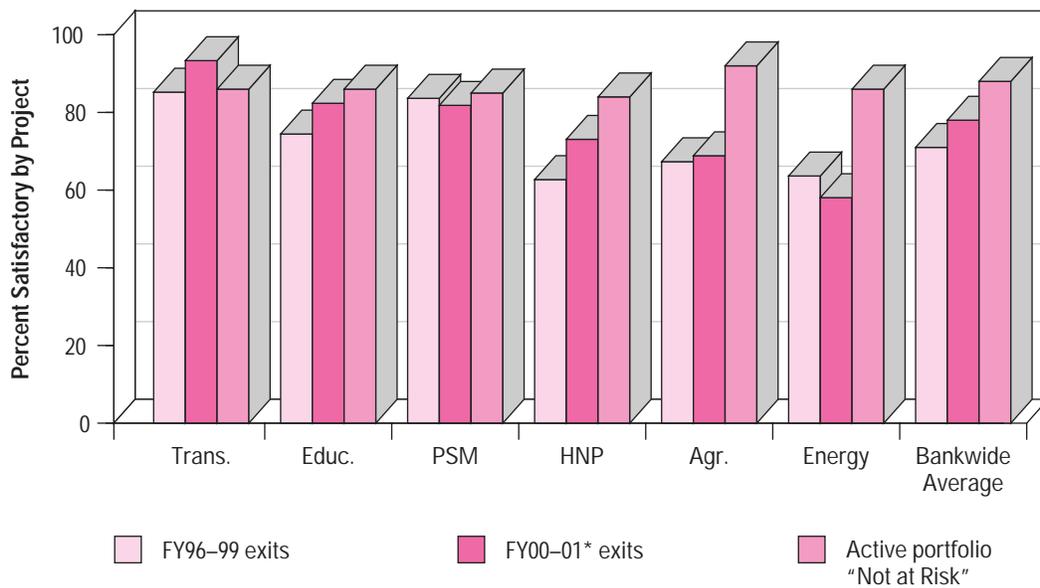
\*Preliminary; see chapter 3 endnote 1.

Figure 3.6 Trends in Outcomes by Region



\*Preliminary; see chapter 3 endnote 1.

Figure 3.7 Trends in Outcomes by Sector



\*Preliminary; see chapter 3 endnote 1.

poorly performing energy projects largely explains the expected improvement in this sector. For the agriculture sector, increased attention to community participation together with increased knowledge sharing through the Bank's internal thematic groups underlies the forecast improvement.

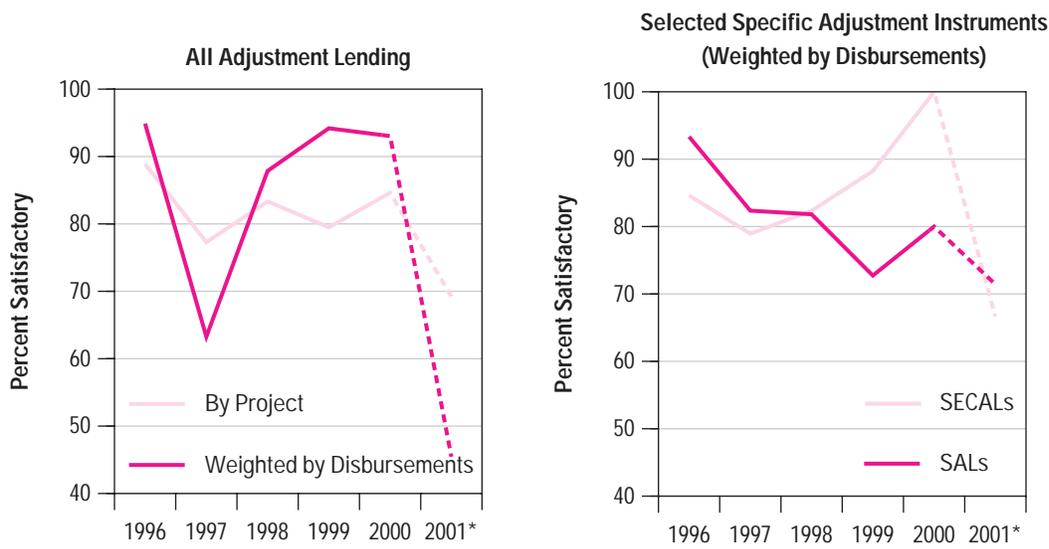
**Performance by Lending Instrument**

*Adjustment lending outcomes slightly declined for the FY00–01 exit period.* Satisfactory outcomes of adjustment operations fell from 82 percent for FY96–99 exits to 79 percent for FY00–01 when weighted by projects, and from 87 percent to 70 percent when weighted by disbursements. For the adjustment operations that exited the portfolio during FY00–01, outcome performance weighted by disbursements is mixed and volatile: satisfactory outcomes for FY00 reached 93 percent but the preliminary FY01 exits fell below the 50 percent mark, as figure 3.8 shows. The preliminary results for FY01 exits are based on only 13 adjustment operations, hence not robust enough to draw any inference for this exit year alone. Additionally, as mentioned above, the unsatisfactory outcome performance of the two

large Russia adjustment operations (one SAL and one SECAL) severely depresses the aggregate for the partial FY01 adjustment cohort.

The above figures are based on OED's current evaluation methodology for adjustment lending. Last year's ARDE pointed to the difficulty of providing reliable ratings in the absence of monitorable goals set at the approval stage. Since many operations do not yet specify verifiable performance indicators, ratings for these projects can be based only on specified intermediate objectives. In addition, the timing of evaluations frequently makes it difficult to use projected impacts or even genuine outcomes for rating purposes. Hence, until adjustment operations are designed so as to be evaluable, e.g., through the use of a logical framework, evaluation ratings for such lending will continue to be geared more to compliance with conditionality and achievement of intermediate outcomes than to final outcomes and impacts. OED seeks to work in tandem with management on overcoming these limitations, for example through the upcoming revision to the Bank's policy on adjustment lending. These reservations do not detract from the substantial progress which has

**Figure 3.8** Trends in Outcomes of Adjustment Operations



\*Preliminary; see chapter 3 endnote 1.

Box 3.1

Which Objectives Have Bank Projects Been Most Effective in Achieving?

A separate review of performance assessments was conducted by OED to consider the achievement effectiveness of individual project objectives. While OED evaluation methodology focuses on overall outcome at the project level, this exercise considered the multiple development objectives within projects, as summarized in the figures shown. The sample included 45 performance assessments performed by OED during the last four exit fiscal years. Based on the assessment of performance on project objectives in the PARs, a rating of 1 (Highly Unsatisfactory) to 6 (Highly Satisfactory) was assigned for each objective in each sample project. The review yields multiple ratings for individual projects, which were then categorized by time frame into intermediate and long-term goals.

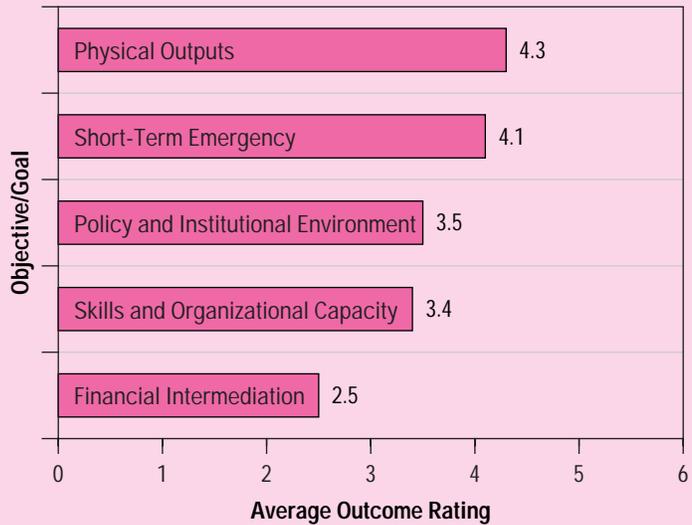
*Intermediate Objectives*

Intermediate objectives were classified into five categories: Financial Intermediation, Skills and Organizational Capacity, Policy and Institutional Environment, Short-Term Emergency, and Physical Outputs. Analysis of the sample suggests that the Bank's development impact was most successful in achieving physical outputs, which averaged 4.3, followed by short-term emergency objectives. Performance for the two institutional development objectives was roughly even, while performance in financial intermediation was weakest, averaging only 2.5.

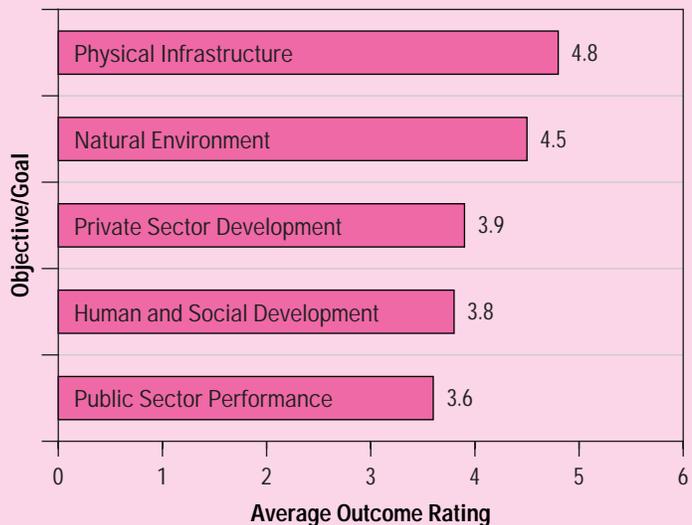
*Longer-Term Goals*

The pattern for longer-term goals mirrors that for intermediate objectives, with more success on physical outputs than institutional change. Long-term goals were classified into five categories: Public Sector Performance, Human and Social Development, Private Sector Development, Natural Environment, and Physical Infrastructure. The Bank was most successful in achieving goals in physical infrastructure, with an average score of 4.8, and natural environment, with an average score of 4.5. Human and social

Average Performance on Intermediate Objectives



Average Performance on Longer-Term Goals



development and private sector development scored roughly even. The Bank was least successful in impacting public sector performance, with an average of 3.6, in contrast with the improved record of freestanding PSM projects.

been made in enhancing the overall efficacy of adjustment lending.

*Investment project outcomes show improvement for the FY00-01 exit period.* After a constant outcome performance throughout the late 1990s,

satisfactory outcomes for investment projects have shown some recent improvements. Satisfactory outcomes for investment projects rose from 69 percent for FY96-99 exits to 78 percent satisfactory for FY00-01 exits, as shown in figure

3.9. Regions achieving the largest improvement were MNA (23 percentage points), SAR (22 percentage points), and AFR (9 percentage points).

Ninety percent of the adjustment operations evaluated by OED during the FY96–01 period were either SALs or SECALs. With the reservations noted above, as figure 3.8 shows, weighted by disbursements, SECAL performance improved fairly steadily over the mid-1990s, surpassing that of SAL, which has been more volatile, for FY00 exits. No operations using the new adjustment lending instruments—SSALs, PSALs, PRSCs—have been evaluated so far by OED.

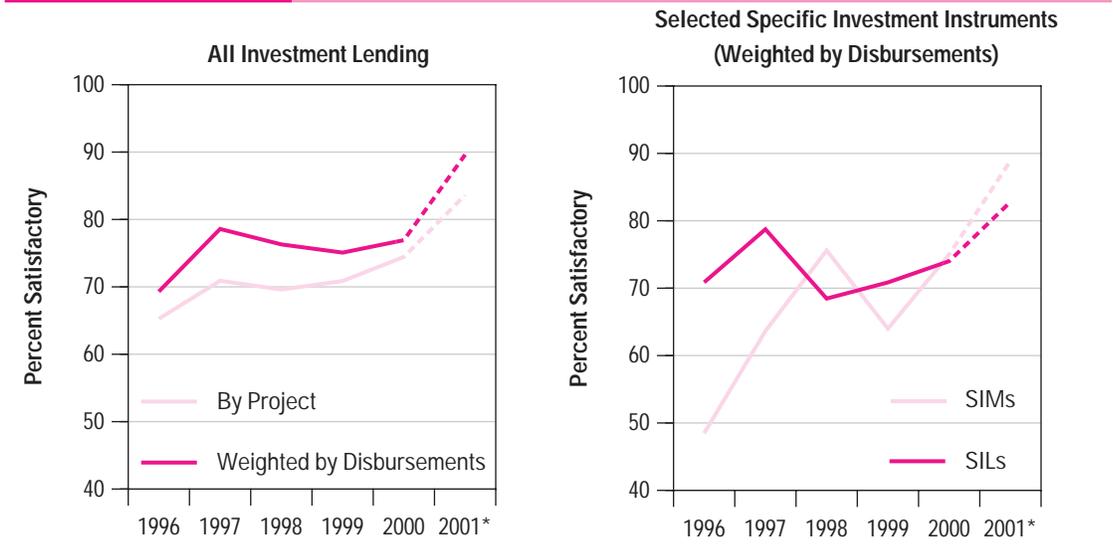
About 75 percent of investment disbursements evaluated by OED for the FY96–01 exit cohort were supported by SILs. The remainder were distributed among SIMs (15 percent), FILs (5 percent), ERLs (4 percent), and TALs (2 percent) projects. As figure 3.9 shows, the satisfactory outcome ratings for SILs and SIMs indicate a strong performance for both lending instruments since FY99. The performance of SIMs since FY99 is also strong, with 89 percent satisfactory outcome ratings for the preliminary FY01 exits.

*Outcomes for other specific investment instruments are uneven.* For the FY96–01 exits, 96

percent of ERL disbursements were rated satisfactory. For FILs, the percentage was only 46. Projects were most successful in achieving objectives related to physical infrastructure and to the natural environment. The primary objectives of ERLs are to support physical objectives such as the restoration of assets and production levels immediately after an extraordinary event—such as war, civil disturbance, or natural disaster—that has seriously disrupted a borrower’s economy. OED has so far evaluated only one APL and two LILs. These three evaluations do not constitute a large enough sample to draw any accurate analysis of their performance. Looking at the active projects supported by APLs and LILs, QAG assessments indicate that of the 96 active APLs in the Bank’s portfolio, 93 percent are considered “not at risk.” Similarly, QAG assessments indicate that of the 84 LILs currently active in the portfolio, 89 percent are considered “not at risk.”

Instruments have different risks and rewards, which can be factored into their choice. Figure 3.10 places major lending instruments into four risk/reward quadrants, where rewards are measured by the average APPI and risk by the APPI’s standard deviation. This comparison is not meant

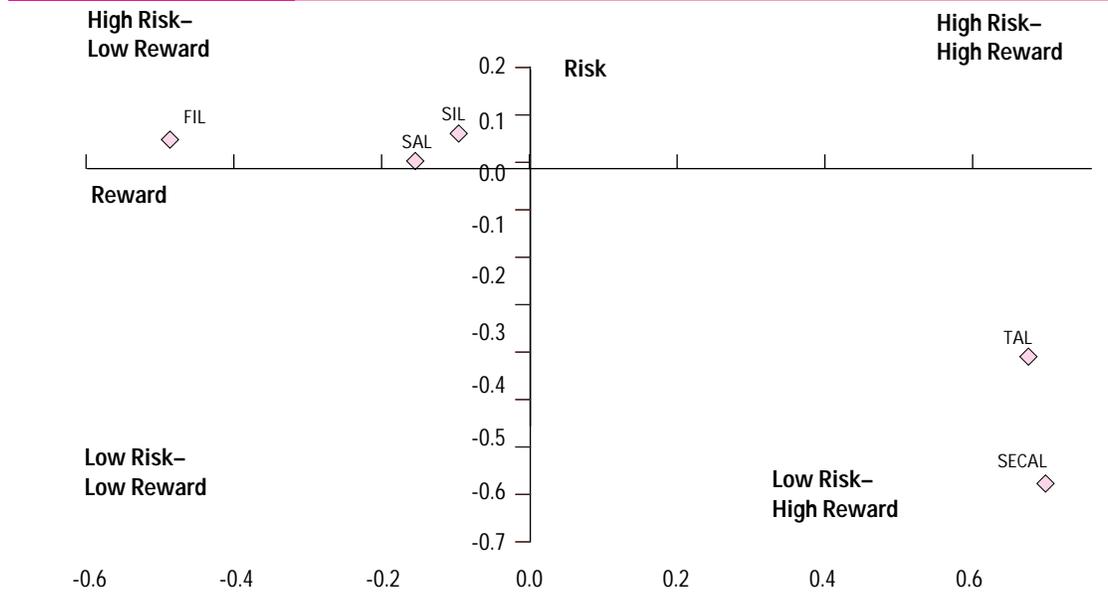
**Figure 3.9** Trends in Outcomes of Investment Operations



\*Preliminary; see chapter 3 endnote 1.

Figure 3.10

Risks and Rewards of Lending Instruments



to imply substitutability of lending instruments but rather to provide a relative risk versus reward framework in which to assess the potential strengths and weaknesses of these instruments, in conjunction with country conditions and sector choices.

*The cost dimension.* The varying performance of lending instruments in differing country environments also has a cost dimension. Figure 3.11 shows the Bank's cost per US\$1 million disbursed (in terms of preparation and supervision) related to achievement of objectives. The results confirm the finding that outcomes for objectives pursued through adjustment lending show a higher sensitivity to country conditions than those for investment. Costs of adjustment lending in terms of dollars lent do not show a high level of variation. On the other hand, investment interventions cost considerably more to complete in low-CPIA countries.

**Determinants of Success**

This section follows on the model of determinants of project outcomes used in previous Reviews. This model, which has been econometrically tested, confirms that country conditions and the quality of project-level inputs are the key determinants for

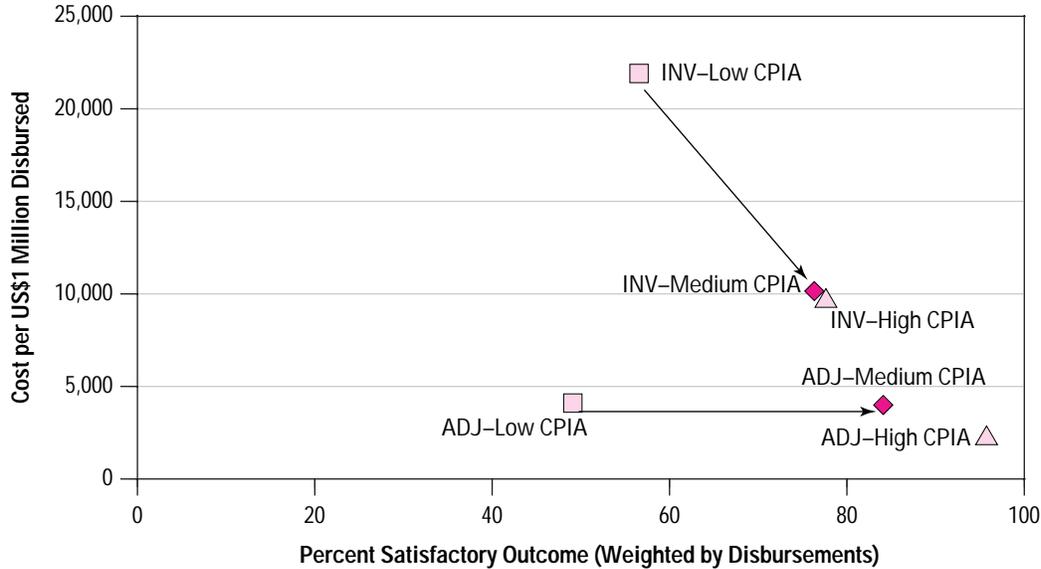
success. These determinants are highly relevant for the implementation of the approximately 1,500 active lending projects, and for design and implementation of projects in the future.

**Country Conditions Matter**

The outcomes of projects are closely correlated with the borrower country policy and institutional environment, as measured by the CPIA ratings. For FY96-01 exits, low CPIA countries had only 48 percent satisfactory disbursements, whereas medium CPIA countries had 81 percent and high CPIA had 93.

Recent evaluations for stand-alone Technical Assistance Loans (TALs) showed this instrument fared better in low CPIA countries than any other form of lending. This reflects a change from findings in last year's Review, due to recent results from ECA which now accounts for two-thirds of evaluated TALs exiting during the FY96-01 period. As figure 3.12 shows, investment projects that used SILs or SIMs as their main lending instrument averaged 47 percent satisfactory outcome rates, heavily influenced, though, by eight large disbursements operations in three countries. On the other hand, stand-alone technical assistance averaged 75 percent satisfactory.

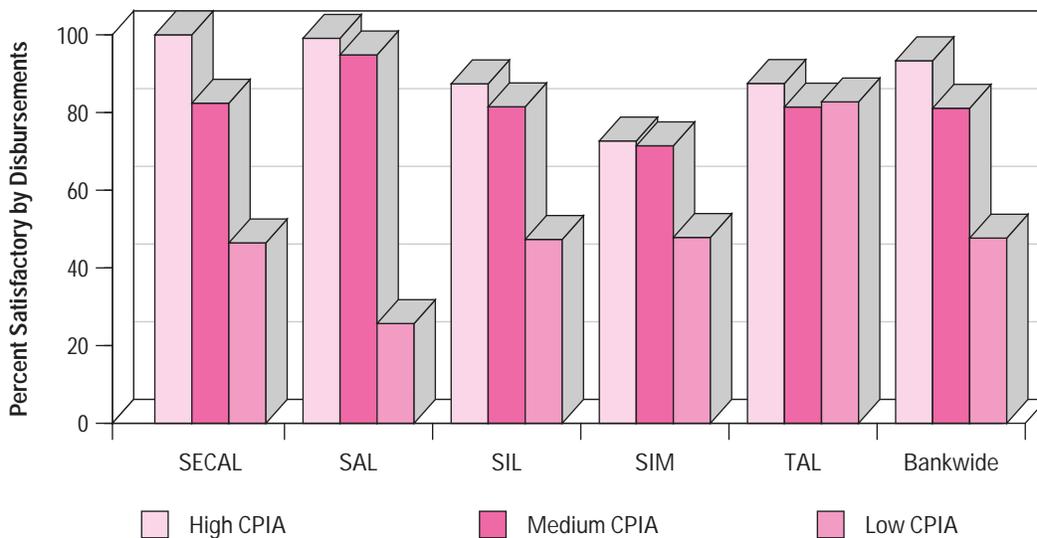
**Figure 3.11** The Cost Dimension, by CPIA Groups (FY90-FY01 Exits)



While the goals against which such operations were judged were not always geared to critical policy reform areas, their broadly satisfactory performance in low CPIA countries suggests that the Bank should focus on increasing capacity and

institution building in these countries, rather than using a traditional lending strategy. Satisfactory outcomes for low CPIA countries at the sector level showed that those projects implemented in the transportation and agriculture sec-

**Figure 3.12** Instrument Performance Is Sensitive to Country Conditions (FY96-01 Exits)



tor performed on average about 10 percentage points higher than the average.

*For medium CPIA countries, projects using sectorwide instruments (SECALs and SIMs) were less successful than others.* As figure 3.12 shows, the satisfactory outcome rates, weighted by disbursements, of SECALs in medium CPIA countries were 12 percentage points lower than the average for SALs in the same countries. The lower-than-average satisfactory outcome is primarily due to the performance of several large SECALs in the finance sector. The satisfactory outcome of SIMs fares similarly, under-performing the satisfactory outcome rating average for SIL investment projects by 10 percentage points; the lower-than-average results are driven by the poor performance of projects in the education sector. One of every two dollars disbursed in education sector projects of medium CPIA countries, using a SIM or a SECAL, received unsatisfactory outcome ratings from OED.

*In addition to country-specific conditions, exogenous regional variables can be a significant factor affecting the outcome of adjustment operations.* The Communauté Financière Africaine<sup>4</sup> (CFA) franc devaluation of January 1994 played a significant role in the economic recovery of member countries during the mid-1990s<sup>5</sup> and the satisfactory outcomes of adjustment operations. Before 1994, the overvalued CFA franc exacerbated the effects of a terms of trade deterioration, making the economic downturn of 1987–93 more severe in CFA countries than in the other African countries. Figure 3.13 shows that the share of satisfactory adjustment operations<sup>6</sup> in CFA countries prior to the devaluation was 54 percent, compared with the 62 percent rate for non-CFA countries. After the devaluation, satisfactory outcomes of adjustment operations in CFA countries increased by over 30 percentage points, to 84 percent satisfactory outcomes, outstripping the 76 percent rate for adjustment operations in non-CFA countries.

#### **Project-Level Performance Also Matters**

In addition to country-specific conditions, project quality and direct implementation support from the Bank and borrower are key determinants of success. This is supported by a separate

analysis focusing on 45 projects evaluated since last year's Review.<sup>7</sup> Project design weaknesses were identified as important factors in every sample project rated unsatisfactory, as shown in table 3.1. Weak monitoring and evaluation were also cited as factors in more than one in three projects. For projects with highly satisfactory outcomes, project design was found to be the most widespread factor, followed by borrower implementation performance. Among project design weaknesses, lack of realism (in scope and complexity of objectives and/or in proposed time frame) was by far the most important, contributing to poor project performance in no less than 72 percent of the unsatisfactory sample projects, including all the adjustment projects rated unsatisfactory. The next most prevalent factors were the quality of technical and/or institutional design, which affected investment operations more than adjustment.

Both QAG and OED assess the quality at entry (QAE) of projects. For projects that have already closed and been evaluated, OED finds that QAE improved steadily through the 1990s. And for projects still under implementation, QAG documents a continuing upward trend. These trends are shown in figure 3.14.

Figure 3.13

Adjustment  
Outcomes  
in Africa  
Related to the  
CFA  
Devaluation

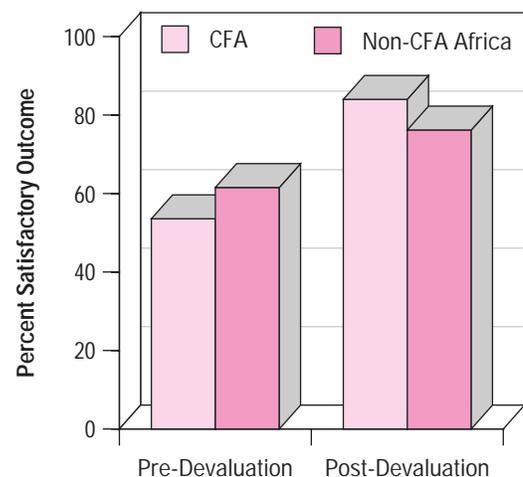


Table 3.1

Reasons for Unsatisfactory Outcomes (percent of sample unsatisfactory projects, for which the factor is identified)

Factor	Investment	Adjustment	Total %
Weakness in project design	100	100	100
Weak monitoring and evaluation	46	13	38
Weak borrower commitment	46	88	56
Poor borrower implementation performance	42	50	44
Poor Bank supervision performance	38	0	28
Negative exogenous factors	33	0	25

Source: Review of recent PPARs for projects with unsatisfactory outcomes.

OED evaluators assess preparation, implementation, and compliance with legal covenants when considering borrower performance. The second most prevalent reason for unsatisfactory outcome performance, weak borrower commitment, affected more than half the projects and was especially significant for adjustment operations. Satisfactory performance for borrower preparation and implementation increased by 5 percentage points each between the FY96–99 and the FY00–01 periods. The pattern is similar when weighted by projects. Compliance performance shows an increase between the two periods when weighted by projects but a decrease when weighted by disbursements, highlighting once again the influence that very large projects have on the FY00–01 exit evaluated cohort.

### Performance of Nonlending Assistance

As discussed in Chapter 2, nonlending assistance includes an evolving range of activities. Some are aimed at improving the Bank’s knowledge base in order to provide a solid foundation for the Bank’s policy dialogue with clients and the development of country strategies. Others directly relate to supporting lending assistance. Performance of the first set of these activities is not as rigorously measured as lending assistance, as the framework in the Bank for evaluation of individual nonlending instruments is less mature. A caveat is in order: as noted in the recent AROE, evaluation gaps still exist with respect to the “knowledge and partnership Bank,” and it is not possible

to present reliable performance trends for all nonlending services provided by the Bank (e.g., research, WBI, aid coordination, grants). This section draws from the self-evaluation system used by the QAG, which covers a sample of individual ESW reports, as well as several OED studies of individual nonlending instruments.

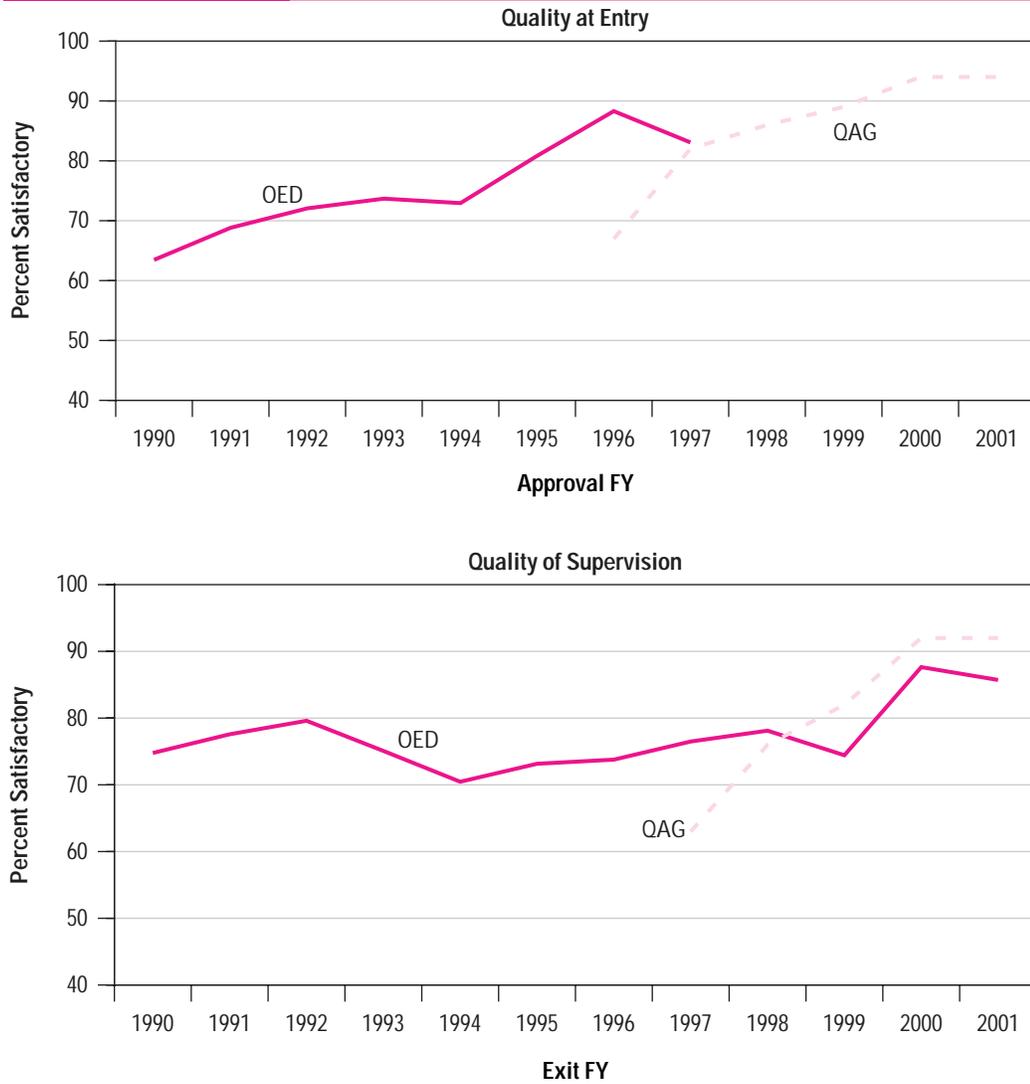
As the Bank has moved toward country-based approaches and increased programmatic lending, country-level fiduciary work has assumed greater strategic relevance. In FY01, management has recognized three assessments—Public Expenditure Reviews (PERs), Country Procurement Assessment Reports (CPARs), and Country Financial Accountability Assessments (CFAAs)—as the core fiduciary diagnostics required in every client country. Consideration should be given to classifying safeguard policy reviews at the country level as core ESW.

QAG’s most recent evaluation of traditional ESW tasks (which is focused on formal and informal economic and sector reports) highlights an improvement in overall quality from 73 percent satisfactory in 1998 to 86 percent satisfactory in 2000.<sup>8</sup> This exceeds the Strategic Compact target of 85 percent. Furthermore, QAG notes that as the Bank’s ESW has evolved to be participatory, client-oriented, and result-focused, the likely impact of the tasks has also improved significantly since 1998.

The QAG reviews cite four key areas where there is room to further enhance quality: in poverty reduction strategies and poverty-related

Figure 3.14

Improved Bank Performance as Evaluated by OED and QAG



analysis; in the quality of conclusions and in prioritizing recommendations; in improving the quality of ESW undertaken in poor policy environments; and in fiduciary ESW. Poverty focus of ESW is identified as a key concern. In 2000, for the first time, QAG began rating ESW tasks on their “analysis of implications on the poor” and found 61 percent of tasks to be satisfactory. It cited several weaknesses such as poor analysis and links to policy options; as well as lack of attention to regional differences in income and poverty, to the impact of private sector partici-

pation and other policy shifts on the poor, and to the impact of reforms on the most vulnerable groups. This is also evident from the comprehensive OED evaluations and QAG ratings of Poverty Assessments (box 3.3). There is considerable room to clarify the extent to which different kinds of ESW are expected to address poverty-related issues and to mainstream poverty analysis into the scope of the ESW.<sup>9</sup>

A second area mentioned by QAG for further attention is the clarity and substance of conclusions (one in three tasks rated less than

## Box 3.2

## Bank-Managed Special Programs

This year for the first time OED reports on the evaluation of operations financed under three special programs. Forty-six such operations exited the Bank's portfolio during the FY96–01 period.

*Global Environmental Facility (GEF):* The GEF was established in 1991 as a pilot program to assist in the protection of the global environment and to promote environmentally sound and sustainable economic development. Overall, 143 full-size projects (with commitments greater than US\$1 million) have been approved, of which 32 have been evaluated by OED.

*Montreal Protocol Fund (MT):* The World Bank is one of four implementing agencies (along with UNDP, UNIDO, and UNEP) for the Multilateral Fund for the Implementation of the Montreal Protocol to reduce ozone-depleting substances. Eleven projects have been approved under this fund, of which OED has evaluated four.

*Special Financing Grants (SF):* The SF grants cover special emergency assistance provided to recent post-conflict countries such as Bosnia-Herzegovina, East Timor, Kosovo, and West Bank and Gaza.

## Outcome Performance of Bank-Managed Special Programs

Special Program Type	% Satisfactory Outcome (Weighted by Projects)	% Satisfactory Outcome (Weighted by Disbursements)
GEF	84	85
MT	100	100
SF	100	100

satisfactory) and the sequencing and prioritization of recommendations. QAG rates 50 percent of ESW tasks satisfactory on prioritizing recommendations. Selectivity thus remains an issue at the instrument level and could affect *actual* impact on the ground. Improving the quality of the conclusions and recommendations, along with enhancements to the quality of presentation and improved “user-friendliness” of ESW could contribute to better dissemination, and increase the likelihood of significant impact.

A third area for improvement is the quality of ESW in poor policy and institutional environments. In 2000, QAG rated 92 percent of ESW tasks in high CPIA countries satisfactory; the score for low CPIA countries is 72 percent. This is confirmed by OED's analysis of the quality of ESW as reflected in CAEs.<sup>10</sup> The analysis indicates that in countries with poorer average CPIA ratings, ESW tends to have more limited impact on Bank products and is barely satisfactory overall. The impact on country dialogue is also on average not satisfactory. By contrast, for countries with medium CPIA ratings, the impact of ESW both on Bank products and on country dia-

logue is satisfactory, and for countries with good CPIA ratings is fully satisfactory.

The fourth area of focus mentioned by QAG is the quality of core fiduciary ESW. The PER is the oldest instrument and is the only fiduciary ESW to benefit from systematic evaluation. The relative dearth of evaluative evidence on the experience with and impact of CPARs and CFAAs is largely on account of the evolving nature of the Bank's thinking in the area of country-level fiduciary management. There has been little formal evaluation of quality and content of these core fiduciary products.

OED's 1998 Review noted that PERs had a modest impact on Bank lending strategies, client expenditure policies, and aid coordination. It noted that the quality of analyses in the PER has improved and lauded the impact of the informal PER. The review suggested improving both the PER content and the process.<sup>11</sup> Since then, there have been significant changes to the nature of the PER process and its contents. However, QAG 2000 notes that the quality of Public Expenditure Reviews continues to be mixed. Where quality was poor, reasons included inadequate funding, low-quality teams and/or management,

## Box 3.3

## Quality of the Bank's Poverty Assessments

The Poverty Assessment (PA) is a key instrument to serve the Bank's overarching objective of poverty reduction. Evaluative evidence suggests considerable scope to increase the Bank's capacity to effectively analyze and develop poverty reduction strategies through the PA. OED's review of 46 Poverty Assessments in 1996 noted that 54 percent of the assessments met the requirements set forth in OD 4.15. Since then, there has been some improvement. The 1998 QAG review of 15 Poverty Assessments rated 43 percent of them satisfactory and OED's follow-up review in 1999 of the assessments completed between FY96 and FY98 rated 63 percent of them satisfactory.

QAG 1998 raised several weaknesses in poverty-related analysis such as lack of access to reasonable data and inadequate data mining; poor technical skills and inadequate mentoring; lack of attention to the most salient policy issues; and poor quality assurance mechanisms.

OED's 1999 follow-up evaluation of Poverty Assessments found that 62 percent of the assessments did not adequately specify goals and where multiple goals were specified, there was seldom any prioritization. The OED review also noted systemic weaknesses in areas such as: design of Poverty Assess-

ments and inclusion of all relevant groups; fostering and sustaining ownership; rigor and meaningfulness of the policy analysis; and quality of and prioritization among recommendations. The OED 1999 review also notes that surveyed stakeholders viewed knowledge transfer, and local consultation and partnerships as the least satisfactory aspects. Forty-two percent of stakeholders felt that the PA had not provided even a moderate increase in local capacity.

QAG 2000 reports a further improvement in overall quality to 69 percent satisfactory in 2000, but the Bank's processes as related to Poverty Assessment are satisfactory 38 percent of the time. QAG noted that most PAs "lack a coherent (Bank assistance) strategy for poverty reduction." This weakness is expected to be addressed through the PRSP process; the PRSP process is likely to make the PA a more technical background report that feeds into in-country discussions of the most effective strategy to reduce poverty.

*\* Note: Inclusion of a set of related poverty indicators; the scope and depth of poverty diagnosis; the breadth and scope of policy prescriptions for poverty reduction; and the strategic content of such prescriptions.*

unclear goals, and inadequate coverage (in some cases several PERs for the same country).

Although there is no formal evaluation of the CFAA and CPAR, there is evidence to suggest that their findings are yet to be fully integrated into the CAS process and influence the Bank's assistance. Internal Audit Department 2001 notes that "weaknesses" in the capacity for sound financial accountability "identified through the CFAA are not being addressed" and that the expectation "to link CFAA findings and recommendations to the CAS has not been met." The Annual Procurement Review for FY00 (draft) also notes that few CPARs carried out since 1998 have "resulted in specific reform actions" (although the review argues that there has not been enough time for significant reforms to take place). It however notes that a monitoring system would be implemented to ensure that the CPAR coverage supports the CAS and other strategic requirements regarding lending, country risk assessment, and capacity building. Work is currently under way in OPCS to endure greater linkage and integration within the

fiduciary documents as well as with the CAS process. Until FY01, the CPAR and CFAA were not treated as formal ESW and hence did not come under the purview of the institutional ESW review mechanism or QAG. QAG is currently in the process of rating the quality of the CFAAs and CPARs undertaken in FY01.

The launch of an ESW reform effort in July 1999 has led to significant improvements to the quality of ESW. Yet, QAG notes that these improvements are not mirrored in commensurate gain in the effectiveness of Bank processes such as sustained managerial attention and peer reviews. For instance, there has been significant improvement in the quality and process of peer reviews, but peer review advice does not often have an impact on the final product. The 2000–01 AROE notes that the networks' current "support" role does not fully exploit their comparative advantage. Task teams need to draw adequately upon the analytical expertise or knowledge base in the networks, Development Economics Department, or World Bank Institute.



# Country Strategies, Instruments, and Outcomes

**E**ffective country strategies are shaped by corporate priorities and require strategic instrument choices. Equally, instrument design must be tailored to country operating environments. Recent evaluative evidence yields lessons on instrument choice and use in a range of country conditions. This chapter identifies areas in which the Bank can further increase its development effectiveness at the country level. It points to performance-based allocations, strategic selectivity in line with comparative advantage, results-based strategies backed by verifiable performance indicators, transparent CAS linkages with PRSP), and agreed policy frameworks as the major challenges of country strategy. Strengthened risk management, reliance on businesslike partnerships, and adoption of participatory approaches emerge as the best antidotes to risk aversion, especially in post-conflict situations and in countries where policy reform and capacity building are uphill tasks.

Individual instruments of the Bank's assistance need to complement each other within an appropriate strategy in order to achieve quality outcomes. At the country level, this requires the Bank to adapt assistance to the country context while maintaining the link between corporate selectivity, the country assistance strategy process, and the appropriate use of instruments. Country program outcomes have been measured in the fifty-odd CAEs conducted thus far by OED.<sup>1</sup> Drawing primarily from these evaluations, this chapter assesses development effectiveness at the country level by addressing three questions:

- How does corporate selectivity help define country strategies?
- How do country assistance strategies select and combine instruments to maximize development effectiveness?
- How do lending and nonlending instruments contribute to country program outcomes under differing country conditions?

## **Corporate Selectivity and Country Strategies**

Country assistance programs are shaped within the constraints of corporate priorities and

resource envelopes. Corporate selectivity defines the institution's goals and priorities, reflecting its core competencies, its global mandate, and its areas of comparative advantage for country assistance. The corporate framework aims at poverty reduction through a country-driven framework. It recognizes that development effectiveness depends on the country policy and institutional environment, and on judicious sequencing between lending and nonlending activities. Corporate choices are conveyed to individual country programs through three main mechanisms:

- the policy and assistance framework provided by the CDF and PRSP
- inter-country lending allocations for IDA and IBRD countries
- the allocation of administrative resources to prepare and supervise lending and nonlending activities.

*The CDF and PRSI processes* are designed to center the Bank's mission on poverty reduction through support of a country-driven, results-oriented framework jointly owned by the public, private, and voluntary sectors. In turn, the individual country's framework (as articulated in the PRSP for low-income countries) provides the grounding for the Bank's assistance strategy, and constitutes a key platform for articulating the country's development goals. These relatively new mechanisms are beginning to influence country assistance strategies. Initially seen as a Bank requirement for further adjustment lending, the April 2001 *Interim PRSP* for Vietnam developed into a central component of the government's own 10-year development strategy. In Ghana, the government's *Ghana Vision 2020* document provided a long-term holistic vision of development, which has underpinned the CDF, and has helped to solidify country ownership.

*The performance-based allocation* of lending resources is the Bank's principal mechanism for exercising inter-country selectivity. Since the late 1970s, the allocation of IDA resources has been influenced by country performance. As currently defined, performance is assessed through explicit indicators reflecting the soundness of country policies and institutional arrange-

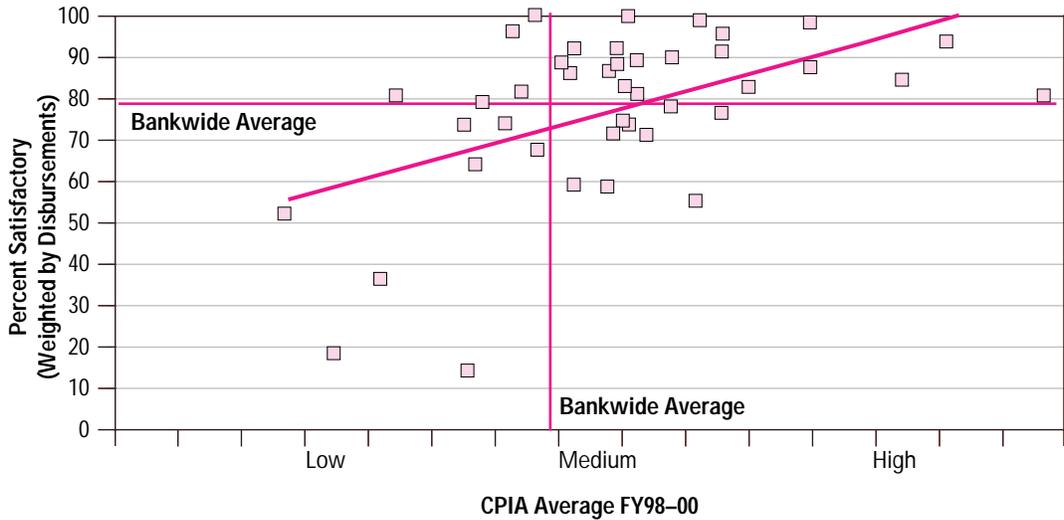
ments and the development risk profile of the ongoing IDA operations portfolio—combined in an overall performance rating in an 80:20 ratio. In recent years, the combined performance rating has been reduced by one-third for borrowers with severe governance problems. Evaluation results confirm that the CPIA ratings are strongly associated with project outcomes, as shown in figure 4.1, for both IDA and IBRD countries. Countries with poor CPIA ratings show well-below-average portfolio results.

OED's recent IDA Review<sup>2</sup> finds that the performance-based allocation system has evolved over the last decade to reflect new development knowledge and evolving corporate priorities. These changes have strengthened the link between countries' policy and institutional performance and lending levels. Today, the system directs more resources to good performance than it did a decade ago. The Review proposes several additional adjustments to further strengthen the link, achieve greater consistency of treatment among countries, and increase transparency: establishment of a written record of country ratings; adjustment of specific CPIA criteria to ensure that they assess policy performance rather than level of development; revision of the "governance discount"; and broader disclosure of ratings to borrowers and the wider international community. IDA management has initiated enhancements to the performance-based allocation system drawing on these recommendations.<sup>3</sup>

For IBRD borrowers, lending allocations are necessarily shaped by global financial system considerations, Bank exposure, and credit-worthiness. Nevertheless, the Bank has sought to increase the weight of performance in its allocation decisions for middle-income countries in recognition of the better development prospects expected from lending under good country policies and institutions. Figure 4.2 shows that both IDA and IBRD lend more on a per capita basis to countries with better project results.

The scope and scale of the Bank's activities in a country are necessarily constrained by the country's administrative budget. The size of country budgets is still closely linked to the size of the country's lending portfolio. Non-

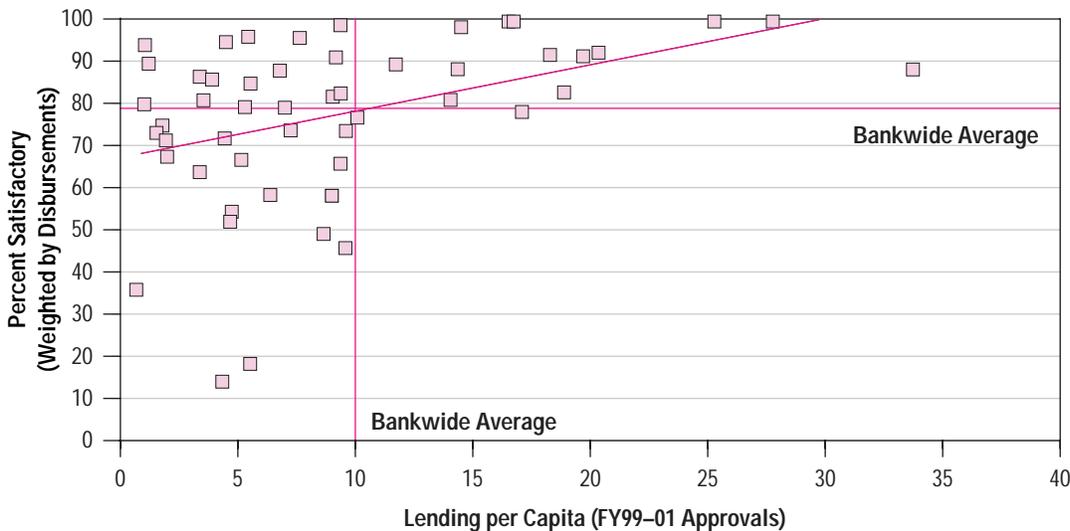
**Figure 4.1** Better Lending Outcomes Associated with Higher Policy and Institutional Quality (FY96-01 Exits)



lending allocations tend to be residually derived after accommodating the “fixed costs” associated with lending and supervision of the ongoing portfolio. This feature of the budget process is being reviewed as it may hamper country-

level development effectiveness, especially where lending is limited such as in new borrowers or countries in lending hiatus. Several recent CAEs emphasized the need for sound country knowledge before initiating or resum-

**Figure 4.2** More Lending to Countries with Better Project Outcomes (FY96-01 Exits)



ing lending. Thus, maintaining a base of standard ESW coverage may be more cost-effective than the steep learning curve, lost opportunities, and costly project restructuring which usually result from inadequate lending preparedness (e.g., Chile in the 1980s). In addition, the World Bank “knowledge bank” is expected to support countries where knowledge, not financing, is the priority (e.g., Bhutan and Chile in the 2000s), or where the policy and governance environment needs nurturing upstream of lending (e.g., Haiti now).

The close link between budgets and lending volumes poses a special challenge in very small countries. In the Maldives, for instance, the Bank makes one loan only every four or five years while carrying out basic economic work in between. The CAE found that this ESW had high value to the client, but that budget constraints prevented the Bank from undertaking additional high-priority work on private sector development and environmental issues in a timely fashion. Special arrangements to fund and implement such work in collaboration with like-minded partners may be required to meet such needs.

### Country Strategies and Instrument Choice

Within the country’s budget and lending allocation, the Country Assistance Strategy provides the vehicle for the Bank and borrower to decide on the right combination of instruments based on the country’s development objectives. As noted in the IDA Review, “selectivity in lending instrument choice is a strategic matter and ought to be treated as such in the CAS.”<sup>4</sup> This is becoming more important given the desire of most development partners to demonstrate a sharper division of labor through the use of CDF principles. For borrowers as well as their external partners, instrument choices must be based on a sound understanding of the full menu of instruments available.

OED evaluations find that there is untapped potential to use the choice of instruments more strategically in country programs. In 15 CAEs completed last year, country programs were rated for their treatment of instrument relevance and

performance. Eight programs were rated substantially or highly attentive to instrument selectivity, and seven were rated modest to negligible. Most of the strategies dealt extensively with the balance between lending and nonlending, but fewer than half stated the strategic rationale for the particular mix of lending instruments adopted in relation to program objectives. The rationale for specific lending instrument choice was made explicit only in a few cases, usually in connection with the use of an APL or LIL. The Review also highlights a lack of specific instrument preference on the part of some borrowers, especially for new borrowers or countries borrowing after an extended period of disengagement, where governments were not aware of, or had limited experience with, the full menu of Bank instruments. This emphasizes the need for the Bank to keep borrowers fully informed of changes in the Bank’s toolbox so as to encourage full ownership of instrument choice decisions.

What are the obstacles to more strategic use of instruments in country programs? One issue, already explored in Chapter 2, is the lack of relevant and sufficiently detailed operational guidance in matching instruments with development objectives. Three other factors emerge at the country level. First, partnerships may not always be adequately leveraged. Second, a logical framework and results chain linking instruments with objectives is not a standard feature of country strategies. And third, country circumstances may require unanticipated changes in the assistance program in between the preparation of periodic CASs. This makes it important to use CAS updates and progress reports to provide an updated strategic context for Bank activities. The following sections describe these obstacles and how they might be addressed.

### Defining Comparative Advantage Depends on Partners

To enhance the effectiveness of country strategies, the Bank needs to address program selectivity in consultation with borrowers and other assistance partners. The IDA Review emphasizes that the Bank should define more sharply its comparative advantage as an institution and follow through on the implications for its programs at

the country and sector levels. At a country level this involves leveraging its comparative advantage and identifying areas in which other donors may effectively take the lead.

Partnerships are key to improving the impact of aid resources, enabling areas of comparative advantage to be identified and exploited. A review of OED's recent CAEs provides evidence of modest progress made toward more effective partnering at the country level. For example, cultivating partnerships and a focus on aid coordination were strong elements of the Bank's assistance to Vietnam, particularly in nonlending services. The Bank and UNDP worked closely together in Vietnam, with the Bank executing a number of UNDP-financed projects when it was unable to lend itself. According to the Vietnam CAE, the Bank's work in aid coordination created a collaborative spirit according to CDF principles well before it was selected as a CDF pilot country. Sector working groups were established along with businesslike partnerships in technical assistance and ESW. Experience in Vietnam also highlights the tradeoff often required between improved coordination and the additional time required to reach a consensus. Partnership means letting the borrower and other donors lead even if the resulting pace does not fully mirror Bank preferences.

Effective aid coordination is particularly important in countries with a large volume of assistance and many donors, especially countries with limited administrative capacity and post-conflict countries. Uncoordinated aid programs impose heavy burdens on recipient countries and limit the impact of aid agencies' programs. In West Bank and Gaza, the Bank established a unique structure to coordinate the activities of a large number of donors delivering high volumes of aid. In addition to the usual Consultative Group, the aid coordination architecture includes several Liaison Committees. These provide a forum for donors and authorities to address policy questions and to coordinate activities at the operational level.

#### Logical Framework Application in the CAS

The CAS should trace through the linkages from the country's long-term development goals to

sector/thematic objectives and to instruments. The CDF and PRS processes provide the forward linkages that relate the CAS process to medium- or longer-term outcomes such as the Millennium Development Goals and tailor-made goals customized to countries' own development visions (e.g., *Ghana Vision 2020*). With the CDFs and PRSPs providing the links to the poverty reduction framework, the CAS focuses on providing the business model relating Bank instruments to sector and thematic objectives. Recent decisions for costing of CAS programs and linking to the budget are steps in the right direction. Increased partnerships are also critical for CASs to be appropriately selective in the Bank's assistance.

The CAS guidelines clearly distinguish between Bank and country priorities. Where there are differences, the risk of misreading the borrower's commitment is high and this may lead to inappropriate initiatives or to the choice of the wrong instrument. In Morocco, the FY97 CAS proposed a program of predominantly investment lending to target social and rural development. Investment lending was perceived to be the best means to affect public expenditure for critically important health, education, and rural programs. The proposed strategy, however, misjudged the level of government commitment to social spending. The government was not eager to borrow from the Bank for programs with high social content, for which funds on concessional terms were readily available from other sources. In addition, investment lending had a poor track record in Morocco. As a result, the actual lending program differed substantially from that presented to the Board in the CAS with the bulk of Bank lending going to adjustment lending for policy reform.

Establishing clear and sequential links between each instrument and the CAS objectives is crucial to achieve efficacy. This requires a strong link between instruments and performance indicators based on upfront analysis which includes recognition of risks as well as learning from past results—especially for the adaptable and programmatic lending instruments. Evaluative evidence would allow the Bank to learn from the past in terms of what instruments have

had what results, but CASs seldom give attention to past instrument performance in order to illuminate lending pipeline choices. It is also important to adjust strategies for changing country conditions, through timely CAS updates and progress reports that provide an agreed strategic context for Bank activities.

### Country Strategies Are Dominated by Lending

Satisfactory country outcomes require more than just successful projects. Table 4.1 shows that for a sample of CAEs, project performance (as measured by the aggregate outcome ratings) often went hand in hand with country outcomes in the CAEs, but deviations served as reminders that country outcomes are determined by the combination of lending and nonlending instruments, as well as other factors.

An emphasis on lending appears to have limited the Bank's effectiveness in some countries. Lending pressures were reported in 5 out of 13 recently evaluated countries. Three of these were large or higher-income borrowers, in which government instrument preferences for financial

assistance were readily accommodated (Chile, Mexico, India). In some cases lending was used to achieve goals better met with nonlending instruments. During the 1980s and early 1990s, the Indian government's unwillingness to accept policy-based instruments restricted Bank assistance to investment lending. This led to preparation of some investment projects of low relevance and weak effectiveness. Similarly, the Bank opened its dialogue on transport reform with Kazakhstan in the context of a loan that had a primary focus on misguided support for a state-owned transport enterprise. And in Bulgaria, because of the authorities' limited interest in primary health care, the dialogue on health sector reforms was launched via the financing of ambulances. This approach, while pragmatic, generated disproportionate Bank investment for low-priority activities.

The effectiveness of Bank lending has proved to be influenced by the quality and coverage of nonlending. Accordingly, the amount and type of nonlending assistance should be carefully calibrated to enhance Bank lending and improve

Table 4.1

### Country Program and Portfolio Performance

Portfolio Performance % Disbursements Satisfactory	Country program outcome			
	Fully Satisfactory	Partially Satisfactory	Marginal	Unsatisfactory
High (> 87% sat)	Uruguay (1990–00) Vietnam (1988–00) Bulgaria (1998–01) Chile (1985–99)	Kazakhstan (1991–99) Kyrgyz (1993–00)		Costa Rica (1990–00) Bulgaria (1990–97)
Upper Middle (75–87% sat)		Burkina Faso (1989–99) Egypt (1990–00) Mexico (1989–99)	Indonesia (1993–98) Lesotho (1990–00)	
Lower Middle (62–74% sat)	El Salvador (1989–00) Ghana (1995–00)	India (1990–00) Cameroon (1996–00)		
Low (< 62% sat)	Uganda (1986–99)	Tanzania (1996–00)	Morocco (1997–00) Tanzania (1986–95)	Cameroon (1982–95) Papua NG (1989–00) Paraguay (1990–00) Haiti (1986–01)

Note: Portfolio performance quartiles are based on Bank-wide country averages of OED evaluated project performance for projects exiting FY90–01, weighted by disbursements. Country program outcome ratings are taken from the relevant CAEs. All CAEs have been disclosed with the exception of Bulgaria, which is expected to be disclosed by March 2002.

Source: OED.

the relevance of Bank assistance strategies. Nonlending was rated “supply driven” in 8 of the 15 countries programs reviewed. In most cases CAE task managers cited a lack of borrower preference and inadequate consultation by the Bank as reasons for the supply-driven services. There is considerable scope for the Bank to increase borrowers’ awareness of its menu of nonlending instruments. Recent evaluative evidence offers examples of the way synergy between nonlending and lending programs contributes to satisfactory outcomes. For example, box 4.1 illustrates how lending to the Lesotho education sector had a highly satisfactory outcome based on relevant and timely nonlending services.

CAEs found instances where gaps in ESW coverage reduced the relevance and effectiveness of Bank lending. Lending in spite of poor, outdated, or insufficient knowledge was a feature of assistance programs to a number of new and “renewed” Bank borrowers. In Kazakhstan and the Kyrgyz Republic, for example, insufficient analytic work in some areas prevented clear diagnoses, although ESW was notably effective in others (such as pension reform). Reductions in resources devoted to nonlending posed special problems in transition economies, where limited experience with reforms meant that changes needed quickly to be captured. The need to update and maintain a substantial knowledge base is a priority also in countries that have experienced long interruptions in Bank lending, because they lack a network of officials familiar with Bank policies. For its part, the Bank may need to update staff knowledge of current country contexts. In Kenya, the Bank’s assistance

strategy underwent a major change in an effort to link lending to improved governance. Lending pressures, however, were a significant factor in undermining the strategy (box 4.2).

### Country Strategies in the Absence of a Lending Program

There are at least 30 countries in which the Bank is not providing lending support for a wide range of reasons. This situation poses special challenges for country strategy formulation. OED’s recent country evaluations yield lessons for enhancing the Bank’s assistance strategy in three scenarios under which lending is constrained.

*First time or renewed borrowers.* An initial period of nonlending before lending to new or “renewed” borrowers can help develop both good relations with the government and other partners and a sound basis for lending. In Vietnam, the Bank carried out substantial ESW from FY88 until it resumed lending in FY94. Anticipating that lending would eventually resume, the Bank conducted work in sectors where Bank credits were later approved (health, finance, and energy). The recent CAE found this ESW to have been very effective in its impact on both the selection and the design of Bank credits as well as the country dialogue by helping to win the confidence of Vietnamese officials. If the lapse in lending is protracted, the payoff from continued nonlending engagement may take a long time to materialize. The Bank has suspended lending to Haiti twice in the past 10 years, from 1991 to 1994 and from 1997 to the present, but carried out nonlending activities both times. During the first hiatus, ESW was part of a multi-donor effort to examine development

#### Box 4.1

#### Synergy Between Sector Work and Lending

In Lesotho, ESW in education had significant impact on the outcomes of projects. Bank analytical services in the education sector were highly relevant, timely, and in tune with government and CAS objectives. The FY90 report *Improving Quality and Efficiency in Education* helped to establish a coherent policy framework for education reform in the 1990s. This alleviated past problems with prioritizing goals and coordinating donor activities in the sector. Strong analytic work also provided a platform for subsequent Bank lending, leading to satisfactory outcomes in education, despite the weaker quality of the rest of the country-lending program. It also led to a strong and sustained relationship with the Ministry, even through a time of political turmoil.

## Box 4.2

## Kenya: Enhancing Lending Strategy in a Poor Policy Environment

Bank assistance to Kenya over the last two decades has been characterized by weak government compliance and poor performance in the context of dismal economic governance. The outcome of Bank assistance deteriorated in recent years to one of the lowest levels in the Bank, and in 1998 lending to the country was halted. A complete re-evaluation of Bank assistance to Kenya resulted in a landmark assistance strategy in the September 1998 CAS. It proposed a primarily nonlending strategy, with lending linked to improvements in economic governance. This move to nonlending and the focus on governance was highly relevant, particularly as past Bank strategies had continued to push lending in spite of poor portfolio results and under-funded analytic and advisory services. While the focus on economic governance to trigger lending levels was a *first* in Bank history, the Kenya CAS illustrates a more general trend of strengthened links between country policy performance and Bank lending.

This highly relevant and innovative strategy was not fully implemented. Initial steps toward reform were rewarded with

increased lending in the absence of real and sustained progress implementing conditions set out in the Bank strategy. Lending further increased with the approval of emergency operations which moved Kenya to a high case lending scenario that, according to the CAS, should have been triggered by substantial reforms.

Action plans are no substitute for action in countries with weak or inconsistent track records of reform. Further, experience in Kenya highlights the need for greater discussion of Bank policy on emergency lending to poor performers. The need for emergency lending stemmed in part from weak enforcement and implementation of past Bank projects in Kenya. In the long run, emergency lending may undermine the effectiveness of Bank conditionality and may not fit well with institutional development in poor performers. At a minimum, all unenvisioned lending to poor performers should be accompanied by a one-year CAS or country progress report, to anchor it within overall Bank strategy.

and assistance needs. In the more recent period, the Bank focused on social sector issues in the hope that they would have some impact on policies and with the expectation that lending will some day be resumed. The recent CAE considered these activities to have had negligible direct impact on policy dialogue thus far, as would be expected in light of the extremely unstable country context. Benefits could be expected to accrue upon resumption of lending, in addition to the more immediate donor coordination benefits. Nonlending, properly designed, should be viewed as a long-term investment in such cases, requiring regular maintenance.

*Stop-and-go-reformers.* Maintaining ESW during breaks in lending enables the Bank to respond quickly to changes in political commitment or economic environments. Bulgaria followed a “stop-and-go” pattern of policy implementation from the onset of its transition in 1989 to mid-1997. The Bank reduced its analytic work and policy dialogue when conditions in Bulgaria deteriorated and Bank lending declined. This meant that when a new reformist government took over in 1997, the Bank was not

fully ready to pick up its part of the dialogue. The experience in Bulgaria suggests that the Bank should find instruments to continue dialogue and promote reforms when not lending. There is, in fact, considerable room for innovation of nonlending assistance. For example, the Bank might usefully systematize its engagement with client countries to ensure a stable and reliable two-way channel between decision-makers that would, if warranted, prepare countries to borrow.

*No clear intent to lend.* In some cases, the Bank engaged in substantial nonlending where it did not have a clear expectation of lending. In West Bank and Gaza, effective nonlending assistance resulted in a coordinated program of financial assistance to the territory. The resulting consultations enabled the Bank to demonstrate its political neutrality and created a network for further dialogue in the territory. Greater resort to this option might be considered in countries with poor policy environments and weak institutions. In addition, clients may only want ideas. The Bank should continue to support countries where knowledge, rather than financing, is required.

### Risk Management Through Gradual Engagement/Disengagement

Country evaluations find that a modulated response to engagement may increase the relevance and effectiveness of Bank assistance. Early and extensive pre-lending engagement provides a sound basis for lending, while the phased graduation of countries through continued nonlending and innovative lending arrangements allows progress and sustainability to be assessed on a timely basis. The highly satisfactory outcome of the lending program in El Salvador was based to a large extent on a graduated engagement strategy. The Bank proposed a strategy of progressive involvement in order to deal with the risks inherent in a post-conflict setting following 10 years of disengagement. An extensive period of nonlending during the peace process was followed by lending for adjustment and social programs. The recent CAE for El Salvador notes that this approach allowed the Bank to gauge the government's commitment to peace and reform and provided a coherent framework for the government and the Bank to establish priorities. Grounding the CAS in recently conducted ESW resulted in good project quality at entry, and contributed to a highly satisfactory program.

Recent country evaluations (and recent events) emphasize that the Bank also needs to refrain from abrupt disengagement. There is considerable demand for Bank involvement in countries even after a lending program winds down (e.g., Chile). The Chile CAE recommends gradual withdrawal from Bank assistance and, given the country's susceptibility to external shocks, the maintenance of a nonlending program to monitor and to assist the country. The recently approved IBRD Deferred Drawdown Option (DDO) provides one mechanism by which countries can extend their financial engagement with the Bank. Available to both IBRD and blend countries to whom the Bank makes a single-tranche adjustment loan, the DDO gives borrowers access to long-term IBRD resources to manage ongoing structural programs if market borrowing becomes difficult and unforeseen financing needs materialize. The DDO expands the menu of risk management tools available to

client countries no longer continuously or heavily dependent on IBRD financing.

### How Instruments Contribute to Country Outcomes

Even though country contexts vary dramatically, recent evaluative evidence identifies country capacity and borrower commitment as key drivers of instrument effectiveness. The evidence suggests that the Bank can do more to tailor its assistance within the context of these two variables. Three specific tools are recommended to improve instrument performance in all contexts. Enhancing the effectiveness of country strategies in poorly performing environments is discussed in box 4.3.

#### Country Capacity

*Simpler project design.* Several recent CAEs make similar recommendations to improve Bank lending effectiveness. Projects should have simple designs even when addressing complex problems. Time frames should be less ambitious and the Bank should make more realistic assessments of implementation capacity. This is particularly important for new borrowers, transition economies, capacity constrained countries, and poor performers. In the Kyrgyz Republic and Lesotho, Bank assistance was less well calibrated. The initial Bank strategy in Kyrgyz emphasized a flexible learning-by-doing approach, but individual operations overestimated the government's implementation capacity and commitment. A series of large, ambitious, and complex projects was approved in an uncertain economic environment. This led to only a moderately satisfactory country outcome. Bank assistance to Lesotho was also delivered in the context of economic and political uncertainty. While the assistance program was based on a correct diagnosis of the country's problems, the outcome was also moderately satisfactory over the 1990 to 2001 period, largely as a result of over-ambitious objectives which stressed weak government ownership and stretched implementation capacity. Most projects with unsatisfactory outcomes had designs that were too complex in relation to local capacity and failed to involve beneficiaries early in the process.

## Box 4.3

## Getting Better Instrument Results in Poorly Performing Countries

Strengthening the Bank's assistance in poorly performing countries hinges on looking at what has and has not worked well. Both lending and nonlending instruments are undermined in poor policy and institutional environments. For lending, project outcomes are closely tied to country policy and institutional environments, as measured by the CPIA ratings. CAEs also suggest the quality and impact of nonlending are lower in poor policy environments. These results underscore the need for more strategic selection of instruments in poorly performing countries.

Stand-alone Technical Assistance Loans (TALs) fared better in low CPIA countries than any other form of lending, due largely to recent evaluations in ECA, suggesting that the Bank should continue focusing on capacity and institution building, a critical objective for low-capacity countries. Operational results confirm that major policy reforms supported by adjustment lending had a particularly weak success rate in countries with poorly committed governments. While true generally for all lending, adjustment lending results are relatively more sensitive to country conditions as proxied by CPIA results. Recent CAEs identify more general enhancements across instruments to raise effectiveness in poor performers. For example, instrument design should be tailored to capacity levels, with a series of simpler

interventions providing better results than a single complex undertaking. Pilot programs also provide a valuable instrument for the Bank to test uncertain environments and to build capacity. The success of pilot initiatives suggests considerable scope for their expanded use in poor performers.

In terms of nonlending instruments, diagnostics are critical in poor performers for the assessment of ownership and risks. However, the balance between core diagnostic versus advisory work should be related to country conditions. Coverage of diagnostic exercises should be aimed at countries where potential vulnerability is the greatest. There is also a need for greater focus on the nonlending process and product. Remaining engaged in poor policy environments requires, not prescriptive ESW, but a focus on knowledge services that encourage debate and engage stakeholders. Another important lesson is the need to leverage analytic work conducted by partners. This is particularly important in Bank budgetary environments constrained by poor performance. Drawing on analytic work conducted by partners allows the Bank to strategically direct its resources to maximize impact. Finally, new forms of enclave assistance focused on outcomes may be experimented with, tapping the expertise of private companies and nongovernmental organizations.

*Tailor nonlending to country characteristics.* Nonlending activities, like lending, have more impact when adapted to country characteristics. In Lesotho and Kyrgyz, the analytic capacity in government has in the past been so limited that the impact of Bank country reports was restricted to a few officials and scholars. The impact of the Bank's nonlending activities is dampened in countries with ample domestic capacity. In India, Bank recommendations were often lost among competing domestic analyses of comparable quality. The Mexico CAE recommends that the Bank put into perspective the relative weight of its financial and advisory services in countries where advanced in-country analytic capacity exists. This suggests a need to be far more selective as recommended by the Task Force on Middle-Income Countries, which emphasized the need to work as much as possible in collaboration with clients and other partners. In weak institutional environments, on the other hand, nonlending part-

nerships should involve particular attention to helping build quality "home-grown" analysis. The recent Chile CAE offers a model for supporting countries where knowledge, not financing, is needed. It recommends using short policy notes that inform and guide the decision of the moment, and more detailed sector work only if lending operations require it. While cost recovery is an option, the full cost pricing policy of the Bank has proven to be a significant obstacle. When charged for, Bank advice must be of extremely high standards in order to satisfy demand, and it should be limited to areas where the knowledge market has failed and the Bank has a unique capacity to help its member countries.

**Borrower Commitment and Policy Environment** Borrower commitment is the second strong determinant of country outcomes. In Bulgaria, the Bank took appropriate action in the face of weak government commitment. A key element

of the Bank's assistance program was a Financial and Enterprise Sector Adjustment Loan (FESAL). When it became clear that the government would not deliver on its commitment to follow through with reforms the Bank took a prudent stance and delayed the FESAL. The Bank then focused on supporting institutional changes and specific sectoral needs through investment lending. The FESAL was put on hold for five years until a more appropriate environment existed for the reforms. The Bulgaria CAE notes that in hindsight, the move to delay FESAL was highly relevant and the project outcome was rated satisfactory by OED. In Mexico, the Bank approved two single-tranche SALs for pension reform. Policy actions were agreed upon and taken in advance of the approval of each loan. Use of simple single-tranche loans allowed the Bank to maintain an appropriately low profile on politically charged issues.

*The effectiveness of nonlending varies by country policy environment.* There is a strong connection between nonlending effectiveness and the quality of country policy environments. As table 4.2 illustrates, ESW carried out in countries with lower average CPIA ratings had less impact on Bank products and on country dialogue than it did in countries with medium and high CPIA ratings. However, the returns of ESW which lead to policy turnarounds are so high that a lower rate of success may be acceptable provided the activity is carried out with the clear objective of nurturing reform and capacity building. Remaining engaged in poor policy environments also requires a focus on activities beyond prescriptive ESW. The Bank must use the full range of its ESW toolkit to encourage debate and

engage stakeholders. Innovation in nonlending approaches and partnerships should be a key feature of risk management with respect to poor performers and a powerful antidote to unwarranted risk aversion.

#### Directions for Effective Instrument Use in Country Strategies

*Diagnostics and due diligence.* The Bank's move toward a country-based approach and increased programmatic lending is being supported by a movement to standardize analytic coverage in each client country. Project-level fiduciary controls are being complemented with country-level diagnostics and capacity-building initiatives. In FY01, management further enhanced the role of fiduciary assessments in its operational work by including Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reports (CPARs), and the Public Expenditure Review (PERs), together with Poverty Assessments (PAs) and Country Economic Memoranda (CEMs) as part of *core diagnostic reports*.

The Bank could do more to clarify the intended impact and consequences of its core assessments. The guidelines for the CPAR, CFAA, and PER suggest that findings and recommendations are to be fed into the CAS process, but do not elaborate on *how* the instruments are expected to achieve this linkage. There is no consensus in the Bank on the minimum fiduciary standards for borrowing countries. More importantly, the consequences of the fiduciary assessment findings for Bank assistance programs are unclear. The Bank's policy currently does not require fiduciary assessments to be carried out in all borrower countries, and coverage to date

Table 4.2

#### Quality of ESW by Country Policy and Institutional Environment

CPIA ratings	Relevance	Impact on Bank products	Impact on country dialogue
Low	4.9	3.7	2.9
Medium	4.5	4.2	3.9
High	5.4	5.2	5.1
Average rating	4.7	4.3	3.9

Note: The analysis is on a scale of 1–6, with above 3.5 representing overall satisfactory rating.

Ratings based on a review of ESW quality in 50 countries with CAEs.

appears to be based on demand from country teams, the budget, or available skills. Current guidelines do not provide criteria for selecting and prioritizing across countries; in particular the volume of adjustment loans in countries does not appear to be an explicit criterion.

*Piloting* projects allows uncertain environments to be tested. Evidence in the most recent country evaluations suggests that on the whole, pilot projects contributed greatly to the effectiveness of lending, by building institutional capacity or convincing stakeholders of the benefit to reform. In Chile, positive results from pilots in health care stimulated public debate and helped to launch institutional reforms in the sector more generally. In the Kyrgyz Republic, limited Bank experience in the country hampered the relevance and effectiveness of the early lending program. The Kyrgyz CAE notes that piloting new approaches through LILs might have resulted in more realistic perceptions of government capacity, simpler project designs, and more effective lending. OED evaluations for India also reinforce the need for a better understanding of capacity constraints and the context of reforms before project preparation. Recommendations include using small-scale pilots to provide insight into the current policy and institutional framework and to test reforms and innovations. OED findings in India suggest that Bank

teams that adopted intensive policy dialogue and pilot projects improved the relevance of their interventions and achieved better quality at entry. Positive experience with pilot investment lending has resulted in an expanded scope for the application of LILs.

*Dissemination and outreach.* Recent CAEs show a mixed quality of dissemination of ESW as a weakness in many Bank programs. The modest impact of earlier Bank reports in Mexico and India was influenced by government reticence over the dissemination of external analysis and recommendations. Conversely, the payoff from wide dissemination and outreach is substantial. In Vietnam, the earliest economic and sector reports were translated into Vietnamese and sold in street kiosks. Since the introduction of the CDF in 1999, analytic work has been produced in closer partnership with many stakeholders and dissemination has been extended through workshops and conferences. The FY97 Morocco CAE noted that the large amount of good-quality ESW produced did not have an impact, largely because the efforts excluded building a constituency for the analysis and recommendations. But recently there has been a successful change of approach, and the FY01 CAE notes that Bank efforts to disseminate studies have contributed to the public policy debate.



# Sector and Thematic Strategies, Instruments, and Outcomes

**T**he evolution of the Bank’s corporate priorities is reflected in the recent expansion of lending for social protection, economic policy, public sector management, and finance, and in a stronger focus on institutional reform. Declines in lending for rural development and education, by contrast, seem inconsistent with defined priorities and highlight the need for updated operational strategies in these sectors. Specific investment loans continue to be the predominant lending instrument, and the use of new programmatic lending instruments is growing. Innovations in lending arrangements aiming to support corporate priorities include sectorwide approaches and social funds. The Bank’s crosscutting thematic objectives, such as environmental sustainability and gender, can best be achieved through complementary use of both lending and nonlending tools.

This chapter reviews recent trends in the lending among sectors in relation to corporate priorities and addresses the following questions:

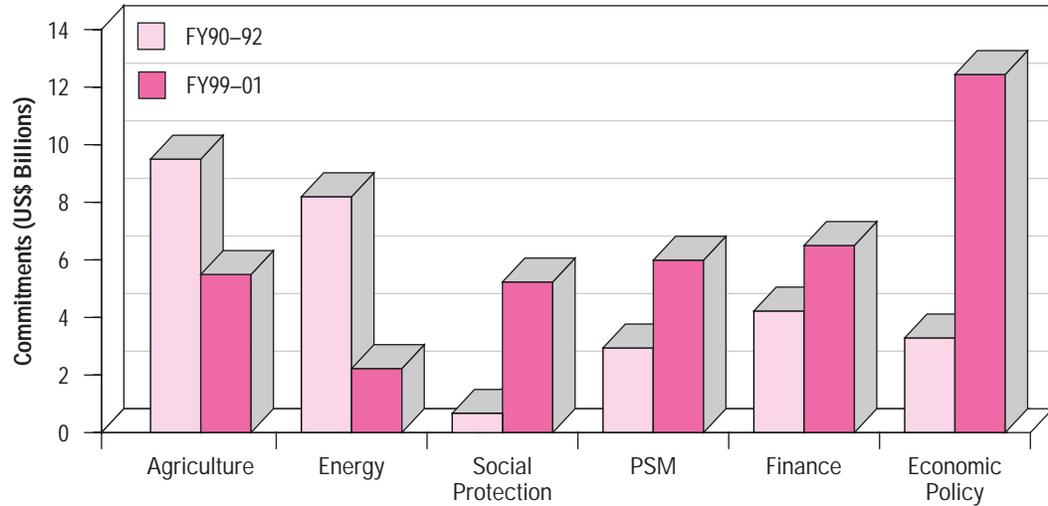
- How is corporate selectivity reflected in sectoral strategies and lending commitments?
- How effective have been the choice, combination, and deployment of instruments between sectors?
- What instruments are used to support the Bank’s crosscutting thematic strategies and with what results?

## Selectivity Across Sectors

The Bank’s Strategic Directions give emphasis to five priorities for corporate advocacy: empower-

ment, security, and social inclusion; the investment climate; public sector governance; education; and health. Recent shifts in the structure of lending are broadly consistent with these priorities, and with the defined “core competencies” of the organization. The biggest sectoral shifts over the last decade, as measured by the Bank’s own sector classification,<sup>1</sup> are highlighted in figure 5.1. Between FY90–92 and FY99–01, lending for economic policy quadrupled, growing to a full one-fifth of total lending. Social protection and public sector management were other fast-growing sectors. Meanwhile, lending for agriculture shrank to just 9 percent, and lending for electric power and energy was at one-quarter the earlier level.

Figure 5.1

Major Shifts in Sectoral Commitments  
(FY90-92 to FY99-01 Approvals)

The declines in agricultural and infrastructure lending represent a reaction to policy shifts since the late 1980s in response to the disappointing record of public agencies in agricultural marketing and extension and in support of private investment in several sectors, particularly electric power and energy, oil and gas, industry, and telecommunications. Together, these four sectors accounted for 20 percent of lending in FY90-92 but only 4 percent in FY99-01. In the case of power and energy, the decline represents a deliberate shift by the Bank toward nonlending activity designed to create new regulatory and policy environments. Lending for transportation, which continues to depend more heavily on public investment,<sup>2</sup> was maintained at 11-14 percent throughout the period, with a shift in the focus of lending from purely infrastructure investment to reform of the institutional framework for better service delivery and sustainability of investments.

The expansion of lending for social protection, from 1 percent of commitments in FY90-92 to 9 percent in FY99-01, matches the priority now given by the Bank to social safety. Similarly, the priority of public sector governance is reflected in the doubling of lending for public sector management (PSM) to 10 percent of the Bank's portfolio, with increasing attention to

governance and anti-corruption issues. Lending in the finance sector increased in the latter half of the 1990s, supporting the priority of improving the investment climate. Within lending for finance, the balance has shifted from supporting the development of individual financial institutions and markets to encouraging the reform of financial systems. Rapid growth in the volume and share of lending for economic policy is also consistent with the Bank's "core competencies" in economic management and financial systems, and with the corporate advocacy priority of the investment climate (although the levels of lending for both economic policy and finance also reflect the Bank's role in emergency lending to countries in crisis).

Lending to two of the sectors identified as corporate advocacy priorities—health and education—has not grown. The health portfolio remained at about 5 percent of total commitments from FY90 to FY01, while lending for education fell to only 5 percent in FY99-01: annual education sector commitments dropped sharply in the last two years to less than half their average for FY90-99. This measure does not reflect the inclusion of health or education components in multi-sectoral investment or adjustment operations. The share of policy conditions

applied in adjustment lending to the social sectors expanded rapidly in the 1990s to 18 percent in FY98–00, with human development accounting for 15 percent of tranche conditions.

The sharp fall in lending for agriculture also appears inconsistent with corporate priorities, considering that rural development is one of the crosscutting themes within the Bank’s defined core competencies and is critical to poverty reduction in many client countries. A decrease in some traditional lending areas—such as large-scale irrigation and drainage and agricultural credit to large borrowers—accounts for part of the decline. Even though a growing share of lending for agricultural operations has been assigned to other categories such as environment, there is a real decline, given also the relatively small share of lending directed to rural development as a whole. A portfolio review of all sectors/categories of lending for FY99–00 reports a decline in rural lending in most regions in FY00, from the average for FY98–99, attributed to a fall of 50 percent in expenditure on ESW relative to lending costs, the high-risk and high-cost image of rural operations, and a decline in

staff resources combined with skill shortages. OED’s rural poverty review identifies additional factors: reduced demand from borrowers who give higher priority to social sectors when food supplies appear secure; changing incentives for country directors faced with pressure to lend at low cost; and a lack of analytical methodologies within the Bank to adequately demonstrate poverty impact and social returns to rural and agriculture investment.<sup>3</sup>

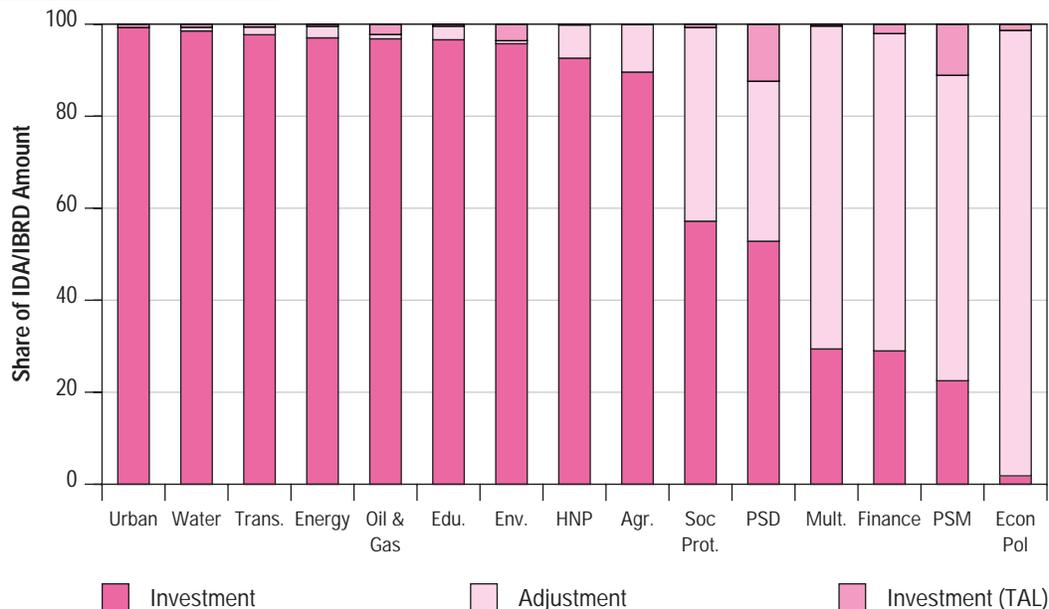
## Instrument Choice and Performance

### Instrument Choice Among Sectors

The recent expansion of adjustment lending in the Bank’s portfolio has occurred primarily in four sectors—economic policy, finance, public sector management, and social protection. Figure 5.2 shows the distribution of investment and adjustment commitments in each sector in FY96–01. Adjustment operations have been used only on a limited scale in agriculture and on a very small scale in education, health, energy, and transportation. While most investment projects incorporate technical assistance, significant use

Figure 5.2

Different Sectors Rely on Different Instrument Groups (FY96–01 Approvals)



of stand-alone Technical Assistance Loans has occurred in parallel with adjustment lending.

Within investment lending, SILs remain the dominant instrument in all sectors. Some sectors, though, have made significant changes in their use of instruments over the 1990s, as sector strategies have been enhanced and the new adaptable lending instruments introduced. The use of FILs, predominantly in finance and on a smaller scale in agriculture, urban development, and other sectors, has dropped sharply. The use of SIMs has also declined in all the sectors where their use had been significant, primarily in transport, education, agriculture, and health—the same sectors that have made most use of APLs since their introduction in 1998. Social protection has taken the lead in the use of LILs, which accounted for more than 20 percent of projects and commitments in the sector in FY98–01, followed closely by education.

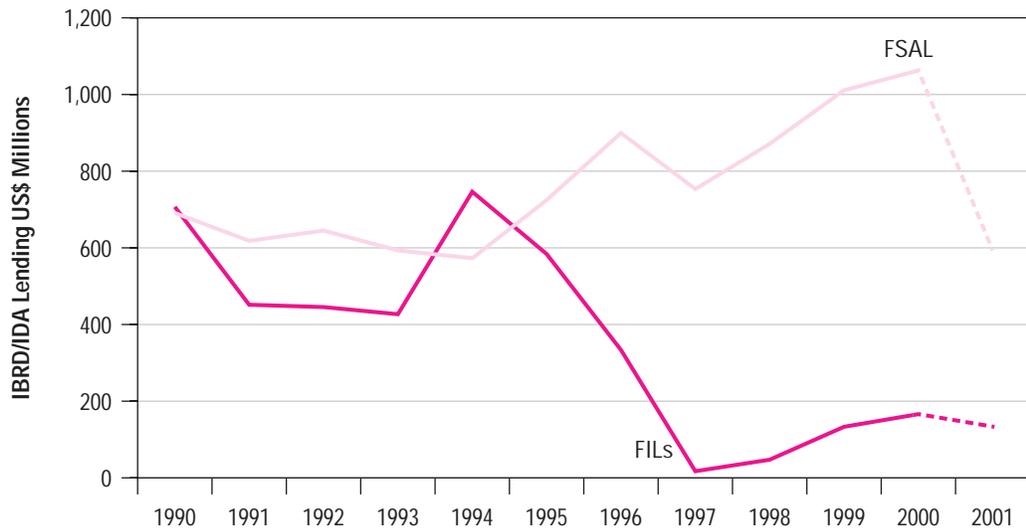
**Sector-Specific Issues in Instrument Choice**

The following section looks at selected sectors of Bank operation and how the different instruments perform in achieving sectoral goals. Where physical assets are a significant intermediate objective—as in many transport, urban devel-

opment, environment, and water projects—SILs are the predominant instrument. Where policy reform or fiscal management is the goal, adjustment lending dominates. And when institutional development combined with policy reform is an important objective, both investment and adjustment instruments are used. Adjustment loans, often supported by Technical Assistance Loans, have been particularly effective when the ID focus is on policy and regulatory reform, whereas investment operations appear to offer advantages when sector conditions require substantial consultation and consensus building among multiple stakeholder groups and institutions, and when piloting, monitoring, and evaluation activities warrant high priority.

In the **finance** sector, the move from investment to adjustment lending (figure 5.3) has matched the concurrent shift in the Bank’s objectives, from expanding access to investment finance through individual financial institutions to the reform of financial systems. Financial Intermediary Loans (FILs) performed poorly because of weaknesses in the policy and institutional environment, shifting attention to overcoming these weaknesses. Financial adjustment loans (denoted as FSALs and including SECALs

**Figure 5.3** The Move to Adjustment Lending in Finance (FY90–01 Approvals)



Note: Time trends reflect three-year moving averages, and exclude several outlier jumbo loans that were in response to severe financial crises.

or finance-focused SALs) have proven more effective than FILs to support wide-ranging reforms in the financial sector, and their performance has improved (to more than 85 percent satisfactory for projects exiting FY96–01) since OED’s review of the sector in 1998. Still, FSALs have been more successful in removing distortions and improving financial infrastructure than in restructuring institutions or improving competition, and their effectiveness in supporting the difficult financial restructuring needed after a crisis is over is still uncertain. To address these longer-term issues, the Bank’s financial sector strategy proposes that loans should be frequently monitored (as recommended by OED),<sup>4</sup> and that vehicles such as technical assistance components, adaptable program lending, and partnerships with other donors should be used to maintain continuing dialogue.

In the **social protection** sector, adjustment loans account for more than half of all commitments for the 59 evaluated projects exiting in FY97–01. Ninety-two percent of the adjustment operations had satisfactory outcome ratings, compared with 84 percent for investment operations in the sector. The recent movement of the Bank’s clients toward “multi-pillar” reforms created the opportunity to focus adjustment loans directly on pension reform.<sup>5</sup> Client countries have called on the Bank to finance the initial expenditures involved in honoring existing pension commitments, allowing them to divert contribution revenue from the public pay-as-you-go system to new funded schemes. When well-designed, the reform results in reduced costs to the government in the future, providing the resources to repay the loan. The first adjustment loan based purely on pension reform took place in December 1996 to Argentina, quickly followed by operations in Mexico, Peru, Uruguay, and Kazakhstan. The Mexican loan helped finance transition costs and improve the regulatory framework for the funded pillar. The project in Uruguay fostered increased efficiency among the second pillar pension fund administrators and promoted the development of the private securities market.<sup>6</sup>

In the **public sector management** sector, both investment projects and adjustment loans (the

latter accounting for about one in four operations) have performed above the Bank average. The Bank’s strategy for the sector envisages a significant complementary role for programmatic investment and adjustment lending in supporting public sector reform.<sup>7</sup> Long-term institutional concerns do not fit easily in a traditional investment project with limited scope and the need to disburse against actual project expenditures. APLs have been approved or are under consideration for Ghana, Bolivia, Tanzania, and Zambia, to facilitate a longer-term focus on institution building and to link disbursements more closely with governments’ needs and with improvements in monitorable indicators. Traditional adjustment lending, on the other hand, may focus on systemic institutional concerns, but its typically short time frame and irregular disbursement pattern are not well-suited to sustained efforts at institution building. The new programmatic adjustment loans are expected to overcome some of these limitations by encouraging a longer-term and more systematic approach to public sector reform through a medium-term program of annual single-tranche operations.

In the **agriculture** sector, a significant change in instrument use has been the decline in the use of FILs, from 15 percent of projects exiting in FY94 to none in FY00–01. Adjustment lending continues to play a role, accounting for 14 percent of commitments for projects exiting in FY97–01, with 16 of the 19 operations rated satisfactory on exit—stronger performance on average than for investment lending in the sector. OED’s 1997 review of agriculture SECALs<sup>8</sup> found that performance had improved in loans approved from the early 1990s (when the Bank’s policies for the sector shifted from the public-production-and-control model to liberalization and competitive marketing), with more attention given to borrower ownership and the time needed to implement reforms, but that further measures were needed to match the Bank’s adjustment lending instrument to the long-term needs of institutional reform. These measures included frontloading of policy reforms, and systematic nurturing of borrower commitment through nonlending services and participation prior to lending. Investment loans were found

to have been effective in reform of public expenditure in the agriculture sector but had rarely covered such comprehensive policy reform programs. The Bank's strategy for rural and agricultural development in the ECA Region envisages little future use of Sector Adjustment Loans, despite their relatively good outcome ratings: the bulk of lending for policy reform will be through structural adjustment operations, with agricultural and rural reform components, while much greater weight will be given to investment lending with particular concern for community-based development and poverty reduction.<sup>9</sup>

Adjustment loans have rarely been used in the **health and education** sectors despite the policy constraints often present in these sectors. The mixed performance of a few education SECALs in the 1990s (five of the nine operations were rated unsatisfactory at completion) has been an inhibiting factor: the instrument has not been used for an education project exiting since 1997. The education sector strategy paper envisages greater use of the new investment lending instruments because of the importance in this sector of process-driven goals that involve many stakeholders and institutions.<sup>10</sup> APLs and LILs are permitting more open-ended lending, based on specific objectives and a long-term development strategy, and allowing for piloting and innovation over a shorter time frame.<sup>11</sup> Of the two health SECALs exiting in the 1990s, one was rated satisfactory. When Bank investments represent only a small share of health sector spending, their impact depends on leveraging wider changes in the sector. In this respect, adjustment operations may help focus attention on policy dialogue, but they are not good vehicles for testing new approaches through piloting, for rigorous monitoring and evaluation to provide evidence on what works, or for helping to scale up successful approaches. Nevertheless, there is room for them, and the Bank's strategy envisages a more significant role for SECALs in health and education in some regions in the future.

Traditional specific investment lending continues to dominate Bank operations in the **water** sector. SIMs and APLs have not been used on a significant scale, although activities in the sector have included complex programmatic opera-

tions. OED's review of the sector recommends greater use of adaptable lending instruments and the development of new, cost-effective, performance-based approaches in deploying these instruments.<sup>12</sup> Since 1989, Bank strategy has focused on facilitating the privatization process in water supply and sanitation. For this purpose, lending operations have been increasingly supported by other instruments, leveraging the Bank's cross-country experience, relationships and capacity to connect clients with additional sources of finance, technical expertise, and partnerships.

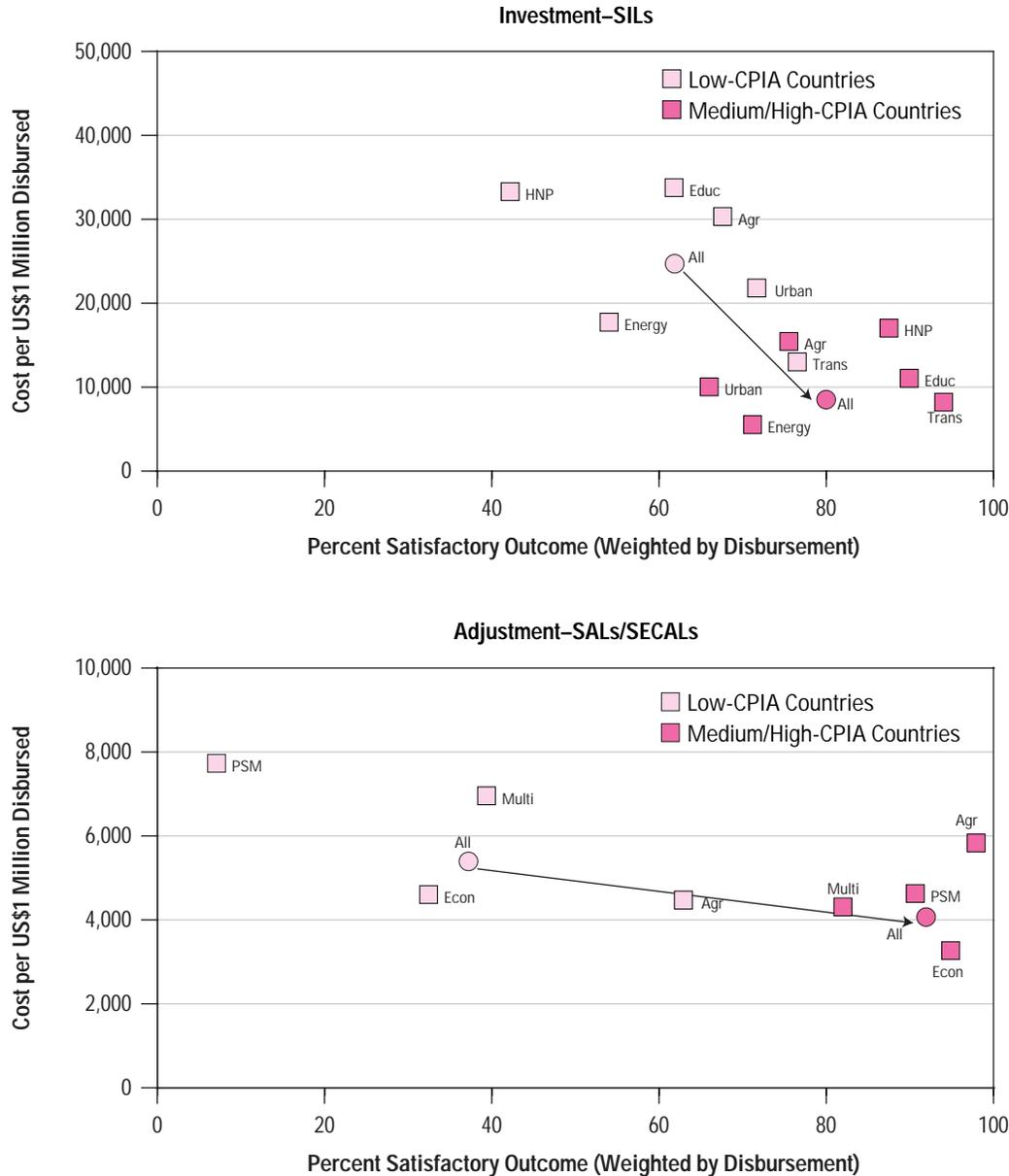
*The cost dimension of sectoral operations.* At the sectoral level, country conditions influence both the performance and the costs of lending operations. Figure 5.4 illustrates costs and outcomes at the sectoral level for selected adjustment and investment instruments under different country conditions. The figure demonstrates that costs for investment lending are considerably higher across all sectors in low CPIA countries. The health, nutrition, and population (HNP) sector demonstrates considerable movement in terms of cost of lending and outcome between country contexts. HNP investment lending in low CPIA countries has among the highest costs and lowest outcomes, but cost is halved and outcome ranks among the highest when undertaken in medium/high CPIA countries. Investment lending in the education sector exhibits an equally strong movement, with lending costs decreasing dramatically from low to medium/high CPIA and outcomes improving with country conditions. The costs associated with sectoral interventions using adjustment lending are not as sensitive to country environment. Figure 5.4 shows that for all sectors the cost of lending for SALs/SECALs only modestly decreases between low and higher CPIA countries. Country environment does, however, have a strong positive impact on outcome for adjustment lending in all sectors. The agriculture sector is the only exception, with costs for adjustment lending increasing in medium/high CPIA countries, though this is also accompanied by higher outcome ratings.

### Combining and Sequencing Instruments

Few Bank-funded projects stand alone. Many are one of a sequence of similar loans and/or are

Figure 5.4

## Costs and Outcomes Are Influenced by Quality of Operating Environment



supported by concurrent or overlapping operations with similar or related objectives. The sequencing of operations, and the synergies between different operations, may be particularly important when project objectives include complex institutional reforms, and when the course of these reforms cannot be clearly predicted. Successful adjustment lending in these conditions requires the use of complementary instruments

to ensure continuity in policy dialogue and the necessary analytical work over a long period, together with support to piloting and implementation (box 5.1). This was demonstrated effectively, for example, in Armenia's education sector. The Bank supported the government's far-reaching reform program from 1996 through two kinds of instruments—a SIL and two SALs—neither of which could have been fully effective on

## Box 5.1

## Combining Investment and Adjustment Lending for Institutional Reform

Two examples from the ECA Region illustrate effective combination of investment and adjustment lending for sectoral reform objectives.

**Reform of social protection system in Bulgaria.** The Bulgaria Social Protection Adjustment Loan (SPAL), in 1999, supported an ambitious and comprehensive program to establish the legal basis for reform of the pension system, labor markets, and social assistance. Although the full scope of the program proved unrealistic and not all the measures were accomplished, the progress made on pension reform was strong. The success of the SPAL in its objectives on reform of the pension system can be attributed in large part to the support provided through an investment project, the Social Insurance Administration Project (SIAP), effective two years prior to the SPAL, at a time when the government was committed to reform but consensus was lacking on specific policies. Contrary to usual Bank practice in the region, this project included no policy conditionality. It focused solely on building technical and administrative capacity in the country—in the National Social Security Institute (NSSI)—for pension policy development and implementation. With the benefit of high-quality technical assistance through the project, the NSSI was instrumental in developing policy proposals that

were technically sound and publicly acceptable, allowing quick passage through parliament of the legislation needed to support restructuring of the system.

**Restructuring of the mining sector in Ukraine.** The Ukraine Coal Pilot Project, rated highly satisfactory, played a crucial role in setting in motion a major restructuring program, in combination with the (almost) parallel Coal SECAL. Although the launching of the SECAL did not wait for the results of the pilot project, the SECAL was restructured to incorporate lessons from the pilot. The achievement of the pilot in demonstrating a feasible process for closure of mines was sufficient to trigger an accelerated mine closure program and thus substantially reduce the drain on the national budget for operation of uneconomical mines. Taking a flexible approach (the project was amended three times to reallocate resources as priorities changed) in adverse institutional conditions, the investment project focused on the technical, political, and social issues for mine closure, building understanding and consensus on the need for mine closures through consultation, information sharing, and social assessments, and by demonstrating approaches that were technically, financially, environmentally, and socially viable. The SECAL facilitated acceleration and a scaling-up of the program.

its own. Policy conditionalities in the SALs supported the necessary legal and regulatory changes, as well as crucial provisions in the education budget needed to finance the reforms and encourage public support. The SIL, meanwhile, supported the Ministry of Education's capacity for analysis and policy making, decentralized school management, and textbook production.

Even though most sector strategies focus on the use of lending to achieve sector objectives, nonlending instruments also play a critical role. Most directly, sector analytical work drives the effectiveness of lending assistance. OED's sector reviews confirm the role of economic and sector work in gaining government commitment and producing good results in lending operations. In the water sector, for example, recent economic and sector work has had a substantial positive impact on the design of Bank water projects. Good analysis and policy dia-

logue have been instrumental in gaining government commitment and improving policies for the environment in a number of countries, including China, Mozambique, Costa Rica, India, and Vietnam. The importance of diagnostic analytical work is further enhanced by the CDF framework, which calls for coordination of donor support on the basis of comparative advantage within a country-owned development strategy. Yet, OED's rural poverty study notes the modest and declining spending on rural ESW, while the environment review finds a decline from the 1990s in both the number of studies and budgetary allocations.

#### **Innovative Approaches to Sector Assistance: SWAPs and Social Funds**

The design of Bank interventions is not limited to the choice of lending instruments. The available instruments can be applied to a wide variety of approaches designed to match specific

development needs. Sectorwide approaches (SWAPs) and social funds are two approaches that have assumed growing significance in the Bank's lending. They provide mechanisms to coordinate the use of donor resources in support, respectively, of sectorwide reforms and small-scale community-level investments. Table 5.1 outlines the objectives and core features of each approach. SWAPs aim to achieve long-term improvement in sector performance. The prerequisites for successful use of a SWAP include macroeconomic stability in the recipient country and country leadership of a sound sector strategy and expenditure framework. Success also depends critically on donor willingness to align and coordinate assistance in support of the government program, using a joint annual review process. Building the consensus necessary to set up a SWAP is time-consuming, and the anticipated benefits are long-term. Social funds, in contrast, can be established to produce visible results rapidly in adverse economic and institutional conditions. They may be appropriate when action is needed urgently to address small-scale infrastructure and other needs at the community level and existing agencies lack the capacity to respond. But they offer limited long-term impact on sector performance or wider institutional development and they can be misused to undermine budget discipline and sector policy standards.

**SWAPs** signify a process—not a program or specific financial instrument. Bank support to SWAPs, in some 20 countries, has taken the form of SILs, SIMs, and increasingly, APLs. The approach was introduced in the early 1990s in response to the proliferation of poorly coordinated donor-supported projects, weak government commitment to programs and reforms, and failure to budget adequately for recurrent costs. The approach has the potential both to reduce aid transaction costs and to strengthen countries' management and accountability structures. In practice, SWAPs have had some success in introducing common implementation arrangements and pooled donor funding, greater coherence in sector policy and planning, enhanced country ownership of a long-term strategy and priority programs, improved allocation of public resources, and elimination of imbalances in

capital and recurrent spending. Reviews of the Ghana health program have documented progress in program transparency, in reproductive health services, and in the quality of basic health care. Still, no SWAP has yet resulted in all external funding being supported through a single unified donor-coordinated lending instrument. Moreover, challenges remain in building country ownership and capacity beyond central government, establishing baseline data and agreed indicators for monitoring program performance and progress, and getting significant harmonization of donor procedures.

**Social funds** are multi-sectoral and usually have broad, cross-sectoral objectives such as alleviating poverty and strengthening community organization. Bank lending to social funds began in 1989 and has expanded rapidly to some 58 countries. Social fund projects create autonomous implementing agencies to finance small projects in several sectors, based on proposals submitted by local groups. Most social funds were set up as temporary mechanisms to channel resources to needy communities at a time of crisis, but virtually all are still in operation, supported by successive Bank SILs and grants from multiple donors, and have assumed longer-term objectives. OED's social funds review<sup>13</sup> finds that the approach has been effective in responding rapidly in emergency situations, mobilizing nongovernment resources, and delivering small-scale infrastructure in poor communities, although performance has varied across sectors. Projects have been less successful in achieving consistent improvements in development or welfare indicators, or in facilitating institutional development.

SWAPs and social funds can be used to meet complementary sector objectives at national and grassroots levels although some tension exists between the two approaches. A social fund operating on a significant scale in a given sector is normally channeling funds outside the expenditure framework that is at the core of a sectorwide reform program, and risks undermining this program—even when steps are taken to promote coordination. In Zambia, for example, the Bank has been supporting a social fund which has allocated some 70 percent of its expen-

Table 5.1 Core Features of SWAPs and Social Funds

Feature	Sectorwide Approaches	Social Funds
<b>Sectoral scope</b>	Single sector or subsector	Multi-sectoral
<b>Primary sectors of operation</b>	Health, roads, education, water, agriculture	Education, health, water, roads
<b>Sectoral objectives</b>	Improve efficiency and quality through sectorwide reforms, correct balance of capital and recurrent expenditures, and build public sector capacity	Increase access to and quality of basic services, primarily through improvement of small-scale infrastructure
<b>Institutional development focus</b>	Central and provincial/regional government	Local governments or community-based organizations
<b>Institutional design</b>	Integration of management of donor resources in government systems Common implementation arrangements. Joint annual review	Enclave—semi-autonomous implementing agency manages funds of multiple donors according to each donor's requirements and procedures, although mostly using a common Operational Manual
<b>Mechanism for determining resource allocation</b>	Sector strategy and sectorwide expenditure framework	Community proposals
<b>Strengths</b>	Government ownership and accountability Public sector ID impact. Increased cohesion in sector policy with improved allocation of expenditure Reduction in aid transactions costs	Quick visible results Rapid implementation of small infrastructure projects in difficult conditions Mobilization of nongovernment resources and capacity
<b>Limitations</b>	Requires: – government ownership of sound sectoral reform program – macroeconomic stability – agreement among major donors – time and resources to reach agreement	Difficulty in meeting technical and institutional requirements in multiple sectors Difficulties of coordination and accountability vis-à-vis government agencies Limited ID impact at central level Reliant on resource management capacity of public agencies and/or communities for financing of recurrent costs
<b>Lending instrument choice</b>	SILs/ SIMs/ APLs/ SECALs	Series of SILs

diture to schools, while at the same time using a SWAP in the education sector to coordinate funding from different sources within a strategic framework for improving the quality and efficiency of basic education. Zambia's Social Investment Fund has proved effective in construction and rehabilitation of school buildings and in

helping to coordinate activities at the local level. And it has been training district-level education officers in community development and self-help techniques, under the auspices of the SWAP. As a "temporary" institution, it has effectively compensated for some of the weaknesses of public sector reform. But, in substituting for some func-

tions of central and local officials, it has tended to inhibit development of the permanent institutional capacity and accountability structures needed for sustainable sectorwide improvements. OED's social funds review recommends strong country team coordination to ensure consistency of social fund activities with a country's sector reform strategies, as well as the Bank's sectoral policies and technical standards. It also cautions against allowing lending through social funds to displace sector policy-intensive initiatives in which the Bank has comparative advantage. Optimally, exit strategies for social fund programs can be facilitated by SWAPs.

The sectoral focus of SWAPs can be complemented and enhanced by the new PRSCs' focus on cross-sectoral challenges of poverty reduction and institutional development. In this context, SWAPs provide a means of advancing the sector reforms and addressing the capacity constraints for implementing poverty reduction strategies. The interface between SWAPs and PRSCs needs careful design in the context of a country's poverty reduction strategy. The implications need to be drawn as the Bank's new business model for low-income countries is refined.

### Policies and Actions in Support of Thematic Strategies

The Bank has enunciated strategies in a number of crosscutting thematic areas. These thematic areas are not "sectors" in the traditional sense, but represent dimensions that enhance the quality and equity of the development process across sectors. To implement these strategies, the Bank seeks to mainstream the operational emphases they imply at the sector and country levels by drawing on a wide range of tools. OED has recently reviewed four such thematic strategies—environment, gender, culture, and participation.<sup>14</sup> These reviews have documented the institutional constraints to mainstreaming and the difficulties (often underestimated) of using lending, corporate nonlending activities, and country-level nonlending activities individually and together to achieve thematic objectives. Table 5.2 summarizes the specific combinations used in each of the four areas, in which "XX" denotes strong use of the activities, "X" denotes some use, and blank indicates no or negligible use.

Of the four strategies reviewed by OED, environmental sustainability has exploited the widest range of actions and instruments. Direct lend-

Table 5.2

Tools to Support Thematic Strategies

	Environment	Gender	Culture	Participation
Targeted lending				
Dedicated investment projects	XX	X	X	
Investment project components	XX	X	X	
Adjustment lending components	X			
Corporate nonlending activities				
"Do no harm" policies (incl. safeguards)	XX		X	
"Do good" policies	XX	X	X	X
Monitoring and structures for consistent compliance with policies/guidelines	XX	X		
Staff training and capacity building	XX	X	X	X
Global/regional partnerships	XX	X	X	
Country-level nonlending activities				
CAS/PRSP	X	X	X	X
Economic and sector work (ESW)	XX	X		X
Country-level partnerships	X	X	X	X

ing has been particularly effective in improving natural resource management. Lending is complemented by a strong implementation of corporate policies, especially “do no harm” safeguard policies. Provisions for monitoring and supporting the implementation of environmental safeguards were introduced in fiscal 2001, through creation of the Quality Assurance and Compliance Unit. The environment strategy is also supported by country-level nonlending instruments, including National Environmental Action Plans, as well as diagnostic work on specific issues. This not only supports direct Bank lending, but also serves to integrate awareness of environmental issues into national programs. In Morocco, for example, the Bank’s involvement led to mainstreaming of environmental issues in line ministries. Country environmental assessments are increasingly being prepared with the participation of local experts and through in-country partnerships with other donors.

Leveraging regional and global **partnerships** has been a key element of the Bank’s strategy for the environment. The Bank has used its advisory services and convening power to raise awareness of global environmental concerns among members, and it supports multi-country partnerships for sustainable water resource development, forest issues, and environment conservation. One example is the CEOs’ Forum on Forests, launched by President Wolfensohn in 1997, to forge a working partnership between international forest industries, environmental and social development organizations, and the Bank. Beyond its own lending, the Bank is a major implementing agency for the Montreal Protocol and the Global Environment Facility which help the institution further its environment agenda at the local as well as the global level.

Partnerships have also been used with particularly good results in cultural heritage. The Bank has done a limited amount of lending for preservation of cultural heritage sites, but the strategy for culture has focused mainly on coordinating efforts with other multilateral and bilateral donors, and through the Culture Assets for Poverty Reduction Group, on fostering partnerships with technical agencies, NGOs, govern-

ments and foundations, with the objective of mainstreaming culture in development.

All the thematic strategies have effectively used **analytical work** to support thematic objectives. Gender assessments at the country level have increasingly involved local consultants and partners and in some cases (as in Ghana, Ethiopia, and Yemen) have relied on participatory assessments. These assessments are not mandatory. Where they have been carried out, they have contributed substantially to integration of Women in Development (WID) and gender issues in the Bank’s CAS and lending portfolio—as in India. In the absence of a timely gender assessment, these issues can be neglected in the CAS. This issue is acknowledged in the recently completed Gender Mainstreaming SSP, which envisages that all countries with an active Bank program will be covered by a gender assessment within the next three years.<sup>15</sup>

The gender strategy has been less effective than the environment strategy in linking corporate nonlending activities with lending and nonlending operations. The significant efforts made in the past to establish **internal structures**, notably the Gender Sector Board and Thematic Groups, were not accompanied by a clear implementation strategy. Policy on gender was scattered among several different documents, leaving the operating environment unclear and subject to different interpretations. Although the Bank has sponsored sectoral training and knowledge services through its WBI and Gender Sector Board—including specific training (such as integrating gender considerations in micro-level economic activities), conferences and publications—no systematic training on Bank gender policy and implementation strategy is available to staff. In fact, a recent external evaluation found the World Bank to be the “least developed” among multilateral organizations in mainstreaming gender goals.<sup>16</sup> The new Gender Mainstreaming Strategy Paper focuses sharply on addressing these weaknesses and aims to clarify accountabilities, costing, funding mechanisms, and M&E arrangements for implementation across the Bank. An interim Operational Memo has already been made available to staff.

Participation is a strategy that has exploited only a limited range of instruments, with the result that the quantity of participation by primary stakeholders has increased substantially in Bank-assisted projects and CAS and PRSP processes, but without a corresponding increase in quality. OED's participation review notes that the main activity has been **building staff capacity**, through the Sourcebook and Learning Group, and draws attention to the need for a more systematic and strategic approach to participation. Participation, unlike environment and gender, has been viewed as a means of improving the quality and effectiveness of the Bank's own operations rather than a development objective in itself. Some attention has been given to policies as a means to advance participation, but ongoing work has not been strategically coordinated or reviewed for quality. Relevant safeguard policies are limited to the issues for indigenous peoples and involuntary resettlement, through environmental assessments.

Two directions for future work emerge from OED's evaluations of thematic initiatives. First, successful mainstreaming requires the **strategic use of a set of instruments** as well as clearer Regional accountability and greater network authority to achieve results. As the participation study showed, staff guidelines and training are not sufficient. Even in the Bank's most "mature" thematic strategy, the policy framework is far clearer for the "do no harm" than the "do good" aspects of the strategy. For example, the corporate goal of environmental sustainability remains to be translated into comprehensive operational guidance and monitorable performance goals. To more fully mainstream its thematic goals, the Bank should give more attention to monitoring outcomes; clarifying accountability for promotion/performance on a particular thematic strategy; and creating processes, operating environments, and incentives that promote internal compliance with thematic strategies.

A second challenge going forward concerns the application of **safeguard policies**, as an important instrument in promoting crosscutting, thematic objectives throughout Bank operations. Issues for the future of these policies are being addressed by the Bank in a forthcoming paper.

The challenge for the Bank's "do no harm" policies is to strike the right balance between compliance and results, with serious and independent oversight to ensure that safeguards meet acceptable international standards combined with reasonable adaptation to national conditions and priorities so as to avoid the creation of a risk-averse mentality among Bank managers and staff. OED's water review notes, for example, that some countries (including Nepal) have found the Bank's "do no harm" policies too demanding and have turned to alternative sources of finance. The OED forestry review finds that the Bank's strategy fostered an "overly cautious approach" that was ineffective in slowing the global rate of tropical forest destruction. A pilot program to harmonize the country's enabling regulatory environment with the Bank's safeguard policy framework has been proposed for Vietnam.

### High-Potential Approaches for Implementation

To pursue its sector objectives, the Bank's basic business model is lending based on sector knowledge. New approaches have emerged for financing. To implement its thematic strategies, on the other hand, the Bank draws on a wider range of activities, including country and global partnerships. The following broad lessons emerge for both sector and thematic strategies.

**Selecting lending instruments to support institutional development.** All the Bank's instruments can be effectively used to help build institutional capacity and support reform. Making the right choice, though, requires clarity about the operation's objectives and good understanding of country and sector conditions. Adjustment lending, supported as necessary by technical assistance, can be effective when national ownership and consensus on sector reforms is strong. Programmatic investment lending may be the preferred approach, supported if relevant by LILs, when the range of stakeholders and institutions involved is large, and when there are challenges for consultation, consensus building, piloting, monitoring, and evaluation. More work is needed to assess the effectiveness of multi-sectoral adjustment instruments in addressing sector-specific issues, espe-

cially considering the growing significance of PRSCs. In this context, potential complementarity and synergy between PRSCs and SWAPs should be exploited. Finally, a combination of adjustment lending (supporting relevant budgetary and regulatory changes) and investment lending (supporting piloting and implementation of sector reforms) may be the best prescription.

**Importance of partnerships.** The Bank's partnerships—at the global, regional, and country levels—have played an increasingly significant role, both in building understanding and consensus on sector strategies within the development community and in setting the pace and direction of reform in client countries. The Bank has used its convening power and knowledge base to advance dialogue and joint initiatives in support of thematic objectives. The Bank's partnerships with international and national stakeholders have helped the institution to improve the relevance of its policies and to build a broad consensus around some of its thematic priorities. Over the years, the Bank has also built internal capacity to manage sectoral knowledge and support these priorities. At the country level, partnerships have a crucial role in setting the pace and direction of reform, particularly in large countries where selectivity is essential to leveraging the Bank's relatively small share in external assistance. This has been demonstrated in the water sector, for example, in China, India, Mexico, and Brazil. While such partnerships are clearly an essential and valuable instrument of the Bank in promoting sector and thematic objectives, the transaction costs in some cases can be high and more strategic attention may be needed in the future to cost effectiveness and selectivity in the use of partnerships.

**Better ESW.** The value of economic and sector work in support of sector and thematic objectives can be greatly enhanced through attention to three aspects: timing; institutional assessment; and follow-up through dissemination, consultation, and policy dialogue. The timing of diagnostic studies is crucial to ensure that sector and thematic priorities are reflected in the CAS, as highlighted in OED's gender review. This Review also finds that the Bank has been weak in assessing and improving the borrower's institutional

framework for gender, thereby reducing the overall effectiveness of its assistance at the country level. The participation review notes that lack of follow-up was one of the weakest aspects of participation in CAS preparation. Follow-up and dissemination of gender assessments have been variable. The Gambia, Cote d'Ivoire, and Zambia WID assessments remained internal documents and, in Poland, even women's NGOs were unaware of the in-depth treatment of gender issues in the Poverty Assessment. In contrast, the process of preparing gender and WID assessments in Yemen and Ecuador, with the government in the lead and substantial stakeholder participation, resulted in increased gender awareness and capacity in the country, enhanced the relevance of the reports for the clients, and ensured timely dissemination. The environment review cites China, Mozambique, and Costa Rica as examples where substantial progress has been achieved in gaining government commitment and improving the design and application of a country's own environmental policies through high-quality analytical work combined with sustained policy dialogue.

**Participation in lending and nonlending operations.** The effectiveness of lending operations for sector and thematic objectives is influenced by the extent and quality of stakeholder participation. This has been particularly evident in the environment and water sectors, where improved results have been closely associated with participation. Participation has also helped in the design and implementation of culture projects and has been a key element in a number of social fund projects, as well as community-based sector projects. It has played an important role in the Bank's gender objectives. In Morocco, for example, where the CAS called for a strategy note on gender issues to be developed through a participatory process, the Bank played a catalytic role by funding consultants and workshops that brought together government institutions and women's associations in public meetings. Much of the participation, however, has been too limited or rushed to make a difference. OED's audit on Nepal forestry, for example, found that lack of sufficient time for building the spirit of community forestry at the

grassroots level negatively affected community forestry in the country. OED's social funds study found that the nature of community participation was sufficient for executing subprojects but not for building significant community capacity. A shift by the Bank toward a long-term capacity-

building approach to participation, as recommended in the Participation Review, would take more time and resources for consultation, training, and technical assistance, and greater dependence on local partners who have appropriate expertise.





# Findings and Implications

**A**s the Bank works with partners to tackle the increasingly complex challenge of development, selectivity has become more important. In the continuing drive to enhance the impact of development assistance on poverty and growth, this Review has highlighted areas in which the Bank can further increase its development effectiveness—by making the right choices in line with country performance and potential, corporate priorities, and comparative advantage.

## Continued Gains in Performance

Given the adverse operating environment and the increased external risks associated with the current global economic decline, it is fortunate that the internal constraints to development effectiveness are being overcome. The Strategic Compact targets of 75 percent satisfactory outcomes for lending and 85 percent satisfactory quality for nonlending have been met. The latest project evaluations point to further quality gains for lending instruments beyond these targets. There are also solid improvements in the sustainability of project achievements and their institutional development impact. Recent evaluations show encouraging improvements in the Africa Region following its internal drive for portfolio improvement. Nonlending instruments also show a broad improvement in quality, as ESW becomes more participatory, client-oriented, and result-focused. The improved craftsmanship of both financial and nonfinan-

cial instruments is an encouraging sign of the payoff from heightened attention in the Bank to quality and results, supported by strengthened evaluation.

## Implications for Policy

As the quality of individual operations improves, judicious selectivity can further leverage these gains into country-level development impact. This Review identifies three broad areas where better selectivity can produce even better results.

## Corporate Selectivity

Corporate selectivity defines the institution's goals and priorities, in the context of supporting overall client country priorities, and reflects the institution's core competencies and areas of comparative advantage. The transmission of these goals and priorities to individual country programs occurs through the CDF and corporate resource allocation, and through the PRSPs for

low-income countries. These processes are working well, but can be fully leveraged using the PRSP platform for harmonizing country-specific goals and CAS business plan objectives. Tracking the results will require improved capacities for monitoring and evaluation both in countries and within the Bank.

The broad framework governing instruments has proven flexible, allowing innovations to meet new challenges. Within the framework of the broad instrument groups of investment and adjustment lending, sharper operational guidance for specific instruments would help country assistance strategies choose instruments appropriate to specific objectives and to sector and country conditions. Instead of the current variety of OPs, BPs, memos, and websites, a uniform treatment covering each instrument's role, design, and lessons from past performance could constructively inform instrument choice for country and sector managers as well as borrowers. The current update and conversion process under way for the operational policy and guidance on adjustment lending, to be followed by investment lending, will offer a good opportunity to incorporate these improvements.

### Enhancing Country Strategies

*More strategic treatment of instruments in CAS.* The CAS is a strong strategic vehicle whose potential for achieving selectivity has not yet been fully tapped. CASs should deal with selection of instruments more directly and transparently. A logical framework should be used (and results chains specified) to link specific instruments with country objectives and the Millennium Development Goals as adapted to country conditions and taking full account of past performance. Unanticipated changes to country programs should be captured in timely CAS updates and progress reports to provide an agreed-upon strategic context for Bank activities. The CAS needs to leverage catalytic and scaling-up effects among instruments as well. Interactions between investment and adjustment, for instance, can greatly enhance the potential impact of individual interventions. The forthcoming CAS retrospective may offer insight on how to approach these tasks.

*Partnerships can be better leveraged.* To enhance the effectiveness of country strategies, the Bank needs to address selectivity of programs in consultation with borrowers and other assistance partners. The CDF pilot countries have broken new ground in this area, but continued focus on businesslike partnerships is needed, laying out more explicitly shared objectives, distinct accountabilities, and reciprocal obligations among partners.

*Better strategies in poorly performing countries.* The Bank is devoting renewed attention to achieving better results in countries with poor policy and institutional environments, with a current focus on nonlending support. This Review presents evaluation findings that are germane to this difficult task, and may be of use to the Task Force on World Bank Assistance to Low-Income Countries Under Stress. Effectiveness of both lending and nonlending activities is undermined in poor policy and institutional environments. However, some instruments perform better than others in poorly performing countries. For example, there are cases where technical assistance lending geared to the development of domestic capacities has been effective. On the other hand, adjustment lending may be particularly ill-suited for these countries until they have demonstrated the consensus and the conviction to reform based on concrete upfront actions. In addition, over-complexity of projects when country capacity is limited leads to excessive risks. More conscious tailoring of instruments and partnerships to country conditions should bring precious gains in these difficult environments. Experimentation with outcome-based operations and innovative partnerships with private and voluntary sector organizations should be encouraged.

The role of nonfinancial activities in poorly performing countries deserves special attention. Diagnostic work is especially needed in poor performers for the assessment of ownership and risks, thus; in general, coverage of diagnostic exercises should be aimed at countries where potential vulnerability is the greatest. The balance between core diagnostic and advisory work should be related to country conditions. Further, coordination of fiduciary products should be improved and more targeted country diagnos-

tics toward countries likely to benefit from adjustment lending would help the Bank improve its risk management.

*Nonlending activities should be strategically chosen.* The amount and type of nonlending assistance should be carefully calibrated to enhance Bank lending and improve the relevance of Bank assistance strategies. Resource allocation to ESW should not be exclusively linked to a country's lending program because an up-to-date knowledge base is a prerequisite to good lending even for new or renewed borrowers.

### Instrument Selection in Support of Sector Strategies

Different instruments perform differently in different sectors. This should be a consideration for instrument choice and deliberate experimentation with new instruments and partnerships. Sector strategies must be based on reliable knowledge about what works and what does not, to inform choices at the country level.

*Selecting lending instruments to support sector reforms.* With appropriate product design, most Bank instruments can be used to help build institutional capacity and support sector reform. Making the right choice, though, requires clarity about the operation's objectives and a good understanding of country and sector conditions. Adjustment lending, supported as necessary by capacity-building assistance, can be more effective when national ownership and consensus on sector reforms are strong, when the range of stakeholders and institutions involved is relatively small, and when monitoring and evaluation arrangements are in place. In sectors where these conditions are largely absent, such as in education and health in some countries, programmatic investment lending may be the preferred approach, supported where relevant by LILs and targeted capacity building. The multi-sectoral approach has had limited success in addressing sector-specific issues, and this should be factored into the use of PRSCs. In this context, potential complementarity and synergy between PRSCs and SWAPs should be exploited. Finally, a combination of adjustment lending (to support relevant budgetary and regulatory changes) and investment lending (to support

gradual implementation of sector reforms) may be the best prescription. This might be preceded by LILs or other small-scale interventions in collaboration with partners to ensure that adequate knowledge and commitment are in place upstream of large-scale lending.

### Implications for Evaluation

This Annual Review has confirmed the importance of nonfinancial activities. ESW has been a key driver of performance improvements in lending over recent years, as well as being critically important for effective country programs. A strong evaluative framework is needed to ensure the continued effectiveness of these instruments, building on the current practice by QAG to assess their quality at entry.

PRSPs are critical to the Bank's country strategies and development effectiveness because they lay out the pace of achievements of development outcomes. Monitoring progress on selected indicators is already a strong emphasis in PRSPs. This should be complemented by comparable attention to systematic program evaluation of PRSP interventions and their results, for example in the upcoming Bank/IMF comprehensive review of the PRSP approach.

As business models, CASs and SSPs can be strengthened through a more transparent and objective record of past performance. A stronger independent and self-evaluation focus would be facilitated by a closer alignment of inputs to results, using a logical results chain and verifiable performance indicators.

Finally, the Review has presented project evaluation findings supporting the importance of instrument selection for development effectiveness, and potential gains to development impact from leveraging synergies among instruments and their sequencing. Accordingly, country, sector, and thematic evaluations should address more systematically whether the right instruments were used for the development goals selected, and also whether the complementarity of instruments was exploited judiciously. In addition, project-level evaluation should capture synergies from complementary or sequenced instruments (e.g., adjustment loans and stand-alone technical assistance).



## ANNEX A: THE BANK'S LENDING INSTRUMENTS

This annex describes the various types of lending used by the World Bank. There are two types of lending facilitated by the Bank: Investment Lending and Adjustment Lending.

Investment Lending	Adjustment Lending
Specific Investment Loan (SIL)	Structural Adjustment Loan (SAL)
Sector Investment and Maintenance Loan (SIM)	Sector Adjustment Loan (SECAL)
Adaptable Program Loan (APL)	Programmatic Structural Adjustment Loan (PSAL)
Learning and Innovation Loan (LIL)	Special Sector Structural Adjustment Loan (SSAL)
Technical Assistance Loan (TAL)	Rehabilitation Import Loan (RIL)
Financial Intermediary Loan (FIL)	Debt Reduction Loan (DRL)
Emergency Recovery Loan (ERL)	Poverty Reduction Support Credit (PRSC)
	Deferred Drawdown Option (DDO)
	Sub-National Adjustment Loan (SNAL)

### INVESTMENT LENDING

#### Specific Investment Loans

Specific Investment Loans (SILs) support the creation, rehabilitation, and maintenance of economic, social, and institutional infrastructure. In addition, SILs may finance consultant services and management and training programs.

#### Sector Investment and Maintenance Loans

Sector Investment and Maintenance Loans (SIMs) focus on public expenditure programs in particular sectors. They aim to bring sector expenditures, policies, and performance in line with a country's development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance. They also help the borrower develop the institutional capacity to plan, implement, and monitor an expenditure or investment program.

#### Adaptable Program Loans

Adaptable Program Loans (APLs) provide phased support for long-term development programs.

They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.

#### Learning and Innovation Loans

Learning and Innovation Loans (LILs) support small pilot-type investment and capacity-building projects that, if successful, could lead to larger projects that would mainstream the learning and results of the LIL.

#### Technical Assistance Loans

The Technical Assistance Loan (TAL) is used to build institutional capacity in the borrower country. It may focus on organizational arrangements, staffing methods, and technical, physical, or financial resources in key agencies.

#### Financial Intermediary Loans

Financial Intermediary Loans (FILs) provide long-term resources to local financial institutions to finance real sector investment needs. The financial institutions assume credit risk on each subproject.

### **Emergency Recovery Loans**

Emergency Recovery Loans (ERLs) support the restoration of assets and production levels immediately after an extraordinary event—such as war, civil disturbance, or natural disaster—that seriously disrupts a borrower's economy. They are also used to strengthen the management and implementation of reconstruction efforts, and to develop disaster-resilient technology and early warning systems to prevent or mitigate the impact of future emergencies.

## **ADJUSTMENT LENDING**

### **Structural Adjustment Loans**

The Structural Adjustment Loan (SAL) supports reforms that promote growth, efficient use of resources, and sustainable balance of payments over the medium and long term.

### **Sector Adjustment Loans**

The Sector Adjustment Loan (SECAL) supports policy changes and institutional reforms in a specific sector.

### **Programmatic Structural Adjustment Loans**

The Programmatic Structural Adjustment Loan (PSAL) is provided in the context of a multi-year framework of phased support for a medium-term government program of policy reforms and institution building.

### **Special Structural Adjustment Loans**

The Special Structural Adjustment Loan (SSAL) supports structural and social reforms by creditworthy borrowers approaching a possible crisis, or already in crisis, and with exceptional external financing needs. These loans help countries to prevent a crisis or, if one occurs, to mitigate its adverse economic and social impacts.

### **Rehabilitation Import Loans**

The Rehabilitation Import Loan (RIL) supports government policy reform programs aimed at creating an environment conducive to private sector investment, where foreign exchange is required for urgent rehabilitation of key infra-

structure and productive facilities. The focus is on key short-term macroeconomic and sector policy reforms needed to reverse declines in infrastructure capacity and productive assets.

### **Debt Reduction Loans**

The Debt Reduction Loan (DRL) supports government policy reform programs aimed at creating an environment conducive to private sector investment, where foreign exchange is required for urgent rehabilitation of key infrastructure and productive facilities. The focus is on key short-term macroeconomic and sector policy reforms needed to reverse declines in infrastructure capacity and productive assets.

### **Poverty Reduction Support Credit**

The Poverty Reduction Support Credit (PRSC) program is expected to consist of a series of operations, typically two or three, which together support IDA countries' medium-term policy and institutional reform programs to help implement their poverty reduction strategies. Its specific structure depends on country circumstances, including the objectives and nature of the country's reform program that it supports and the timing of the requirement for assistance.

### **Deferred Drawdown Option**

The Deferred Drawdown Option (DDO) is available to both IBRD and Blend countries to whom the Bank makes a single-tranche adjustment loan. The DDO gives borrowers access to long-term IBRD resources to manage ongoing structural programs if market borrowing becomes difficult and unforeseen financing needs materialize.

### **Sub-National Adjustment Loans**

The Sub-National Adjustment Loan (SNAL) supports reforms that promote growth, efficient use of resources, and sustainable balance of payments at a sub-national level.

\* Drawn from *World Bank Lending Instruments: Resources for Development Impact*, OPCS, July 2000.

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**ANNEX B: A LIST OF DISCLOSED OED COUNTRY ASSISTANCE EVALUATIONS**

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<b>Region</b>	<b>Country</b>	<b>Evaluation FY</b>
Africa (AFR)	Ghana	1995, 2000
	Zambia	1996
	Cote d'Ivoire	1998
	Mozambique	1998
	Togo	1998
	Kenya	1998,
	Malawi	1998
	Ethiopia	1999
	Burkina Faso	2000
	Tanzania	2000
	Cameroon	2000
	Uganda	2000
	Botswana	2001
	Lesotho	2002
East Asia and Pacific (EAP)	Philippines	1998
	Thailand	1998
	Indonesia	1999
	Cambodia	1999
	Papua New Guinea	2000
	Vietnam	2002
South Asia (SAR)	Bangladesh	1998
	Sri Lanka	1999
	Nepal	1999
	Maldives	1999
	India	2001
Europe and Central Asia (ECA)	Poland	1997
	Albania	1998
	Ukraine	1999
	Azerbaijan	1999
	Kazakhstan	2001
	Kyrgyz	2001
	Bulgaria	2002

Region	Country	Evaluation FY
Middle East and North Africa (MNA)	Morocco	1997, 2001
	Yemen	1999
	Egypt	2000
Latin America and the Caribbean (LCR)	Argentina	1996, 2000
	Bolivia	1998
	Jamaica	1999
	Ecuador	1999
	Uruguay	2000
	Costa Rica	2000
	Paraguay	2001
	Mexico	2001
	Chile	2001
	El Salvador	2001
	Haiti	2002
	Peru	2002

# ANNEX C: STATISTICAL TABLES

**Table C.1** Outcome, Sustainability, Institutional Development (ID) Impact and Aggregate by Various Dimensions, Weighted by Projects, FY96-99 and FY00-01 \* Exits; Projects at Risk, Similarly Disaggregated, for the Active Portfolio

	Exit FY96-99										Exit FY00-01*										Active Portfolio		
	Projects #	Share %	Outcome % Sat	Sust % likely or better	ID Impact % sub or better	APPI	Projects #	Share %	Outcome % Sat	Sust % likely or better	ID Impact % sub or better	APPI	Projects #	Share %	% Projects not at Risk								
<b>Sector Group</b>																							
Agriculture	206	20	67	45	38	6.4	63	16	69	43	43	6.5	233	16	92								
Economic Policy	83	8	77	56	28	6.7	15	4	87	80	47	7.3	36	2	86								
Education	90	9	74	44	28	6.6	34	9	82	53	47	7.2	160	11	86								
Electric Power & Other Energy	67	7	64	47	38	6.4	31	8	58	57	51	6.5	80	6	85								
Environment	24	2	71	54	42	7.0	13	3	69	67	46	6.8	95	7	82								
Finance	66	7	67	56	44	6.7	15	4	80	87	63	7.3	59	4	98								
Health Nutrition & Population	59	6	63	49	31	6.3	26	4	73	56	44	6.7	144	10	83								
Mining	9	1	78	67	78	7.3	3	1	100	67	67	8.3	14	1	100								
Multisector	15	1	73	33	7	6.2	5	1	100	75	67	7.8	19	1	95								
Oil & Gas	22	2	73	64	36	6.8	13	3	62	58	50	6.5	18	1	89								
PSD/Industry	45	4	58	55	36	6.2	20	5	58	63	50	6.6	63	4	81								
Public Sector Management	56	6	84	65	45	7.0	33	9	82	84	79	7.2	89	6	85								
Social Protection	48	5	83	35	42	6.8	25	7	92	86	63	7.7	98	7	92								
Telecommunications & Informatics	18	2	78	72	56	7.4	6	2	100	100	83	8.8	12	1	100								
Transportation	90	9	85	61	53	7.3	48	13	93	87	79	8.0	165	11	85								
Urban Development	55	5	74	44	31	6.4	21	5	90	71	61	7.0	76	5	87								
Water Supply & Sanitation	54	5	55	36	25	5.8	13	3	69	75	50	6.7	87	6	84								
<b>Network</b>																							
Environmentally & Socially Sustainable Development	228	23	68	46	38	6.4	76	20	69	53	47	6.6	328	23	89								
Finance, Private Sector & Infrastructure	414	41	70	52	41	6.6	168	44	78	75	64	7.2	59	4	98								
Human Development	194	19	73	43	31	6.5	85	22	82	72	53	7.2	531	37	87								
Poverty Reduction & Economic Mgmt.	171	17	79	59	33	6.8	55	14	82	84	76	7.2	128	9	86								
<b>Lending Type</b>																							
Adjustment	161	16	82	63	38	7.0	39	10	79	84	73	7.2	51	4	88								
Investment	846	84	69	48	37	6.5	345	90	78	70	59	7.1	1397	96	87								
<b>Lending Source</b>																							
IBRD	488	48	75	58	41	6.8	172	45	78	80	68	7.3	648	45	87								
IDA/blend	519	52	68	43	34	6.4	212	55	78	64	54	6.9	800	55	87								
<b>Region</b>																							
Africa	304	30	57	34	31	6.0	111	29	66	51	46	6.4	357	25	85								
East Asia and Pacific	153	15	81	59	43	7.1	57	15	80	71	66	7.2	260	18	91								
Europe and Central Asia	130	13	82	65	45	7.1	90	23	81	81	69	7.3	289	20	88								
Latin America and Caribbean	215	21	81	60	44	7.1	62	16	81	79	66	7.3	289	20	88								
Middle East and North Africa	78	8	71	44	29	6.3	26	7	88	92	58	7.6	115	8	83								
South Asia	127	13	68	51	32	6.4	38	10	89	81	61	6.3	138	10	89								
<b>Income Group</b>																							
High	11	1	70	90	50	7.0	1	0	100	100	100	8.3	2	0	100								
Upper middle	192	19	85	71	49	7.3	63	16	80	86	68	7.6	231	16	84								
Lower middle	301	30	74	56	38	6.7	123	32	85	84	74	7.5	510	35	90								
Lower	503	50	64	38	32	6.2	197	51	72	58	49	6.7	705	49	86								
<b>Grand Total</b>	<b>1007</b>	<b>100</b>	<b>71</b>	<b>50</b>	<b>37</b>	<b>6.6</b>	<b>384</b>	<b>100</b>	<b>78</b>	<b>71</b>	<b>61</b>	<b>7.1</b>	<b>1448</b>	<b>100</b>	<b>87</b>								

Notes: Exit FY denotes the year in which the project leaves the World Bank's active portfolio, normally at the end of disbursements. Percentages exclude projects not rated. Sector designations are taken from the World Bank's Common Data Stores as of end FY01. Income groups designations are taken from the World Development Indicators 2001. Active Portfolio data reflect projects active as of July 1, 2001, and is provided by the Quality Assurance Group (QAG). For details on OAG's "Projects at Risk" indicator please refer to the FY01 Annual Review on Portfolio Performance. 1. See endnote number 14 of the ARDE Report for differences between the old and the current sustainability scale.

\* The data for FY01 exits represent a partial IBRD/IDA lending sample (131 out of 275) and reflect all OED project evaluations through October 15, 2001. The processing of the remainder of the FY01 exits is ongoing, expected to be completed by spring 2002.



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## ANNEX D: OED EVALUATION METHODOLOGY

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OED's evaluation work utilizes methodology and criteria developed by OED over the past 30 years. OED evaluates development interventions by assessing their results based on their own stated objectives.

At the project level, OED methodology focuses on the outcome, sustainability, and institutional development impact of Bank operations. This approach has been extended to country, corporate, sector, thematic, and global policy evaluations by making suitable adjustments to the criteria.

### Evaluation Criteria

OED evaluates **outcomes** by considering three factors:

*Relevance* of the intervention's objectives in relation to country needs and institutional priorities;

*Efficacy*—the extent to which the developmental objectives have been (or are expected to be) achieved; and

*Efficiency*—the extent to which the objectives have been (or are expected to be) achieved without using more resources than necessary. In addition, an economic rate of return of at least 10 percent is a benchmark for rating investment projects as satisfactory.

The assessment of relevance is critical because it identifies excessively or inadequately ambitious objectives. Combining these three factors, overall outcome is rated on a 6-point scale, ranging from *highly satisfactory* to *highly unsatisfactory* (see box).

OED's **sustainability** measure assesses the resilience to risk of net benefit flows over time by answering these questions: At the time of evaluation, what is the resilience to risks of future net benefit flows? How sensitive is the intervention to changes in the operating environment? Will the intervention continue to produce net benefits as long as intended, or even longer? How well will the intervention weather shocks and changing circumstances?

### OED's Outcome Rating Scale

*Highly satisfactory:* All relevant developmental objectives are (or are expected to be) achieved and/or exceeded efficiently, with no shortcomings.

*Satisfactory:* Most of the relevant development objectives are (or are expected to be) achieved efficiently with only minor shortcomings.

*Moderately satisfactory:* Most of the major relevant objectives, on balance, are (or are expected to be) met, although significant shortcomings are observed.

*Moderately unsatisfactory:* Many of the major relevant objectives are not (or are not expected to be) met; major shortcomings are observed.

*Unsatisfactory:* Most major relevant objectives are not (or are not expected to be) met and/or most objectives are not relevant.

*Highly unsatisfactory:* None of the relevant objectives is (or is expected to be) met and/or objectives are not relevant.

The **institutional development impact** measure evaluates the extent to which an intervention improves the ability of a country or region to make more efficient, equitable, and sustainable use of its human, financial, and natural resources. Such improvements can derive from changes in values, customs, laws and regulations, and organizational mandates. Accountability, good governance, the rule of law, and the participation of the civil society and the private sector are prominent characteristics of an effective institutional environment.

### Glossary of Evaluation Documents

**Implementation Completion Report (ICR)** [formerly Project Completion Report (PCR)]. The Bank prepares an Implementation Completion Report for each lending operation it finances. The ICR is prepared at the time of project completion by the staff of the responsible regional office (within six months of the final disbursement of the Bank loan). It assesses: (a) the degree to which the project achieved its development objectives and outputs as set out in the project documents; (b) other significant outcomes and impacts; (c) prospects for the project's sustainability; and (d) Bank and borrower performance, including compliance with relevant Bank safeguard and business policies. It also provides the data and analysis to substantiate these assessments, and it identifies the lessons learned from implementation.

The borrower prepares and provides to the Bank its own evaluation report on the project's execution and initial operation, its cost and benefits, the Bank's and borrower's performance, and the extent to which the purposes of the loan were achieved. The borrower's report is attached unedited to the ICR. OED evaluates about 250 operations each year.

**Evaluation Summary (ES)** [formerly Evaluative Memorandum (EVM)]. Once sent to the Board of Executive Directors, each ICR is evaluated by OED, which validates or adjusts the ratings based on the information provided in the completion report and other operational documents. OED summarizes its findings in an evaluation summary (formerly evaluative memorandum). This memorandum conveys the OED

ratings, comments on the lessons to be drawn and on the quality of the ICR, and suggests whether the project is a candidate for a PPAR (see below). Bank regional staff have an opportunity to review this summary before it is completed. OED enters its findings and ratings in a database used for aggregate analysis.

**Project Performance Assessment Report (PPAR)** [formerly Project Performance Audit Report]. OED conducts Project Performance Assessments (formerly called Audits) for 25 percent of all completed projects. The purpose of the Assessment is to validate the findings and augment the information in the ICR, and to examine issues and lessons of broad applicability. Some Assessments are intended to serve as building blocks for broad sector studies or Country Assistance Evaluations. They provide independent, field-based post-completion verification of a project's implementation and results. They incorporate the views of the borrower and main stakeholders, and analyze the operation in its sectoral and country context. The operational staff and borrower representatives have an opportunity to comment on the draft report. The final report is submitted to the Bank's Board and is widely distributed within the Bank and the borrowing country.

**Country Assistance Evaluation (CAE)** [formerly Country Assistance Review (CAR)]. Country Assistance Evaluations are program evaluations that concentrate on the impact and development effectiveness of the Bank's countrywide activities, including nonlending services. They evaluate the effectiveness of the Bank's country assistance strategy, taking into account country conditions, the impact of external factors, and the role of other development agencies and financiers. They also assess the effectiveness of the various instruments of Bank assistance, including investment project lending, adjustment lending, technical assistance, economic and sector work, policy dialogue, and aid coordination. They offer lessons and recommendations for the Bank's regional staff, and many are timed to feed into the design of Country Assistance Strategies.

**Sector Studies.** Sector Studies compare experience across countries, assessing the Bank's association with a sector over a multi-year time

period covering lending and nonlending work and completed operations, as well as operations that are still being implemented or prepared. They seek to review the relevance, efficacy, and efficiency of the totality of the Bank's work in a sector.

**Impact Evaluations.** OED Impact Evaluations take a second independent look at projects and programs several years after completion, to assess what lasting contributions the Bank has been making to borrowing countries' development. An Impact Evaluation study covers the impacts on beneficiaries, losers, and other stake-

holders in the project or program, preferably with their active involvement. These evaluations are also intended to examine recent projects or those still undergoing implementation, and to assess the relevance of the current strategy in light of past experience.

**Process Studies.** Process Studies focus on the Bank's business processes to assess their efficiency and effectiveness. Examples include reports on aid coordination (included in this review), participation in Bank operations, and the implementation of the IDA10–12 replenishment agreements.



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## ANNEX E: MANAGING DEVELOPMENT EFFECTIVENESS: AN OVERVIEW FROM THE CODE CHAIRPERSON

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The Committee on Development Effectiveness (CODE) met on January 14, 2002 to discuss the *2001 Annual Review of Development Effectiveness (2001 ARDE)*. The *2001 ARDE* confirms that there has been continued progress in the Bank's lending performance. Overall operational outcomes improved. The Strategic Compact target of 75 percent satisfactory outcomes for lending has been met. Solid progress has been made in sustainability and institutional development impact both for investment and adjustment lending. Improvements were also achieved in the quality of economic and sector work (ESW).

CODE commended Management and staff for the significant gains in the performance of the Bank's lending portfolio and the quality of ESW. However, members saw no room for complacency and urged Management to sustain the focus on quality and to explore ways to encourage calculated risk-taking and innovation. The Committee supported the report's findings and re-affirmed the high value it placed on continuing to review the report on an annual basis.

The Committee especially focused on the following issues:

**Selectivity and Instrument Choice.** The Committee appreciated the *2001 ARDE's* focus on the importance of linking instrument choice to development objectives. Members stressed the need to:

- further rationalize the number of instruments and gain a more complete understanding of the conditions under which each performs well;
- make instrument selection in close consultation with the clients;
- further differentiate between weak performers and understand better how the

Bank can assess and capitalize on borrower commitment; and

- sharpen the costing of each instrument, especially safeguards.

In addition, the Committee highlighted the importance of improving evaluation methods to assess the impact of adjustment operations. One member expressed concern regarding the wide use of adjustment lending in countries with low CPIA ratings in the period FY96–01. Prior ARDE findings had displayed a shift of adjustment lending toward better performing countries. Clearly, more progress in this direction was needed.

**Good Quality Outcomes and Risk.** The Committee was pleased to note the continued upward trend in the Bank's performance documented in the report. Yet it was concerned about the sustainability of the gains, given the already high outcome levels and the higher risks in the operating environment. The Committee members discussed whether risk-aversion not yet reflected in the OED performance data might be growing. They asked Management to explore, in particular, how incentives for risk-bearing and risk management affect operational choices. One member noted the disconnect between the high satisfactory outcomes for Bank projects and the failure of many client countries to generate rapid, equitable growth.

Other points raised in the discussion by Committee members:

**ESW.** A member noted that non-lending assistance was a critical tool for the Bank to

remain engaged in poorly performing countries, as highlighted in the *2001 ARDE*. However, he stressed that parallel actions were also necessary, including investments to support poverty reduction, such as rural development, education, and agriculture and asked Management what more could be done to enhance the performance of projects in these sectors in low-income countries under stress. Management informed the Committee that plans are in place to expand ESW in IDA countries, both in the areas of core diagnostic and advisory studies. Furthermore, the proposed LICUS strategy was designed to deal with the issues which had been raised.

**Scope and Timing of the ARDE.** Most speakers supported the current system of annual reporting as useful in alerting Management and the Board to performance issues in a timely manner and in identifying innovative methodologies for improving measurement of development objectives, risk, and other relevant indicators. One member requested that the *2001 ARDE* attach a standard Annex outlining the methodologies used. OED agreed to do so in the disclosed version as well as in future reports.

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*Pieter Stek, Chairman*



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# ENDNOTES

## Chapter 1

1. *2000–2001 Annual Report on Operations Evaluation*. OED, June 2001.

2. Instruments refer to specific forms of the Bank's development assistance, and can be classified into two broad groups, financial and non-financial, as expanded on in the next chapter. Financial services include IDA and IBRD lending, guarantees, and grants. Nonfinancial services include a diverse group of activities including diagnostic and advisory economic and sector work, research, aid coordination, and other partnership services.

3. *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries*. Development Committee, September 25, 2000.

## Chapter 2

1. There is no formal designation in the Bank for crisis lending. These operations were selected on the basis of two criteria—accelerated or very rapid preparation and meeting immediate balance of payments needs. They cover the 1994 Mexico financial crisis, the 1997–98 East Asian crisis and the most recent financial crisis in Turkey during 2000.

2. “Informal” services include products, process tasks, and events such as seminars, workshops, conferences, WBI activities, and policy notes. The primary focus of this report is on formal nonfinancial activities.

3. The five core diagnostics include Poverty Assessments (PAs), Country Economic Memoranda (CEMs)/Social and Structural Reviews (SSRs), Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reports (CPARs), and Public Expenditure Reviews (PERs). Other diagnostics include the Financial Sector Assessment Program (FSAP), Institutional and Governance Review (IGR), etc.

4. The Bank used the Country Profile of Financial Accountability (CPFA) extensively before FY98, particularly in the Africa Region.

5. These figures do not include diagnostics undertaken in small borrowers and in those in suspension. The bulk of the CFAAs (17 out of 22) were conducted in countries with medium CPIA environments.

## Chapter 3

1. The data for FY01 exits represents a partial sample of lending exits (131 out of 275) and reflects all OED project evaluations through October 15, 2001; this partial coverage is noted with dashed lines in all the figures in this chapter.

2. These two operations are the third Structural Adjustment (SAL III) and the Social Protection Adjustment Loan (SPAL), totaling US\$1.2 billion in disbursements.

3. In July 2000, the rating scale for the sustainability criterion was changed from a 3-point scale (Likely, Uncertain, Unlikely) to a 4-point scale (Highly Likely, Likely, Unlikely, Highly Unlikely), with the new scale available for projects exiting in FY00 and FY01. The 3-point scale is still monitored within OED to validate the longer-term trends.

4. The CFA zone consists today of 14 countries: Benin, Burkina Faso, Cameroon, Central Africa Republic, Chad, Congo, Cote d'Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Niger, Senegal, Togo. For the purpose of this analysis, Guinea-Bissau is not included given that it joined in 1997 after the CFA devaluation.

5. *World Bank Assistance to CFA Countries. An Evaluation of Selected Social, Economic and Regional Aspects of the Bank's Performance*. OED, November 9, 2000.

6. These evaluations cover adjustment operations approved in FY90–01 and evaluated by OED.

7. This separate review drew from a sample of projects found to have had unsatisfactory and highly unsatisfactory outcomes.

8. QAG assesses the quality of ESW on four main criteria: objectives, scope, and strategic relevance; internal quality; presentation; and likely impact. It uses a 4-point scale: Highly Satisfactory, Satisfactory, Marginal, and Unsatisfactory. Additionally, QAG also rates the Bank's internal processes related to ESW: adequacy of inputs, quality of managerial attention, and other contributions such as client capacity, peer reviews, etc.

9. QAG's methodology for assessing “analysis of implications for the poor” is currently being refined.

10. The analysis covers three dimensions: timeliness and relevance of ESW; internal quality (clarity of presentation; practicality of recommendations; dissemination); impact of ESW on Bank products; and impact of the ESW on policy dialogue.

11. In particular, the review called for better identification of objectives and target audiences, improved coverage of institutions and with greater depth, and a greater emphasis on outcomes and results. In terms of process, it emphasized the need for better timeliness and greater consultation and coordination with all key partners in the client country as well as the IMF.

## Chapter 4

1. See Annex B for a complete list. The time periods covered for the more recent CAEs are provided in table 4.1.

2. See *IDA's Partnership for Poverty Reduction (FY94–FY00)—An Independent Evaluation* OED, 2000, and the background paper for this report, entitled *Review of the Performance-Based Allocation System, IDA10–12*. OED, February 14, 2001.

3. *Enhancing IDA's Performance-Based Allocation System*. IDA, September 24, 2001.

4. *IDA's Partnership for Poverty Reduction*. OED, para. 7.12.

## Chapter 5

1. This classification allows some overlap between categories, which limits the precision of the analysis. For example, a pension reform project might be classified as either a finance or a social protection project. In addition, many projects include components in other "sectors." The classification is based on the primary sectoral designation of an operation, rather than its components (for investment lending) or conditions (for adjustment lending). For example, the water and sanitation portfolio shows a decline in commitments in the second half of the 1990s, but this does not necessarily indicate a drop in the overall level of Bank activity in the sector because of increasing incorporation of W&S components in agriculture, urban development, and social fund projects. The Bank is currently undertaking a re-definition of these

sector and thematic codes, to overcome these difficulties and relate tracking of operational activities more closely to corporate priorities. Under the new coding system, themes are expected to be clearly differentiated from sectors, and every operation to be coded on both dimensions, with multiple codes possible for each operation.

2. The proportion of Bank-funded projects in the transportation sector that included private sector development components declined from 76 percent in 1996 to 48 percent in 2001, in parallel with the global drop in private investment in the sector from its peak in 1997.

3. *Toward Sharpening the Focus on Rural Poverty: A Review of World Bank Experience*. OED, October 2001.

4. *Financial Sector Reform: A Review of World Bank Assistance*. OED, 1998.

5. *Social Protection Sector Strategy: From Safety Net to Springboard*. HDN, 2001.

6. *Social Protection Sector Strategy*. World Bank, 2001.

7. *Reforming Public Institutions and Strengthening Governance, A World Bank Strategy*. November 2000.

8. *Reforming Agriculture: The World Bank Goes to Market*. OED, 1996.

9. *Rural Development Strategy: Eastern Europe and Central Asia*. World Bank Technical Paper No. 484, ECSSD, 2001

10. Joan Nelson, in her book *Reforming Health and Education* (1999), also underlines the particular difficulties that are involved in supporting complex reforms of health and education systems (as compared, for example, with pension reform), and which make adjustment lending more difficult to apply effectively in these sectors.

11. *Education Sector Strategy*. World Bank, 1999.

12. *Bridging Troubled Waters: Assessing the Water Resources Strategy Since 1993*. OED, 2001.

13. *Social Funds: A Review of World Bank Experience*. OED, 2001.

14. The four OED thematic studies include *Integrating Gender in World Bank Assistance* (2001), which covers the period from 1990 to 2000; *Cultural Properties in Policy and Practice:*

*A Review of World Bank Experience* (2001), which covers the period from 1972 to 2000; *Promoting Environmental Sustainability in Development—An Evaluation of the World Bank's Performance* (2001), which covers the period from 1990 to 2000; and a review of participation.

15. *Integrating Gender into the World Bank's Work: A Strategy for Action*. World Bank, January 2002.

16. Evaluation Report 1.99. Christen Michelsen Institute, Oslo, Royal Ministry of Foreign Affairs, 1999.



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