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The Effectiveness of the World Bank's Poverty Reduction Strategy
An Evaluation

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Abbreviations and Acronyms

ARDE – Annual Review of Development Effectiveness
CAR / CAN – Country Assistance Review / Note
CAS – Country Assistance Strategy
CDF – Comprehensive Development Framework
CODE – Committee on Development Effectiveness
DAC – Development Assistance Committee
ERL – Emergency Recovery Loan
ESAF – Enhanced Structural Adjustment Facility
ESW – Economic and Sector work
HNP – Health, Nutrition and Population
IBRD – International Bank for Reconstruction and Development
ICR – Implementation Completion Report
IDA – International Development Association
IMF – International Monetary Fund
OD – Operational Directive
OECD – Organization of Economic Cooperation and Development
OED – Operations Evaluation Department
PER – Public Expenditure Review
PTI – Program of Targeted Interventions
PREM – Poverty Reduction and Economic Management Network
PRSI – Poverty Reduction Strategy Initiative
PRSP – Poverty Reduction Strategy Paper
SAL – Structural Adjustment Loan
SIF – Social Investment Fund
SME – Small and Medium Enterprise
SSP – Sector Strategy Paper
WDR – World Development Report

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

The Effectiveness of the World Bank’s Poverty Reduction Strategy: An Evaluation

In 1990, when the Bank prepared its World Development Report on Poverty, the prospects for global poverty reduction looked bright. A review of global experience showed that a strategy emphasizing broad-based growth and the equitable provision of social services was the most effective route for sustainable progress on poverty. For those too poor or too vulnerable to participate in this process, a program of well targeted transfers and safety nets was an essential complement to the strategy.

Since then the context in which the Bank operates has altered significantly, and so has the international economic environment. There have been significant improvements in social indicators in most regions, and modest reductions in the proportion of people living on under $1 per day. But the absolute number of poor has continued to rise. The transition in Eastern Europe and Central Asia, which was not foreseen in 1990, has added large numbers of new poor to global poverty figures. Financial volatility, AIDS, and civil war have also clouded the prospects for poverty reduction.

Against this backdrop, the Bank has reconfirmed its commitment to poverty reduction. A revised poverty reduction strategy is being prepared, informed by the principles of the Comprehensive Development Framework (CDF) and shaped by the ongoing work of the Poverty Reduction Strategy Initiative (PRSI) and the forthcoming WDR 00/1 on Poverty. This evaluation is OED’s contribution to the strategy review process. It is too early to evaluate the direction set by these new initiatives; instead the report examines the direction set for the Bank by the 1990 strategy. It examines implementation of the strategy and draws lessons of experience about the relevance of the Bank’s evolving policy framework for poverty reduction.

The report concludes that the 1990 strategy and the momentum it created has had a positive and significant impact on the Bank’s operational work on poverty. The strategy was critical in highlighting the importance of broad-based growth for poverty reduction, and in focusing operational priorities on the equitable provision of social services, impacting on both the composition of Bank assistance and on the priorities of other development agencies. The strategy also spurred a significant improvement in the poverty knowledge base that now spans the wider development community. However, the Bank has found it difficult to operationalize broad-based growth through tailor-made country assistance programs. Insufficient information is available on whether lending for social services has reached the poor, and social safety nets were often neglected. Overall, the Bank’s implementation of the strategy was insufficiently focused on measuring and monitoring results linked to Bank assistance.
The report recommends that the new poverty reduction strategy should include clear monitorable benchmarks for assessing implementation performance, as well as a framework for evaluating poverty outcomes related to the Bank’s and other donors’ assistance. All Sector Strategy Papers should be oriented towards poverty reduction and integrated into the revision of the Bank’s policy framework. Finally, OED should strengthen its internal processes to ensure that a poverty focus is the organizing principle of all OED evaluations.

Ultimately poverty reduction and the focus on results is a shared project for the Bank, its clients and development partners. Hence, high priority should be given to implementing the lessons of experience through the Poverty Reduction Strategy Papers.

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Executive Summary

The 1990 World Development Report (WDR) on Poverty provided the foundation for a World Bank strategy to help achieve global poverty reduction:

- Encourage a pattern of growth that promotes the productive use of labor, the most abundant asset of the poor, through policies that "harness market incentives, social and political institutions, infrastructure and technology (to that end)" (WDR 90 p3).
- Provide basic social services to the poor through a focus on primary health care, family planning, nutrition and primary education.
- Program well-targeted transfers and safety nets to support those living in remote and resource-poor regions or groups affected directly by economic transition.

The Bank has since re-confirmed its commitment to poverty reduction through a forthright mission statement: 'To fight poverty with passion and professionalism for lasting results.' A revised poverty reduction strategy is being prepared in light of the findings of the forthcoming WDR 2000/1. This report is designed to contribute to the strategy review process. It examines the implementation of the 1990 strategy and it draws the lessons of experience about the Bank's policy framework for poverty reduction.

The report concludes that the 1990 strategy has had a significant and positive impact on the Bank's operational work on poverty. The strategy was critical in highlighting the importance of broad-based growth for poverty reduction, and in focusing operational priorities on the equitable provision of social services. It helped to reshape both the composition of Bank assistance and the priorities of other development agencies. The strategy also spurred a significant improvement in the knowledge base about poverty that now spans the wider development community. However, the Bank has also found it difficult to move from the policy generalities of the 1990 strategy towards country assistance strategies which address specific social and structural constraints to broad-based growth. Insufficient attention has been paid to ensuring that lending for social services actually benefits the poor, and to the integral role of social safety nets in managing risk and vulnerability to shocks. Overall, the Bank's implementation of the strategy was insufficiently focused on measuring and monitoring results linked to Bank assistance.

As the Bank proceeds with implementation of the Poverty Reduction Strategy Initiative (PRSI) in collaboration with the IMF, the challenge will be twofold: (i) to design and implement tailor-made country and sector assistance strategies deliberately aimed at poverty reduction, and (ii) to develop a strategic framework for measuring results that will allow ongoing review of the new poverty reduction framework and country poverty strategies. The report provides evaluation findings and includes recommendations aimed at achieving this goal.
Putting the Strategy into Practice

There has been a substantial mainstreaming of the 1990 poverty reduction strategy in Bank operations. Lending and non-lending activities are more sharply focused on poverty reduction today than at the beginning of the nineties. Linkages between country information on poverty and the Bank's country strategies have steadily improved. Substantial improvements have been made in the availability of poverty profiles, particularly its non-income dimensions. This has strengthened the linkage between the diagnostic treatment of poverty in the CAS and the relevance of the assistance strategy for poverty reduction. Progress is still uneven, however. While quality in poverty assessments has improved, it is still modest overall. The treatment of social safety net issues in particular, has been less than satisfactory. Many assessments still do not convincingly address macro linkages to poverty or sectoral issues, particularly the prominent role of land policy, food policy and rural development in contributing to poverty reduction.

Country Assistance Strategies

A majority of CASs, and particularly those prepared in FY97-99, exhibit a tangible commitment to the first two pillars of the 1990 strategy. Growth is at the center of all CASs, and the focus on social service provision is almost universal. However, CAS policy frameworks have taken time to move from the generalities of the strategy to recommendations that are concrete and tailored to specific country contexts. The linkages between broad-based growth and poverty and not always clear. Too few CASs provide a clear prioritization of policy choices or address possible trade-offs in the strategy and their likely impact on the poor. There have been tangible improvements in linking poverty goals with CAS policy matrices, but many CASs still make inadequate arrangements to monitor and evaluate progress towards poverty reduction objectives.

Lending

In lending, the priorities implicit in the strategy have had a significant influence on the composition of investment activities and the allocations to countries in recent years:

- An increasing share of IDA and IBRD lending has gone to countries showing stronger borrower performance and effort on poverty reduction goals.
- Lending has increasingly favored sectors and sub-sectors regarded by WDR 1990 as directly relevant to the poor – rural and urban infrastructure, primary and secondary education, basic health, social assistance and microfinance.
- Lending for the three main social sectors – education, health, nutrition and population and social protection reached 20 percent of total Bank lending, compared to just 5 percent between in the early 1980s.
Performance

In assessing performance it is important to recognize that poverty outcomes result from a wide variety of factors, few of which are under exclusive Bank control. While the volume of lending has increased significantly in the social sectors, concerns about the loss of possible synergies with other sectors and limited knowledge of poverty impact have emerged. Basic health projects continue to perform below the average for the Bank, and below the average for targeted operations generally, although the record is improving. Primary and secondary education projects have also shown a downturn in the mid 1990s. After almost two decades of experience, not enough is known about what has been achieved for the poor with investments in the social sectors. More attention needs to be paid to assuring quality at entry and adequate arrangements to assess social and poverty impact.

The record on integrating the priorities of the poverty strategy into adjustment lending is uneven. While there is tangible progress on protecting overall levels of social spending, progress is limited in ensuring equitable reallocations of spending and in making adequate safety net provisions. Few loans include measures to remove distortions affecting the poor directly.

Projects included in the Program for Targeted Interventions (PTI) have performed better on average than other projects in the same sectors, largely because of their greater emphasis on beneficiary and community participation at design and implementation stages, and their relatively greater attention to performance monitoring. Lending specifically to community-based projects, including social funds, has performed well overall, with 81 percent of projects approved since 1987 achieving satisfactory outcomes. However, inclusion in the PTI does not ensure that a project delivers benefits directly to the poor. PTI criteria are open to wide interpretation and involve no explicit requirement that project results be monitored or that impacts on the poor should be demonstrated.

Overall, lack of systematic attention to M&E has contributed to a major knowledge gap about the contribution of Bank lending to poverty and social outcomes.

Regional Trends

The WDR 1990 made sound forecasts of the prospects for growth and improvements in social indicators. However, the unexpected impact of the economic and social transition in ECA and of much slower growth in SSA, meant that overall the forecasts were optimistic. East Asia performed above expectations until the financial crisis of 1997. Africa performed below forecasted levels. IDA countries as a group made substantial improvements in social indicators, but Africa has lagged behind and the fragile gains that have been made are in danger of being offset by civil strife, military conflicts and the effects of AIDS.

These sobering trends are worrisome in the light of the international community's commitment to achieving major reductions in poverty and social inequality by 2015.
Does the strategy emphasized by the Bank since 1990 still have relevance for achieving global poverty reduction goals?

Relevance

The report finds that a strategy that emphasizes the mutually reinforcing benefits of sustained growth and human resource development remains highly relevant if combined with a focus on rural development and a system of well-designed safety nets. Finding the right combination of policies to support long-term growth and ensure that the poor benefit directly, is a complex challenge. Available evidence points to the deleterious effects of inequality. Based on the latest growth projections, the prospects for reaching the target of halving absolute poverty by 2015 are poor in countries where there is high income inequality.

Available empirical evidence points to the importance of factors such as property rights, strong institutions and the distribution of assets in mediating the poverty reducing effects of growth. It also highlights the need for well-targeted safety nets to address growing problems of volatility and economic downturn. Rates of private investment are critically linked to the prospects for long-term growth, which are in turn linked to the availability of infrastructure and credible institutions. More recent evidence points to the role of social capital in shaping the ability of the poor to take advantage of income and welfare-enhancing opportunities, and of participation to ensure that policies address issues that most directly affect the poor.

The Road Ahead

In sum, the thrust of the 1990 strategy remains relevant, but it needs to be combined with a more comprehensive approach. Nurturing policy reform and building ‘pro-poor’ institutions is a long term challenge. Lessons from project experience confirm the importance of a holistic approach for reaching the poor more effectively. This includes a focus on local-level institutions and building on existing institutional frameworks wherever possible, and on creating synergies across sectors for maximum impact. These are lessons that are consistent with the Comprehensive Development Framework (CDF) and they are also echoed by the findings of the WDR 00/1.

It is not possible to say more about the contribution of Bank assistance to poverty reduction. The 1990 strategy, and the operational guidelines based on it, have failed to generate a clear emphasis on measuring and monitoring results. Carrying out this evaluation has been made difficult by the large gap in self and independent evaluation relating to poverty and social outcomes. A critical test of the Bank’s evolving poverty strategy will be the design of a credible framework for measuring the results of the Bank’s country assistance, and helping to build local capacity for monitoring the impact of poverty reduction programs.
1. Introduction

1.1 The approach paper for this evaluation was sent to CODE in June 1998 when implementation of the Strategic Compact was in full swing. Since then two further major initiatives have been announced that seek to improve the development effectiveness of the institution and the impact of development assistance on poverty in low-income countries. In his address to the Board on October 6, 1998, World Bank President James Wolfensohn outlined his vision for a comprehensive development framework (CDF) to guide the efforts of the World Bank. Key elements of the CDF are a holistic approach to development and a framework for development assistance that is embedded in participation, partnership and results orientation. In September 1999 the World Bank and the IMF proposed the adoption of an enhanced framework for poverty reduction in low-income countries: the Poverty Reduction Strategy Initiative (PRSI) conceived as a way of relating development assistance more closely to national poverty reduction efforts. Alongside these initiatives, the Bank is also preparing a World Development Report 00/1 on poverty which will provide guidance for a new forward looking strategy to reduce global poverty.

1.2 It is too early to evaluate these initiatives. However, the rapidly evolving context has impacted on the focus of this evaluation. The original aim was to assess the Bank’s progress in implementing the principles and guidance based on the last World Development Report on Poverty (1990) This is still its primary focus, but in addition the evaluation seeks to assess the relevance of the 1990 strategy in the light of changing global conditions and of the Bank’s move towards the principles laid out in the CDF and the PRSI.

Background

1.3 In 1990, when the Bank prepared its World Development Report on Poverty, prospects for global poverty reduction seemed bright. Projections for the 1990s showed buoyant growth for both industrialized and developing countries.\(^1\) While the number of poor was already estimated at over 1 billion, major declines were expected in East Asia and South Asia. Other regions were expected to see modest reductions in the numbers of poor, but steady improvement in social indicators. Where growth was not going to be enough to offset the effects of rapid population growth as in sub-Saharan Africa, adequate provision for the social sectors was expected to result in rapid reductions in child mortality and a reversal of declines in primary school enrollment experienced during the 1980s. While the hurdles to be overcome in reducing poverty were known to be formidable, the mood remained optimistic.

1.4 Since 1990 the international economic environment has faced some difficult challenges. Yet, virtually everywhere levels of infant mortality, adult illiteracy and

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\(^1\) Industrialized nations were projected to grow at 3 percent a year, and developing nations at 5.1 percent - compared to the 4.3 percent achieved by the developing world in the 1980s. Projections did not take into account the impact of the collapse of the FSU after 1990.
maternal mortality have declined. There have also been modest reductions in the proportion of people living on under $1 per day in developing countries. However, the absolute number of poor has continued to rise, mainly because of continuing high population growth, but also because the economic growth that did take place over the decade was less than hoped for and unevenly distributed in many regions. The difficult economic and social transition in Eastern Europe and Central Asia, which could not have been foreseen in 1990, also added large numbers of new poor to global poverty numbers. The AIDS pandemic has also taken a heavy toll. Nearly 30 million people worldwide are infected with HIV/AIDS, 90 percent of whom are in developing countries and over two-thirds in Africa alone.\(^2\) Civil war and a succession of natural disasters, particularly in sub-Saharan Africa and Latin America, have also affected the pace of poverty reduction.

1.5 With inadequate progress on poverty reduction in many regions, the development assistance community is asking itself hard questions about how to work together to improve the effectiveness of aid in the fight against poverty. The Bank’s recent initiatives – the CDF and PRSI – are a direct response to this call. Hence, the time is right to find out what some of the main lessons and experiences of the past decade are, and to assess how the Bank’s policy framework for poverty reduction has fared to date.

The Bank’s Strategy

1.6 The 1990 strategy stated that sustainable poverty reduction could be achieved by a combination of (i) broadly based growth to generate efficient income-earning opportunities for the poor based on policies that harness market incentives, social and political institutions, infrastructure and technology, and (ii) improved access to education, nutrition, health care and other social services, to improve welfare directly and to enhance the ability of the poor to take advantage of the opportunities described in (i). The strategy also called for a program of well-targeted transfers and safety nets to support those living in remote and resource-poor regions or groups affected directly by economic transition. While each element is important in its own right, the WDR 1990 emphasized that the three, or ‘two-and-a-half’, elements had to be seen as mutually reinforcing and part of a comprehensive approach to poverty reduction.

1.7 Based on the WDR, the Bank formalized its strategy in the policy paper *Assistance Strategies to Reduce Poverty* (1991) and the Operational Directive 4.15 *Poverty Reduction* (1991).\(^3\) A Poverty Reduction Handbook was published in 1992 to provide operational staff with examples of good practice analytical and operational work consistent with the principles of OD 4.15.

1.8 From the outset, Bank guidelines emphasized the importance of aligning all Bank-supported operations with the poverty reduction strategy. OD 4.15 also made it mandatory for the Bank to prepare country poverty assessments to provide the basis for

\(^2\) This has had the effect of actually lowering life expectancy in 10 African countries. In four -Zambia, Uganda, Zimbabwe and Botswana - life expectancy declined by more than 10 percent between 1975 and 1997 (UNDP Human Development Indicators 1999).

\(^3\) OD 4.15 is due to be updated following publication of the WDR 2000/1 on poverty.
designing country assistance strategies, and for identifying projects that both realize high economic returns and contribute to substantial poverty reduction. Bank assistance was to be linked to an analysis of the factors determining poverty, while the volume of lending was to be linked to a country’s commitment and effort to reduce poverty. Implementation of the strategy had to be addressed in the context of the overall country assistance strategy – including lending, economic and sector work, aid coordination, and policy dialogue, while ‘country effort’ should be assessed in terms of government commitment to poverty reduction and measured by the adequacy of the country policy framework for poverty reduction.

Structure of the Evaluation

1.9 Assessing the effectiveness of the Bank’s poverty reduction strategy is a challenging task for several reasons. First, there is the problem of identifying which aspects of strategy implementation are the responsibility of the Bank as distinct from the responsibility of borrowing governments or other development partners. There is also the added problem of accounting for exogenous factors that impact on strategy implementation. Second, assessing relevance raises the question of the counterfactual. What would have happened in the absence of the strategy? This is impossible to assess at the global level, and continues to be very difficult at the country level. Finally, the lack of adequate monitoring and evaluation data relating to country strategy and the poverty impact of Bank lending operations makes it very difficult to assess the contribution of the strategy to policy change or poverty outcomes.

1.10 Given these difficulties, the evaluation could not be comprehensive. Its focus is to assess implementation of the 1990 strategy in terms of the mainstreaming of poverty concerns in Bank assistance strategies, lending and non-lending work, and in the Bank’s policy dialogue with borrowing countries. It maps these changes against assessments of Bank performance at country and project level. Finally it assesses the relevance of the key elements of the 1990 strategy in light of new data and shifts in the development assistance environment over the decade.

1.11 The overarching questions for the evaluation are:

- How well aligned are the instruments of Bank assistance with the elements of the 1990 strategy?
- Has the Bank linked the volume of its lending to country efforts to reduce poverty?
- How well have policies and projects performed in meeting poverty reduction objectives?

4 In 1998 the Poverty Sector Board created a thematic group on Impact Evaluation which seeks to enhance the quantity and quality of project level impact evaluation in the Bank. A review of the state of the art on impact evaluation revealed that less than 5 percent of FY98 projects included plans for a full scale impact evaluation, although 30 percent did include plans for poverty monitoring and evaluation (Subbarao et al 1999).
• How relevant is the 1990 strategy given data on poverty trends and more recent research on institutional and structural constraints to progress on poverty reduction?

1.12 The evaluation is based on a thorough review of the following data sources:

• internationally comparable economic and social data, and national level poverty data and indicators of country performance;
• internal Bank reports, country assistance strategies, implementation completion reports, lending data, country assistance and thematic evaluations, as well as data from OED’s project completion data base; and,
• qualitative data generated by focus groups with staff and representatives of client countries, stakeholder surveys and interviews with other development assistance partners.

1.13 The report is structured to address the main evaluative questions in sequence, starting with the Bank’s record on implementing the guidance of the 1990 strategy and concluding with a discussion of the relevance of the strategy and its connection to the forthcoming WDR 2000/1, the CDF and the PRSI.

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5 A background paper gives more detail on the types of evaluation data and the methodology.
2. Putting The Bank’s Strategy Into Practice

2.1 The poverty reduction strategy set out in the WDR 1990 was developed against a background of evolving ideas about poverty and in a rapidly changing global environment.

The Evolving Paradigm

2.2 In the 1960s, the focus of debate amongst development agencies was on growth strategies. The presumption was that poverty was primarily a consequence of lack of income or lack of access to essential commodities. In the 1970s, growing disillusionment with the trickle-down effects of growth took hold. The Nairobi speech of Robert McNamara in 1973 signaled a shift in donor priorities away from overall economic growth toward strategies designed to benefit the absolute poor. Notions of poverty expanded to include unmet basic needs, including food, health care and education. The perceived need to deal simultaneously with poverty and economic growth led to the formation of a new strategy in the Bank’s 1974 publication *Redistribution with Growth*. This new strategy did not abandon growth as the primary objective, but raised concerns about the distribution of the benefits of growth and made the case for a more concerted effort to secure the basic needs of the poor and for systematic Bank investments in human development. The World Development Report (1980) placed a strong emphasis on the human development dimensions of poverty.

2.3 The late 1970s and early 1980s witnessed an unsuccessful experience with highly interventionist policies and large public spending, particularly in Latin America and sub-Saharan Africa. The oil crises in 1973 and 1979 had led to periods of unsustainable borrowing, macroeconomic imbalances and ultimately the debt crisis. At the same time, East Asian countries experienced rapid industrialization and export-led growth. While growth was accompanied by a rise in inequality, it was sufficiently rapid to “lift all the boats” and to sharply reduce levels of poverty.

2.4 These diametrically opposing experiences highlighted the importance of an outward-oriented strategy and sound macroeconomic policies for growth and the importance of investments in human resource development for decisive reductions in poverty. By the time the Bank prepared its 1990 World Development Report, the dominant view was that only by shifting resources toward more efficient tradable, pro-rural, labor-intensive sectors would growth occur and the poor benefit. Simultaneous investments in human resource development would lead to productivity improvements and future enhancements in the social well being of the poor.

Broadening Concepts

2.5 Since the preparation of the WDR 1990, the poverty agenda has broadened further. Concerns about rising inequality in some regions such as Latin America, refocused the policy debate on a possible relationship between poverty and inequality. Evidence of persistent gender inequalities and a higher incidence of poverty among women in some regions re-ignited worries about a ‘feminization of poverty’ (Box 2.1).
The transition in Eastern Europe and Central Asia pointed to different understandings of poverty and equity, and emphasized the importance of transforming existing safety net systems to meet the needs of the new poor, and of the emerging market economy. By the end of the decade, recurring themes were that the poor are a diverse group, that poverty and inequality are inter-related, and that being poor implies not only material deprivation but also varying degrees of isolation, lack of participation and freedom, vulnerability and insecurity.6

Box 2.1. The Gender Dimensions of Human Poverty

Of the 900 million illiterate adults in the world, two-thirds are female. Although women have made progress in recent years, they continue to earn on average 50–80 percent of what men earn. In some societies, levels of undernourishment and poor health care among women are so great as to outweigh their biological advantage in life expectancy. Some research suggests that women are more vulnerable than men to the effects of 'transient' poverty, whether as a result of war, economic crisis or illness. These disparities result from gender-based inequalities in households and are reinforced and supported by gender biases outside the household, such as in labor markets, credit institutions and legal systems. These disparities are not just damaging to the interests of women, but to people's livelihood strategies as a whole. Research on gender, growth and poverty in Africa finds that persistent gender inequalities are correlated with lower growth in much of the region.


Exogenous Factors

2.6 Over the decade, globalization has expanded opportunity for some while being increasingly linked to greater economic and financial volatility for others (Tanzi 1999). Falling commodity prices and frequent episodes of conflict destabilized several countries in sub-Saharan Africa and disabled growth prospects in large parts of the continent. A series of financial market or policy-induced crises in Latin America focused attention on the importance of well targeted safety nets to protect the poor during economic downturns and adjustment periods. The 1997-99 financial crisis also meant that growth faltered or slowed, particularly in East Asia. While the impact of the crisis on the poorest countries has been less severe than was feared at first, the international economic environment became much more difficult and the pressures on vulnerable sections of the population increased.

Implementing the Strategy

2.7 In its recommendations to management, the policy paper Assistance Strategies to Reduce Poverty (1991) showed how to apply the WDR approach in an operational context. OD 4.15 identifies the specific ways in which this should happen through country economic and sector work, linkages to country strategy work and the focus of lending (Box 2.2). This section takes these guidelines, together with the policy priorities

set out in the original strategy, and assesses them in the context of the evolving Country Assistance Strategy (CAS) and trends in Bank lending over the decade.\textsuperscript{7}

\begin{center}
\textbf{Box 2.2. OD 4.15 - Poverty Reduction}
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OD 4.15 emphasizes the assessment of country policies, public expenditures and institutions as a basis for the design of Bank country assistance programs to support country efforts to reduce poverty. While pointing to the importance of all country and economic sector work in providing the analytic foundation for the Bank's assistance, the OD refers directly to the role of Poverty Assessments and Public Expenditure Reviews in helping to establish the agenda of issues for policy dialogue on poverty reduction. Country circumstances should shape the policy dialogue on poverty reduction, and the volume of lending should be linked to country efforts to reduce poverty. Country effort takes into account short and long term economic management and government efforts to improve social indicators and policies and programs in the social sectors, infrastructure, food security, labor market reform and efficient employment generation. The composition of lending should support country efforts to reduce poverty. There are no sectoral lending targets, but where poverty is widespread and implementation capacity is weak, broadly based growth and support for basic social services may be the most cost-effective route to poverty reduction. In countries where poverty is narrowly concentrated and implementation capacity is good, targeted programs can be an important part of government programs to reduce poverty.

\textbf{Country Assistance Strategies}

2.8 The CAS, first introduced in 1990, is the main operational document of the Bank. It sets out the goals and objectives of Bank assistance as they relate to government development objectives. In the beginning, the CAS was exclusively a document for Board discussion of IDA country programs. Over time this changed—both after the CAS was mainstreamed to cover all borrowers in 1992 and as the Bank’s operating environment changed. Since then, the CAS has been prepared in consultation with government, and increasingly with civil society.\textsuperscript{8} Since August 1998 CASs have been disclosed to the public.\textsuperscript{9}

2.9 Because CASs were not widely produced before 1992, and did not appear in their current format until 1994, the review undertaken here focuses on CASs prepared from FY94 onwards. The sample included 42 CASs drawn from 20 IDA and IBRD countries for the period FY94–98,\textsuperscript{10} and a further sample of FY99 CASs to capture the latest evolution in CAS documents. Linkages with relevant economic and sector work were

\textsuperscript{7} The CAS document is described in the guidance given to staff on Country Assistance Strategies (GP/BP2.11 January 1995) as “the central vehicle for Board review of the Bank Group’s assistance strategy for IDA and IBRD borrowers” (and increasingly IFC strategy also). How the Bank intends to support country efforts in poverty reduction should be reflected in the CAS, but full details of how this will take place will not necessarily appear in the CAS document but in the individual loan agreements and supporting project documentation.

\textsuperscript{8} The cost of preparing a CAS has also risen, from an average of $75,000 in FY96 to $150,000 in FY99. Approximately 40 percent of the average cost of a full CAS is attributed to increased consultation and participation outside of central government.

\textsuperscript{9} Country Assistance Strategies: Retrospective and Implications. World Bank (1999)

\textsuperscript{10} The 20 countries were randomly selected from a structured sample based on income per capita, the poverty headcount, measures of aid dependence and geographical region.
examined. All CASs were reviewed by a team of OED evaluators, while a sub-sample was reviewed by two external advisors to verify the results.  

Non-lending Work on Poverty

Poverty Assessments

2.10 The link between country information on poverty and its reflection in the CAS has steadily improved over the decade. Around 90 percent of CASs for the FY97–99 period referred directly to the poverty profile of related analytical work, compared to 70 percent in FY94–96. This trend is related to significant improvements in the availability of national poverty data and to gradual improvements in the quality of Bank poverty assessments. This in turn has been reflected in the diagnostic treatment of poverty issues in CASs. Stakeholders and Bank staff confirm that poverty assessments and the combined use of quantitative and qualitative techniques have done much to strengthen the understanding of poverty and related policy issues (Box 2.3).

Box 2.3. The Value of Qualitative Poverty Research

The qualitative research undertaken for the 1998 India Poverty Assessment highlights dimensions of well-being that are normally absent from income-based poverty research, including the value of social capital and the implications of violence and insecurity for poverty. Similarly the Côte d'Ivoire Poverty Assessment (1997) draws on a qualitative study to identify dimensions of poverty not captured in the statistical data, such as increased competition among uses of land and other natural resources and declining visits to medical centers by families in the context of declining real incomes. In a study of the impact of participatory poverty assessments on policy, Robb (1999) found that PPAs were making an important contribution by deepening our understanding of poverty in terms defined by the poor themselves, influencing specific areas of policy, such as the timing of school fees in Zambia, and strengthening policy implementation through building local capacity in participatory methods.

Source: OED 1999a

2.11 The importance of the quality of analytical work on poverty is confirmed by the finding that the diagnostic treatment of poverty in the CAS is positively and significantly correlated with the relevance of the Bank assistance strategy overall. The quality of the poverty assessment is also linked to the influence it is likely to have on country clients and stakeholders. In a survey of 81 stakeholders conducted for the OED Follow Up Review of Poverty Assessments (OED, 1999a), over 70 percent responded that in their view the country Poverty Assessment had a moderate to large impact on the design of the Bank’s assistance strategy. Focus group sessions with Bank staff conducted in May 1999 also pointed to the contribution that Poverty Assessments have made to broadening the conceptualization and understanding of poverty. Recent evidence on Participatory

11 A background paper provides more detailed description of the CAS evaluation methodology.
12 The 1999 Annual Progress Report on Poverty notes that by 1999, 113 countries had at least one household survey with data on consumption and/or income, although the latest round of global income poverty estimates uses data from 96 countries.
14 The first OED evaluation of Poverty Assessments published in 1996 found these aspects to be severely wanting in many cases.
Poverty Assessments suggests that beyond identifying non-income dimensions of poverty, the methods used can be effective instruments for shaping policy dialogue with country partners (World Bank, 1999b). Particularly successful examples of recent high-quality Poverty Assessments are Bangladesh (FY98), Bolivia (FY96) and Thailand (FY97), all of which show strong linkages to subsequent country assistance strategies.

2.12 Despite tangible change, OED’s follow-up review cautions that improvements in the quality of Poverty Assessments are still modest overall, as well as variable across the Bank. Although qualitative and participatory work have entered the Bank’s mainstream, the overall framing of Poverty Assessments is still based on drawing a poverty line defined in monetary terms. This in turn restricts the range of strategy recommendations. Dissemination of poverty data and the analysis contained in Poverty Assessments has not always been adequate, and Bank efforts have not been focused sufficiently on supporting borrower capacity to utilize quantitative and qualitative poverty data. Limited access to poverty data continues to be a problem in many countries, particularly in Africa and Latin America, although the Bank has been influential in improving accessibility in South Asia and East Asia.

2.13 On the treatment of the Bank’s poverty strategy itself, the OED review found that nearly half the Poverty Assessments did not address the individual elements of broad-based growth, social service provision and safety nets well, nor they did not justify the balance between them in strategy recommendations. OD 4.15 states that the balance depends on the extent of poverty (whether it is widespread or narrowly concentrated) and the implementation capacity of borrower institutions. Few Poverty Assessments explore these issues systematically. There is also a general lack of clarity on issues relating to targeting and safety nets in many assessments, with the exception of some of the most recent assessments in ECA. Many assessments still do not address global or macro linkages to poverty or discuss sectoral issues in detail, particularly the prominent role of food policy and rural development in contributing to poverty reduction. In the survey of stakeholders, 30 percent of respondents felt that the treatment of rural poverty issues in the assessment was unsatisfactory (OED, 1999a). OED’s recent evaluation of the Bank’s implementation of the rural development sector strategy - From Vision to Action - notes that effective rural development work is closely correlated with the quality of related analytical work, particularly the focus on rural poverty (OED, 1999f). The role of Poverty Assessments is critical in this regard.

Public Expenditure Reviews

2.14 Efficiency, equity and accountability in public expenditures are also crucial in the fight against poverty. OD 4.15 states that, by focusing on intersectoral and intrasectoral

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15 Problems of Bank staff turnover have also impaired the effectiveness of non-lending work. In Burkina Faso, the country team adopted a highly participatory process for reaching a consensus on the definition of poverty and actions to alleviate it. This information fed into discussions with government and key civil society representatives and led to a CAS in 1996 that was considered an example of best practice in Africa for its focus on poverty. However a major turnover of the country team in 1997 impaired the continuation of this work. OED’s latest CAE on Burkina Faso (1999) notes that many current task managers and project directors have not even seen the participatory poverty assessments and profiles.
tradeoffs, the efficiency and effectiveness of spending and the cost effectiveness of safety nets and targeted programs, Public Expenditure Reviews (PERs) contribute to the policy dialogue and the assistance strategy. Based on the CAS review, however, only 15 out of a total of 42 CASs made direct reference to the findings of PER work. This is partly because not all countries had a full PER available at the time of CAS preparation, but also because of the uneven treatment of poverty related issues in PERs themselves. 16

2.15 OED's Impact Evaluation of PERs (OED, 1999g) looked at a representative sample of PERs completed between FY94–98 and found that while the overall quality of PERs is improving, poverty issues and the distributional implications of public expenditure reform are frequently under-represented. Criteria for the assessment of the benefit incidence of public spending were found in only a few PERs reviewed, but findings were often not clearly linked to sectoral policy recommendations. 17 Once again, the rural sector received remarkably scant attention. Few PERs contained any gender disaggregated data, although the more recent cohort of PERs do pay greater attention to gender issues. 18

2.16 The lack of a direct focus on poverty is most obvious in PER recommendations. Of the large number of detailed recommendations made – on average about 100 – 24 percent related to the role of government, 16 percent to infrastructure and 2 percent to direct poverty alleviation. Few PERs helped clients sort out the strategic choices and tradeoffs inherent in expenditure reform, or how best to monitor performance toward sectoral or poverty outcomes. The evaluation also found that PERs frequently suffered from a lack of timeliness, and rarely consulted beyond central government or with other donors in their preparation and dissemination. There are some important exceptions however, as in the PERs for Ethiopia, Peru, Russia, Uganda and Cambodia (Box 2.4).

2.17 The relationship between non-lending work and the CAS point to a significant improvement in the coverage and diagnosis of poverty issues. Yet the linkages are still uneven and, as in the case of PERs, the strategic value of the analytical work has often not been adequately exploited. 19 A recent assessment by the Quality Assurance Group (QAG) confirms that important shortfalls remain in the quality of economic and sector work on poverty, which in turn impacts on the poverty focus and content of country strategies adopted by the Bank. 20 With changes in the operating environment already underway with the CDF and the PRSI, the Bank is under even greater pressure than in

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16 A number of external evaluations of the Bank’s analytical work on poverty supported by the SPA’s Social Policy Working Group have identified similar issues relating to PERs and the linkages with PAs and CASs.

17 A recent review of benefit incidence studies Africa points to some of the weaknesses in the methodology for assessing benefit incidence, particularly in accounting for quality variations (Castro Leal et al 1999).

18 See OED's forthcoming Gender Evaluation.

19 This is sobering given that a full PER costs on average about $250,000 and takes around 12 months of elapsed time to produce.

20 A review by the Bank’s Quality Assurance Group in FY98 found that only 43 percent of poverty assessments were satisfactory in their treatment of the poverty profile and of policy/strategy related issues. QAG’s FY99 assessment found that overall quality had not improved much compared to FY98, and one out of four tasks continues to be less than satisfactory.
1990 to improve the strategic value of its non-lending work, and to ensure its practical relevance to country poverty strategies.21

Box 2.4. Poverty and the PER - Cambodia

The PER for Cambodia (FY98) reviewed public expenditures not only financed by the Government, but also by donors and NGOs. It concluded that outlays on defense have crowded out government resources for spending on poverty reduction activities. It estimated that with the effective implementation of the demobilization program, defense expenditures in GDP could be reduced from 3.3 percent in 1997 to 1.9 percent in 2002, creating a sizeable ‘peace dividend’ to be used for basic social services. The PER also noted that corruption had led to unsustainable forest management resulting in a revenue loss of more than 2 percent of GDP in 1997 alone. The PER found that insufficient resources were being spent on the rural sector (22 percent) where the bulk of the population and the poor live (88 percent), and that the bias towards secondary and tertiary services catered to the affluent segments of society. Recommendations – later incorporated into the structural adjustment program – emphasized increasing outlays for social sectors substantially, targeting health services for poorer individuals and under-served provinces and redirecting resources to primary facilities.

Poverty Strategy and the CAS

2.18 A central concern of the CAS is to set priorities among relevant policy issues as a way of shaping Bank assistance and supporting country poverty reduction efforts. Based on the content analysis of CAS documents, this section examines the way in which the three planks of the 1990 strategy – broad-based growth, social service provision and safety nets – have influenced the policy framework for Bank assistance.

Growth

2.19 The 1990 strategy was clear in emphasizing that the participation and contribution of the poor to growth requires policies that induce utilization of their most important asset – labor – and enhances their access to markets, key productive inputs and social services. All CAS documents focus centrally on growth. Nearly 80 percent of those reviewed identified broad-based growth as critical to sustainable poverty reduction, although fewer than 10 percent made any explicit reference to labor-intensive growth.

2.20 Few CASs actually make explicit the meaning of broad-based growth or the links between growth-oriented policies and poverty reduction in the context of specific country conditions. Employment and labor force trends in the context of strategies to remove tariff barriers and stimulate investment in tradable sectors, for example, receive modest to negligible attention in most CASs. Structural and institutional barriers to the entry of the poor into formal markets are not widely addressed, except for some attention to unemployment and labor market rigidities in transition economies. Only 20 percent of CASs include an explicit treatment of microeconomic constraints and equity issues affecting the poor’s access to physical assets and key markets, while few CASs directly address the relationship between persistent gender inequalities and the strategy for broad-based growth. These issues all relate to obstacles that prevent the poor from directly and

21 The Poverty Reduction Strategies Sourcebook will include some of the latest best practice on poverty data and measurement, participatory processes and statistical capacity building.
immediately benefiting from growth, and should therefore be part of the diagnostic on the
links between growth and poverty reduction.

2.21 Given the diversity of socio-economic conditions and poverty profiles, and the
emphasis on broad-based growth, the CAS review found surprisingly limited
differentiation in the policy agenda across CASs, although there are signs of growing
diversity, particularly in the ECA countries. Over 90 percent of CASs recommend a
strategy of macro-stability, liberalization and trade and tariff reform for supporting broad-
based growth. The linkages or transmission mechanisms between this policy agenda and
expected changes in conditions facing the poor are left largely unclear, however. The
implicit assumption seems to be that growth resulting from macroeconomic stability and
improved resource allocation will automatically lead to increased incomes and
employment for the poor and non-poor alike (Box 2.5). In reality, the non-poor are likely
to benefit earlier from growth than the poor. Hence, the need to identify a mix of policies
that places the highest priority on enhancing the poor’s prospects for benefiting from
growth, and protecting those who are likely to lose out most in the short run. The latest
Mali CAS is one of the few to provide a simple but effective method for identifying
short-term ‘winners’ and ‘losers’ of specific policy initiatives and suggesting their likely
response to policy change.

Box 2.5. Growth and Employment in Africa
The labor force in sub-Saharan Africa is growing exceptionally fast, but rapid demographic growth
combined with slow growth of investment has resulted in a fall in the capital-labor ratio in most countries.
The negative trend in capital-labor ratios is reflected in trends in the productivity of labor and in the income
received by working people. While macroeconomic policy reform has managed to shift relative prices in
favor of agriculture and to the tradable goods sectors, a recent report by ILO/UNDP indicates that the
change has not been sufficient to induce more employment and better wages for the majority of Africans.
Instead, the volume of formal sector employment has fallen sharply and the share of the labor force
engaged in informal sector jobs has grown enormously. The conclusion is that reallocating resources
through changes in relative prices is necessary but not sufficient to create jobs and improve wages. Instead
this requires major improvements in rates of private and public investment.


2.22 CAS policies targeted at key growth sectors, such as the private or financial
services sector and the rural sector, also make surprisingly few links to the overarching
goal of broad-based growth. Fewer than 50 percent of CASs recommend growth-
enhancing actions such as reforming inequitable tax systems, removing constraints to the
informal sector and improving the regulatory environment for small and medium-scale
enterprises that would directly assist the poor. CASs fall short in the presumption that
removing macro and sectoral distortions alone will create employment, whereas
analytical evidence confirms that institutional and structural barriers severely inhibit the

QAG quality assessment of ESW also finds that CAS objectives are often too broad to be readily
interpreted and monitored.

This finding matches conclusions from the 1996 report of the Africa Region Task Force for Poverty
Reduction in sub-Saharan Africa which noted that CASs and policy-based lending generally focused on
growth policies with little or no emphasis on measures that enhanced the participation of the poor in that
growth.
employment (and income) prospects of the poor, particularly women. Explicit
consideration of these issues, along with the removal of macro and sectoral distortions
would clearly enhance growth and accelerate its translation into reduced poverty. This
applies particularly to the rural sector where the prospects for poverty reduction are larger
but such distortions as well as institutional rigidities are stronger.

2.23 Clearly, the CAS needs to be selective. Not all the issues mentioned here are
going to be relevant to country development goals, or the Bank’s comparative advantage.
Nevertheless, every CAS should include a clear rationale for the selection and
prioritization of policy areas and their relationship to the goal of broad-based growth
(Box 2.6). As the most recent CAS Retrospective makes clear, CAS documents need to
do a better job in developing the links between growth-enhancing policies and the short
and long term prospects for poverty reduction.

Box 2.6. Different Approaches to Broad-Based Growth

The Malawi Country Assistance Strategy FY 99 is set against the formidable challenge of persistently high
levels of income poverty, rapid population growth, skewed asset holding and a slowing down of structural
reforms. One of the major issues identified in the CAS is the comparatively low growth elasticity of
poverty in Malawi. Analysis of household level income distribution data suggest that because of the depth
of poverty and inequalities in access to land, education and other assets (between poor and non-poor and
between women and men), the responsiveness of poverty measures to changes in average incomes is
comparatively low. In response, the CAS states that as well as measures to support an acceleration of
growth, investments and policies are needed to improve income distribution, including: building numeracy
and literacy skills and access to credit and market information for micro-enterprises. In addition policies are
needed to increase labor productivity, promote labor intensive exports, increase equity in access to social
services (especially HIV support), adopt a more equal distribution of land and mobilize communities to
participate.

Ecuador is also a country with a highly skewed distribution of wealth and where, despite periods of
unprecedented growth, poverty remains pervasive, especially in rural areas. The FY96 CAS recognizes the
special challenges that this presents and proposes a strategy that focuses on social sector reforms and the
provision of basic infrastructure. Nevertheless, the CAS is limited in its assessment of the relationship
between growth, inequality and poverty and its implications for the growth strategy. The Ecuador Poverty
Assessment (1996) clearly points to land as a determining factor for rural poverty, arguing the need for
support for the existing informal market in land and titling of the many unregistered farms as a way of
moving toward more formal land transactions. The CAS avoids the issue of land distribution, focusing
instead on the role of broad-based education and health in improving opportunities for the rural poor.

Social Services

2.24 The second pillar of the 1990 strategy emphasizes provision of basic social
services to ensure that the poor are in a position to participate in and contribute to new
growth opportunities. Almost without exception, CASs have focused forcefully on this
element, supported by a large volume of economic and sector work setting out the
linkages between investments in human capital and positive changes in labor
productivity, and other key correlates of poverty.

2.25 The relationship between basic social services and poverty reduction has become
something of a ‘given’ in CAS documents; but as the recent literature shows, this link is
far from automatic (Thomas 1999, Filmer et al. 1998). Few CASs go beyond the broad generalities of the 1990 strategy to recommend policies focusing on specific institutional and governance barriers to improved social service delivery (OED, 1999e). The role of demand for social services, and the complementary nature of investments necessary to reduce gender biases and biases against the poor in social service delivery, are given little space. More generally, policy recommendations tend to assume that expanding the quantity of primary social services will be sufficient to reach the poor, whereas evaluation evidence suggests that improving the quality of service and access to existing facilities are as important.

2.25 This said, the Bank’s policy stance on social sector delivery issues is evolving, including the unbundling of centralized management and provision in the social sectors and the recognition of institutional development to improve service delivery. But the links with the needs of the poor are at times tenuous and assume that system changes will automatically trickle-down to the poor. Once again CASs should include a clear rationale for the prioritization of policy choices in light of the overarching goal to enhance social well-being and reduce poverty. Institutional changes take a significant amount of time to occur, and CASs should be realistic about what can be achieved, particularly for the poor.

**Safety Nets**

2.26 The third element of the strategy, the provision of safety nets for the vulnerable and the ultra poor, is covered in just over 50 percent of CASs. The ECA countries have the clearest and strongest focus on safety net issues. This is explained in part by the nature of these economies, where the correlation between unemployment and poverty especially in the Eastern European countries, and the significant overlap between pension reform issues and poverty alleviation, particularly in the Central Asian republics, have forced a wider treatment of social safety nets than was originally conceived in WDR 1990. Only one out of five East Asia CASs reviewed had a focus on safety nets despite coverage of safety net issues in accompanying Poverty Assessments.

2.27 Since 1990 the Bank has developed significant capacity in the area of social protection. Yet, despite this stock of knowledge and experience with ‘rules’ for selecting and designing safety nets for different conditions (Box 2.7), operational practice is lagging. A recent Bank study of social protection and social assistance within ECA finds a lack of clear prioritization of social assistance issues in large parts of the Bank’s country assistance (Andrews & Ringold 1999). The need to develop better concepts for addressing the overlapping issues of social assistance and social protection in ECA is expected to be a major area of focus in the forthcoming Regional Social Protection Strategy Paper. CAS documents for the Kyrgyz Republic (FY98) and Armenia (FY98) reflect this new trend, stressing that pension reform is necessary in order to make the system of social assistance for the poor financially sustainable.
Box 2.7. Defining and Designing Safety Nets

The WDR 1990 defines safety nets in fairly limited terms, distinguishing between the provision of transfers - food price subsidies and food stamps - for those unable to participate in the growth process, and the provision of safety nets - public employment schemes - for those temporarily in danger when events take an unfavorable turn. The Poverty Reduction Handbook focuses mainly on the public expenditure implications of targeting and the role of safety nets in addressing the social costs of adjustment, particularly through social funds and social action programs. Over time the definition of safety nets has broadened considerably to include a wide range of social assistance programs and, particularly in the transition countries, pension systems and labor market programs.

A cross-country review of safety net programs by Subbarao et al (1997) points to a number of important lessons in designing safety nets. First, safety nets designed to complement growth must include the poor in productive activities. In addition, safety nets can be combined with long-term programs that build human capital and transfer assets to the poor. For example, public works programs can create growth-enhancing infrastructure. Third, publicly funded safety nets should not displace private transfers and traditional mechanisms for alleviating distress. Rather, wherever possible, publicly funded safety nets should strengthen informal and traditional arrangements.

Ravallion (1999) argues that safety nets should become a permanent institution, dealing simultaneously with crises and more routine problems of transient poverty, idiosyncratic risk and poor area development in normal years. A key advantage of making a safety net permanent is that it constrains political pressure to increase transfers or wage rates before elections. It also creates a basis for rapid response built on public action from the bottom up (which is held in reserve in good years), rather than relying on potentially slow administrative discretion from the top down.

2.28 Safety nets are still an afterthought in many CASs. Where they are discussed, there is a tendency to focus on problems faced by groups affected by public sector reform, rather than on the needs of the transitory poor more generally, and those least likely to be able to help themselves. In cases where public sector reform issues are uppermost, it is important that the CAS clarifies what other areas of action are needed to ensure that the poorest and those most vulnerable are protected from the short term adverse effects of reform.

2.29 One of the main weaknesses is the lack of a clear distinction between the needs of the transitory and the chronically poor. Equally important, very few CASs address the likely economic impact of their own growth and public expenditure policies on the poor, or suggest ways to mitigate any possible negative effects. One way around this has been to concentrate strategy and investment social funds. Nearly half of the CASs reviewed contained some reference to a social fund initiative. While the value of social funds in channeling funds directly to communities is understood, early evidence indicates that social funds are less than perfect substitutes for well-designed safety nets that can respond quickly and effectively in times of crisis.  

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24 Although the early experience of the emergency social funds in Bolivia suggested that this could be achieved, subsequent evaluations point to the limited amount of employment created and the limited regional spread of funded projects. Recent experiments with social fund type mechanisms in Indonesia and Thailand suggest that they can be used to respond to crisis, but the jury is still out on how well they have performed as social safety nets. More on social funds appears in Chapter 6.
Overall Assessment

2.30 The above reservations notwithstanding, poverty concerns and the strategy for poverty reduction have entered the mainstream of the Bank's country assistance work. CAS documents show an increasing commitment to poverty reduction goals, supported by an increasingly large stock of poverty data. The process of CAS preparation has also moved toward greater consultation with clients and stakeholder participation. Of course, operationalization of the objectives of the poverty strategy still has some way to go.

2.31 The policy implications of broad-based growth (as opposed to growth per se) are still not sufficiently explicit in most CAS documents, and the focus on safety nets remains uneven. While the diagnosis of poverty issues has improved, there remains a lack of prioritization of goals and objectives with respect to country situations. An analysis of the optimal balance or relative weight between the main elements of the poverty strategy, relative to the scale of poverty and country implementation capacity, is often missing. The emphasis on diversity among the poor and on the multidimensional character of poverty found in most poverty assessments, is still only weakly reflected in policy recommendations. Policy frameworks have taken a long time to move from the generalities of the initial 1990 strategy to recommendations that are concrete and tailored to specific country contexts. In some instances, as in the case of the Bank's rural development strategy, this has resulted in a vacuum between the language of the strategy and practical proposals for reform.

2.32 The 1999 CAS Retrospective recognizes a lack of political realism in the recommendations for policy reform and continued weaknesses in the monitorability of CAS goals. Despite growing attention to poverty goals in CAS policy matrices, many documents still fail to distinguish adequately between what is achievable as a direct result of Bank assistance and what is achievable more generally. Fourteen out of 42 CASs provided concrete recommendations for monitoring poverty trends. Almost all of these CASs were prepared after FY97. The shift to the CDF and the PRSI offers the opportunity to correct these weaknesses by placing the borrower at the center of strategy formulation, emphasizing a results-based approach and mainstreaming a poverty focus throughout the country strategy. How the CAS will evolve under this new framework is not yet clear, but the findings here indicate that the CAS should develop more effective criteria for the prioritization and monitoring of policy choices in the context of a long term focus on poverty reduction.

From Strategy to Lending

2.33 The 1990 strategy distinguishes between investments that support the overall economic environment for labor-intensive growth and those that seek to influence directly the asset position of the poor. OD 4.15 also states that the volume of lending to a country should be linked to a country's efforts to reduce poverty while taking into account country-specific political, institutional and socio-economic factors. This section reviews the extent to which these priorities have been reflected in the Bank's own lending program.
Linking Lending and Country Effort

2.34 Table 2.1 summarizes the results of a non-parametric exercise in which three proxies for country ‘effort’ – economic policy performance, bureaucratic quality, and OED’s own measure of borrower performance are correlated with total Bank lending for 1990-95. The results confirm that the volume of Bank lending has been higher in countries showing stronger borrower and institutional performance, although there is no clear relationship, in this exercise, between total Bank lending and macro policy performance. A recent study by Dollar et al (1999), however, finds that when per capita income and population are controlled for, there is a clear positive correlation between IDA lending and the quality of economic management, as measured by the CPIA. The strength of this correlation has also increased over the nineties, suggesting that for IDA at least, the allocation in favor of good policy countries was stronger in 1998 than in 1990.

Table 2.1. The Link Between Lending Volume and ‘Country Effort’

<table>
<thead>
<tr>
<th></th>
<th>OED Borrower Performance</th>
<th>ICRG Bureaucratic Quality</th>
<th>Policy Performance Index</th>
<th>Total Bank Lending ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OED Borrower Performance</td>
<td>1.000</td>
<td>0.176**</td>
<td>0.086*</td>
<td>0.137**</td>
</tr>
<tr>
<td>ICRG Bureaucratic Quality</td>
<td>1.000</td>
<td>0.143**</td>
<td></td>
<td>0.330**</td>
</tr>
<tr>
<td>Policy Performance Index</td>
<td>1.000</td>
<td></td>
<td>-0.037</td>
<td></td>
</tr>
<tr>
<td>All Lending ($)</td>
<td></td>
<td></td>
<td></td>
<td>1.000</td>
</tr>
</tbody>
</table>

All correlations are Spearman’s rho.

** Significant at 5 percent. * Significant at 10 percent.

2.35 Since achievement of good performance also requires commitment to poverty reduction as a development goal, an attempt is made to assess the linkage between total Bank lending and country performance in poverty related actions. This is done by looking at assessments of country ‘poverty performance’ included in the annual Country Performance and Institutional Assessment (CPIA). The overall CPIA index is used as a starting point for determining IDA resource allocations. Only those elements relating

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25 The policy performance index is the economic policy index used in Assessing Aid (1998).
26 Borrower Performance as used here is a country-level aggregation of individual project ‘borrower performance’ ratings based on a six point-scale (Highly Unsatisfactory to Highly Satisfactory). As a measure of borrower ‘effort’ at the project/program level, it captures aspects of borrower commitment and willingness to reform (through compliance with legal covenants, and committing counterpart funds etc), ‘ownership’ and implementation capacity. OED’s Annual Review of Development Effectiveness 1998 finds that aggregate project ratings are a fairly good proxy indicators of country performance overall.
27 See footnote 29 for a full explanation of the CPIA Index.
28 The relatively low values of the correlations presented in Table 2.1 suggest that while the direction of association is indicative the measures themselves are somewhat imperfect.
directly to borrower poverty reduction initiatives (poverty monitoring, targeted poverty programs and safety nets) are used here.  

2.36 Figure 2.1 shows the relationship between the average score for poverty-related actions for fiscal years 1996–98 and average (IDA and IBRD) lending commitments for fiscal years 1997–99. Commitments clearly favor countries scoring high on the poverty component of the CPR/CPIA, with the link increasing significantly in FY99. The results infer association and not causation, and the data do not allow a test for more than a few years. Nevertheless, the findings are consistent with the Bank’s stated intention to link lending volumes to assessments of country poverty reduction efforts. That there is still room for improvement is indicated by the specific country examples given in Chapter 3.

Figure 2.1: World Bank Lending and Country ‘Poverty Reduction Effort’

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29 Previously called Country Performance Ratings, the CPIA combines information on borrower performance in short- and long-run macroeconomic management, governance and poverty alleviation. A change was made in FY99 in order to give greater weight to governance concerns. Although the CPIA is an important tool for determining IDA allocations, the results are indicative and actual lending responds to changes in conditions and other factors in between annual performance assessments.

30 In practice, future commitments are based on historic assessments of performance. Therefore, average lending commitments for FY97 are mapped against the poverty score for FY96, those for FY98 against the score for FY97 and so on.

31 In FY97, 17 percent of total commitments were to countries falling in the lowest tercile while 52 percent were to countries in the highest tercile. In FY99, 21 percent of commitments were to countries falling in the lowest tercile and 56 percent to countries in the highest tercile. Interestingly there is no significant difference in the share of ‘poverty targeted’ lending going to countries in each of the terciles.

32 There are of course weaknesses in this measure, not least the problem of capturing complex information about the intentions and actions of borrowers in three heavily simplified sets of questions. Some corroboration of the measure is provided by an independent survey of national poverty plans conducted by UNDP in 1998. Matching the countries covered by the survey with those covered by the CPIA, 12 out of 18 countries scoring ‘low’ on the poverty component did not have national anti-poverty plans in place, while 12 out of 20 countries scoring ‘high’ on the poverty component had such plans.
The Changing Composition of Lending

2.37 Implicit in the 1990 strategy is a pattern of lending that favors investments that support the overall economic environment for labor-intensive growth and seek to directly address the access of the poor to basic social services. These themes cut across a wide range of Bank sectors and sub-sectors. To build an overall picture of the anatomy of Bank lending during the 1990s, three broad lending categories were created that aggregate the Bank’s multiple efforts to support growth (Category A), to support specific growth and human development related sectors (Category B) and to support the provision of basic services, particularly for the poor (Category C). The categories are heuristic, and intended only as a way of reflecting the broad compositional shift of the Bank’s aggregate portfolio.\(^{33}\)

2.39 Figure 2.2 summarizes the share of total investment lending committed to these categories over time for IBRD and IDA countries.\(^{34}\) The shift towards lending for sectors concerned with the provision of basic social and infrastructural services (Category C) is evident for both types of lending, but the trend is most dramatic for IDA.\(^{35}\) Across the Regions a similar shift has also taken place, and particularly so in Regions receiving a substantial share of IDA resources, such as Africa.

\(^{33}\) Doing this sub-sector by sub-sector is simply too massive a task to be included here.

\(^{34}\) The categorization is meant to be heuristic. Category A lending includes general macroeconomic and policy support for economic growth plus investments in strategic sectors such as power, highways and capital markets. Category B lending involves sectors related to supporting growth and the participation in growth, such as small-scale enterprise development and secondary education. Category C lending includes primary social services, safety nets and rural transport and infrastructure.

\(^{35}\) Recent IDA replenishments have emphasized the importance of increasing the share of lending to the social sectors and to targeted interventions. Category C includes but is not restricted to projects classified as poverty targeted under the Program of Targeted Interventions (PTI). The share of PTIs in total lending has remained at 30 percent since 1992, although rising to 40 percent in FY98, largely as a result of 3 large loans to East Asia following the financial crisis there. As a percentage of IDA lending, PTI projects made up 54 percent in FY98.
2.40 Underlying the aggregate shift in the focus of Bank lending is a fourfold increase in lending during the 1990s for the three main social sectors – education, health, nutrition and population and social protection (Figure 2.3). By 1995–99 lending to these sectors
reached 20 percent of total Bank lending, compared to just 5 percent between 1980–84. Within these sectors, lending for specific sub-sectors has also shifted. Lending to primary education, for example, increased by a factor of four in the early 1990s, while the relative share of lending for higher education fell from 26 percent to 14 percent over the same period. The volume of lending for basic health has continued to increase since the early 1980s, increasing by a factor of 2 in the late 1990s. As a share of total HNP lending, basic health now accounts for almost 60 percent. In social protection, commitments to the sector increased by a factor of four within the 1990s, with the share going specifically to social assistance (which includes social funds) reaching 20 percent in the late 1990s.

Figure 2.3. A Shift in Favor of the Social Sectors

![Figure 2.3. A Shift in Favor of the Social Sectors](image)

Figure 2.4. A Shift Away from the Traditional Sectors

![Figure 2.4. A Shift Away from the Traditional Sectors](image)

36 Part of IDA 12 commitments was the provision that the share of IDA lending going to the social sectors
2.40 The analog of the rising trend in lending for the social sectors is a declining trend in lending to the more traditional sectors such as agriculture, industry and power (Figure 2.4). Lending to agriculture declined by 21 percent in the 1990s compared with the 1980s. Lending to industry declined by over 60 percent, dropping to just 2 percent of the total portfolio in FY99. Lending for power and oil and gas also declined by an average of 10 percent over the decade. Together these sectors made up approximately 55 percent of Bank lending in the early 1980s. By the end of the 1990s, their share had fallen to 23 percent.37

2.41 Other sectors which have continued to grow but less dramatically also show signs of re-orientation. In transport, for example, although the focus on highways and railways has been maintained in absolute terms, the share of lending committed to rural roads and urban transport has increased significantly during the 1990s. In urban development, the focus has shifted away from urban management to a greater balance between urban environment, housing and support for livable cities. In finance, while the development of sound financial sectors is a continuing priority, an increasing share of lending is also directed to supporting the development of rural finance mechanisms, micro-credit and SME finance. For example, Bank support for micro finance was just $137.8 million between 1987 and 1990, but trebled to $402 million between 1994 and 1997.

2.42 The changing composition of the Bank’s aggregate portfolio is frequently cited as evidence that the Bank has fulfilled the broad aims of the 1990 strategy. Yet, beneath the broad changes in composition lie the more complex issues of quality and poverty impact. In agriculture, for example, the shift away from traditional agricultural investments was driven by a history of low project rates of return and unsatisfactory outcomes. Despite a renewed commitment to rural development in the Strategic Compact, the inputs to the Bank’s rural development program have remained roughly constant.38 Spending has increased but due mainly to rising unit costs, and in Africa absolute spending has actually declined since the Strategic Compact (although current sectoral definitions are thought to underestimate the rural component of the portfolio).

2.43 In other sectors too, where the volume of lending has increased significantly, concerns about the quality of lending have emerged. In HNP, for example, a recent OED study finds that “not only do we know relatively little about what the Bank has ‘bought’ with its investments, but when progress towards objectives is not measured, they are less likely to be achieved” (OED 1999). A review of social protection lending for the forthcoming Sector Strategy Paper also finds a disconnect between much of the analytical work on social protection and lending and non-lending services,4 the sector does well on

should represent around 40% of investment lending.

37 It is important to place these trends in a broader context in which the public-private composition of economic activity has changed and so has the state’s role in supporting economic and social development. Public participation in some traditional areas of agricultural investment has declined as the role of the private sector, in marketing for example, has increased. Direct public investment in sectors with expanding private sector competition, such as energy and telecommunications also indicates a changing role for Bank support.

38 Includes lending to agriculture, natural resource management, rural roads and rural water supply.
processes but is unrealistic in its assessment of outcomes.” This remark relates to a portfolio that has grown almost exponentially since 1992.

2.44 Lending trends therefore present a mixed picture. While the aggregate story is favorable, particularly in the enhanced lending to the human development sectors, lending quality and the estimation of poverty impact remain a major challenge. There are also concerns that in focusing so heavily on the social sectors, the Bank has under-emphasized the poverty reducing potential of key sub-sectors in energy, infrastructure, private and financial sector development. As the next two Chapters find, however, establishing what has been the impact of the shift in lending or the increased poverty focus of the CAS is extremely difficult. Despite exhortations in OD 4.15 that special attention should be paid to establishing a basis for monitoring success in reaching poor beneficiaries, and that short term indicators should be tracked during adjustment to provide feedback on the impact of the program on the poor, the lack of a clear Bank-wide evaluation strategy for assessing the impact of the 1990 strategy has meant that by the end of the decade still relatively little can be said, with any certainty, about development effectiveness.
3. From Strategy to Effectiveness – The Country Dimension

3.1 OED’s Annual Review of Development Effectiveness (1999) reviewed progress across the sample of countries for which OED has completed Country Assistance Evaluations. The evidence on the extent of economic and social progress is sobering. Forty percent of the countries had zero or negative growth in per capita income between 1981–97 and 85 percent had per capita income growth of 1 percent or less during the 1990s. In a quarter of the sample, the ratio of population below the national poverty line increased, and in another quarter life expectancy had declined. These figures disguise important country variations, but they are indicative of the scale of the challenge facing the Bank and its development partners at the end of the decade. This Chapter examines the efficacy of the Bank’s poverty strategy in the light of selected country progress during the 1990s.

Selected Country Progress

3.2 Ultimately, whether or not the Bank’s poverty strategy has made an impact at the country level depends not only on the Bank’s performance, but also the performance of the borrower and other development partners, as well as the part played by exogenous factors. It is extremely difficult to separate out all these factors. Nevertheless an attempt is made by looking at a selection of countries covered by recent Country Assistance Evaluations – Indonesia, Ghana, Bolivia, Cote d’Ivoire and Ukraine. The case of China is also added for comparative purposes. The CAEs provide an important source of data on the causes and consequences of country progress, and on the relevance and efficacy of the Bank’s strategy relative to country conditions and borrower performance.

Indonesia

3.3 Indonesia, which sustained a rate of economic growth of over 7 percent per annum between 1985 and 1996, backed up by a consistently high rate of domestic investment and a sustained emphasis on social sector development, saw poverty fall from over 20 percent in 1984 to less than 15 percent in the early 1990s. Key social indicators also improved (Figure 3.1).

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39 This is not a representative sample of the Bank’s country work, rather it reflects the CAS preparation schedule and OED’s work program. The countries are: Ghana, Argentina, Zambia, Poland, Morocco, Côte d’Ivoire, Togo, Mozambique, Bangladesh, Kenya, Malawi, Bolivia, Thailand, Albania, Nepal, Sri Lanka, Jamaica, Philippines, Yemen, Indonesia, Azerbaijan, Burkina Faso, Cambodia.
40 In 4 African countries – Ethiopia, Ghana, Uganda and Mauritania-the national poverty rate fell during the 1990s. In 3 others, Zambia, Zimbabwe and Nigeria the poverty rate increased.
41 There are major problems of attribution and the counterfactual in moving to the country level. It is important to remember that, irrespective of the scale of the Bank’s presence in a country, its assistance is only one piece of a much larger package of resources and knowledge that a country mobilizes to achieve its development goals.
3.5 In many ways the early Indonesian experience proved the point of the 1990 strategy, and the Bank rightly took some of the credit for maintaining the focus on poverty reduction. However in 1997 a major financial crisis and massive income shock turned a booming economy into negative growth virtually overnight (Box 3.1). OED’s Country Assistance Note produced in 1999 found that, among other things, rapid improvement in indicators of social progress had led the Bank, and others, but most especially the Government of Indonesia (GOI), to downplay obstacles to long-term sustainable growth and poverty reduction, especially weak governance and institutional structures. Aggregate social indicators also masked several inequities. The declining aggregate headcount of poverty belied growing regional disparities and the fact that many of the non-poor, who had been lifted above the poverty line in the 1980s, were still bunched close to the poverty line.

3.6 While the events of 1997-99 do not contradict the focus of the Bank’s, or Government of Indonesia’s poverty strategy, they do highlight the need to look at other measures of poverty, in particular the depth and severity of poverty when monitoring poverty performance and assessing the vulnerability of the population to shocks. Up until 1997 the Bank’s assistance strategy did not include adequate proposals for addressing inequality or developing a broad-based safety net for vulnerable groups. In fact the ‘half’ or third element of the 1990 strategy was rarely mentioned in Bank analytical work or operational documents before 1997. Since then, in response to the crisis, the Bank and GOI have placed a central focus on safety nets and on ensuring that the gains made in human development over the past decade are not lost. In the final analysis, if political conditions allow, it will be these early gains in social indicators that will provide Indonesians with the chance to bounce-back from the events of 1997-9.
Box 3.1. The Costs of Indonesia’s Economic Crisis

Few Indonesians have remained untouched by the events of 1997 and 1998. The drought of 1997, the relative price changes associated with the collapse of the rupiah and removal of subsidies and the income shocks arising from changes in demand, have contributed to an extremely complex picture of change throughout the society. The effects of the crisis on the welfare of the population are, nevertheless, nuanced and heterogeneous. Some of the main findings point to a substantial decline in real purchasing power of the average household measured by per capita levels of expenditure, driven largely by reductions in the expenditures of households in the upper parts of the income distribution. Estimates that incorporate province-specific inflation rates also suggest that overall, the proportion of households below the poverty line has risen by 25 percent, with a larger increase in urban than rural areas. Responses from individuals and households to the crisis include a substantial increase in the employment rates of men and women in their late teens and early 20s, and an increased percentage of 13–19 year olds out of school. Younger children, especially amongst poor households, are also less likely to be in school. For adults, the proportion using public health services declined slightly in 1998, visits by children also declined, while visits to private providers appear to have increased somewhat. While there is no evidence that general health status has deteriorated for adults or children, the nutritional status of adults appears to have worsened. Data also indicate that the prevalence of food assistance following the crisis is quite high, although the median value is a small fraction of total household expenditure and urban households, especially in Jakarta, are particularly likely to have benefited from public assistance.

Source: Frankenberg, E et al. (1999)

China

3.7 China provides the example of a country with a low initial income and a high level of income poverty that has achieved, since 1980, significant reductions in income poverty and major improvements in the social dimensions of well being. Like Indonesia, its poverty record has been built on a combination of strong domestic investment, rural growth and poles of high-tech manufacturing growth, a priority to education and other social objectives.

3.8 One of the salient features of the Bank’s relationship with China has been its consistency. The current Bank CAS builds on agreement of long-term priorities with the Chinese government, which include macroeconomic growth and stability, human development, agricultural and rural development, infrastructure and environmental protection. These priorities were also present in the 1995 CAS. In fact, the Bank’s rural development strategy in China was rated ‘best practice’ by OED’s recent evaluation of the implementation actions proposed in From Vision to Action (OED 1999). The strategy contained, amongst other things, a strong focus on the impediments to rural income growth and a well-executed discussion of poverty issues congruent with the Chinese context.

3.9 Over the 1990s, there has been a consistent focus by the Bank on the poorer provinces and poorest counties, mainly through lending for integrated multi-sectoral projects that emphasize poverty alleviation in the context of support for rural health, education, water supply and agriculture. Nevertheless, regional disparities are growing. Much of China’s rapid progress on poverty and social well being took place in the late 1970s and early 1980s, and although the 1990s have seen a continuation of progress, the

42 From Vision to Action is the World Bank’s strategy for rural development issued in FY96.
pace has slowed as the challenge becomes one of reaching those well below the poverty line, and addressing growing disparities between and within rural and urban areas.

3.10 The experience of China shows that sustained growth can have an impact on income poverty, and that when this growth is combined with a strong rural focus and rapid human resource development the results are remarkable. The recent experience in Indonesia illustrates that without a broad-based safety net in place, unforeseen shocks can set back the achievements of the near poor. An inadequate focus on reducing disparities between and among different groups of the poor can also weaken the sustainability of the growth process. This points to an important, and often underplayed aspect of the original 1990 strategy, which is that the three elements have greatest potential impact when applied together, as part of a comprehensive approach, rather than treated independently.

Bolivia

3.11 In Bolivia, it is the lack of adequate broad-based growth that appears to be an important factor behind persistently high poverty levels. Bolivia is one of the poorest countries in the LAC region. It began its stabilization and adjustment program in 1985 following a period of rapidly deteriorating economic conditions. Although the stabilization was successful, rates of growth in the 1990s have been modest. The relative level of income is low, education levels are poor and health indicators are among the worst in the region. The economy is dominated by agriculture, but as a mountainous, landlocked country, transportation costs are high and communication links difficult.

3.12 OED’s Country Assistance Evaluation published in 1998 concluded that the three elements of the Bank’s poverty strategy had not found firm footing in Bolivia. While the Bank undertook competent and compelling ESW to support its efforts to translate the vision of broad-based growth into high-impact operations, growth was neither sufficient nor broad-based. The process was compromised by poorly designed operations, lack of full commitment by the Bolivian authorities including overlapping circles of policymaking leading to undue overlap and rivalry, and lack of institutional capacity. 43

3.13 In 1997 against a backdrop of limited progress on poverty, the government launched its ‘National Dialogue’ to bring together representatives of the private sector, NGOs and others in an attempt to build consensus on key policy issues. This dialogue has been informed by a Poverty Assessment prepared by the Bank in collaboration with the Bolivian authorities. After discussions with Bolivian leaders in 1999, a pilot CDF was launched. The latest CAS recommits itself to a strategy of broad-based growth (opportunity), human development (security) and improved governance (dignity) within a framework that recognizes the challenges of relatively low domestic investment, weak institutional capacity and structural inequality. The challenge now is to foster real partnership among donor agencies in Bolivia.

43 The external evaluation of the IMF’s ESAF program in Bolivia identifies similar problems in implementing policy reforms (Botchwey et al 1999).
Ghana

3.14 Ghana is in many ways a country of firsts. The first in Africa to emerge from colonialism, the first to experience rapid growth until the economic crisis hit in the late 1970s, and the first to rebound after launching one of the more stringent economic recovery programs in the region in the mid-1980s. Ghana also stands out as the recipient of one of the highest IDA disbursements in Africa.

Figure 3.2. Signs of Progress in Ghana

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Poverty headcount % (national poverty estimates)

<table>
<thead>
<tr>
<th>Year</th>
<th>1988</th>
<th>1989</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>36.9</td>
<td>41.8</td>
<td>31.4</td>
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</tbody>
</table>

Infant Mortality Rate (per 1000 live births)

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<tbody>
<tr>
<td></td>
<td>112</td>
<td>94</td>
<td>77</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Ghana - Present Past and Future 1995 (Table 3.2). The figures are based on the Ghana Living Standards Survey 1 & 2.

3.15 During the late 1980s and 1990s, Ghana performed better than almost all its comparator countries (Figure 3.2). The economy grew at an average of 4.4 percent per annum between 1992 and 1998 and the poverty headcount declined to 31.4 percent in 1992.44 Despite carrying out a sustained adjustment and prioritizing investments in the social sectors, improvement in most social indicators has been relatively slow. Basic education sector improvements have not fared well, largely because of a lack of government capacity to manage the program. In health, a shift to a sector investment program pooling the support of 17 donors is faring somewhat better. Nevertheless, more than 1 in 3 Ghanains still lived in poverty by the end of the nineties.

3.16 OED’s Country Assistance Note (FY00) finds that the strong growth record owes as much to a large deficit-financed public investment program supported by donor funds as to the private sector investment needed for sustainable growth. Slow progress on private sector development, weak governance and high aid dependency now appear to be the main obstacles to sustained poverty reduction. They affect, amongst other things, the rate at which growth is translated into poverty reduction. In the face of slow progress, the

44 The latest preliminary figures for Ghana suggest a national poverty rate of 51 percent in 1992 and of 42.6 percent for 1999. Since these figures are preliminary and reflect a reworking of the most recent household survey data, they have not been used here. Nevertheless they indicate the same direction of change in poverty levels, even if the magnitude is slightly different.
1997 CAS proposed a new implementation strategy for Ghana, decentralizing activities to the resident mission, stressing program ownership by the government and emphasizing new non-lending services for technical and implementation support. While it is too early to tell whether this new model will produce a greater poverty impact, the need to complement the focus on growth with an emphasis on governance and institutional capacity is now clear.

**Côte d’Ivoire**

3.17 Côte d’Ivoire has been the recipient of substantial World Bank assistance since 1968, equivalent to 2.2 percent of GDP, compared to 0.9 percent for the rest of sub-Saharan Africa. From the first adjustment loan in 1981 to June 1997, the country received US$3.2 billion in net commitments. Despite this, Bank and other donor assistance could not prevent a severe fall in household income and a dramatic rise in poverty between 1985 and 1993 (Box 3.2). While average income over the 1990–95 period was higher than that of other low-income countries in Africa, Côte d’Ivoire’s social indicators are far worse, and income poverty levels rose from 11 percent in the mid-1980s to 37 percent of the population in the mid-1990s. There is also widespread inequality in the incidence of public spending. The lowest quintile of the population benefiting from only 11 percent and 14 percent respectively of the spending on health and education, compared to 31 percent and 38 percent among the richest quintile.

**Box 3.2. Distributional Change in the Context of Adjustment – the IMF/ESAF Experience in Côte d’Ivoire**

Prior to the negotiation of an IMF ESAF loan in 1994, there had been a long period of worsening poverty. During the first ESAF it was acknowledged that the urban poor might be adversely affected by the reforms, including the devaluation. To mitigate the effects, the program planned targeted safety net assistance to urban areas. It was envisaged that the program would lead to a substantial rise in rural incomes. The net effect of reforms have been studies in a number of surveys. Snapshots of poverty in 1988 and 1993 show a doubling in both the incidence and intensity of poverty, but little change in the distribution of income suggesting that the deterioration in poverty reflected the decline in mean income. Urban poverty increased dramatically as a result of the devaluation, and the rate of unemployment rose. Safety net programs were only partially implemented and failed to prevent a substantial decline. Overall between 1989 and 1995, per capita GDP fell by 12 percent and poverty more than doubled. The effects on income distribution occurred mainly through the devaluation with rural exporters benefiting and urban informal sector workers losing out most.


3.18 Many of the reasons for limited progress on poverty in the 1990s stem from a cycle of erratic economic growth, high public spending inadequately targeted, a very poor human resource base and a weakly diversified economy. Until recently, poverty reduction was given very little official priority by Ivorian authorities, making it very difficult for the Bank to develop a coherent poverty strategy. A new development strategy unveiled in 1995 opened the way for a much more direct dialogue between the donor community and the Ivorian authorities on the importance of poverty reduction. The Bank completed a Poverty Assessment in 1997. In fact the engagement with civil society in a ‘tripartite social dialogue’ during the preparation of the Poverty Assessment set a precedent for
work by the Bank and government in Côte d'Ivoire (OED, 1999a). However recent developments in the political arena have thrown a veil of uncertainty over the direction of change in Côte d'Ivoire.

Ukraine

3.19 The problems encountered when there is a serious lack of social consensus for reform is highlighted by the Bank’s experience in Ukraine. Ukraine joined the World Bank in 1992. Despite considerable natural resources, a well-educated population and relatively well-developed infrastructure, economic and social development over the decade has been poor. Income per capita declined by over 40 percent from 1989 to 1997, real wages are currently about 35 percent of the levels at independence, and poverty has increased significantly.

3.20 The Bank’s assistance strategy has supported the Ukrainian government in achieving a degree of macroeconomic stability, reducing inflation, privatizing state-owned enterprises and trade and price liberalization. Yet, progress in creating a more dynamic agricultural sector as the basis of a return to broad-based growth, and reforming the country’s social safety net to protect the poor and most vulnerable, has been less than satisfactory. Despite Bank efforts to generate a shared vision of the path to follow, lack of a clear consensus on the direction of reform has limited the feasibility of a coherent poverty reduction strategy.

Box 3.3. Perspectives from Ukrainian Stakeholders

A focus group was held in June 1999 with representatives of government, academia and independent policy research centers in Ukraine, to elicit views about the Bank’s poverty strategy for the country. Few participants could comment on the overall objective or strategic focus of the Bank’s assistance in Ukraine, but many were aware of the Bank’s background work on poverty through the Poverty Assessment carried out in 1996. Participants underscored the fact that the Bank had been the first donor to assist Ukraine in conducting a new, innovative and high-quality report on poverty. However, they felt that the Bank needs to do better in informing the general public about its work and ensuring that key reports get widely disseminated throughout government. More broadly, the Bank should attempt to unify its terminology and understanding among all actors in the poverty arena. Greater attention to coordination and participatory project design is also needed. Finally, while the Bank’s record of cooperation with the government has been excellent, its collaboration with institutions outside of government is considered to be weak. In particular, too little emphasis is given to building local capacity and utilizing national experts on Bank missions. This would provide more local knowledge and create the basis for more effective ownership and commitment to the poverty agenda.

3.21 OED’s Country Assistance Evaluation (1999) finds that despite some promising economic and sector work on problems facing the social sectors and the social safety net in Ukraine, Bank proposals for reform were ill-adapted to the political and institutional environment. They gave inadequate emphasis to the need to build public support for change, especially institutional change, and underestimated the importance of social development to the overall reform effort. Although the Poverty Assessment provided one of the first detailed profiles of poverty incidence in Ukraine, the CAS failed to prioritize policies for broad-based growth and build support for reform of the social assistance program. Clearly, where there is limited social consensus for reform, the scope for Bank
assistance is severely limited and the focus should be on building public awareness and facilitating a dialogue between government and other stakeholders on the priorities for equitable growth and development (Box 3.3).

**Overall Assessment**

3.22 The country cases confirm the diversity of economic and social conditions and the considerable challenge of poverty reduction. Some of the lessons to emerge are listed below, while views of Bank clients and stakeholders are summarized in Box 3.4.

- Growth that is based on rural development has a notable impact on overall levels of poverty.
- Lack of social consensus and government commitment can be a major obstacle to reform, while weak institutional capacity can hinder prospects for implementation of an effective country poverty strategy.
- Slow private sector development, weak governance and high aid-dependence slow down the prospects for growth and reduce the long-term sustainability of growth and improvements in the social sectors.
- There is a need to monitor not only the level, but also the depth and severity of poverty. Since negative growth can lead to a worsening of poverty levels, safety nets are a necessary condition for ensuring that the poor are protected. All three elements of the 1990 strategy are important for sustained poverty reduction.

**Box 3.4. Country Perspectives on the Bank's Poverty Reduction Strategy**

Results from five country focus groups (Côte d'Ivoire, Uganda, Morocco, Ukraine and Bangladesh) reveal important perspectives on the strengths and weaknesses of the poverty strategy and its implementation.

**Strengths**
- Analytic power, high-quality studies, surveys and technical assistance;
- Ability to fold issues of poverty into broader discourses on economic and social development and to be persuasive about the arguments;
- Sharing of best practice “fighting poverty is not just throwing money at it”;

**Weaknesses**
- Insufficient focus on national capacity building for poverty analysis, monitoring and evaluation;
- Too little *local ownership* of ideas and interventions;
- The strategy is too macro, it does not connect well enough with microeconomic issues and poverty;
- Bank processes and procedures are too rigid to permit true partnership and full participation.
4. From Strategy to Effectiveness – The Project Dimension

4.1 OD 4.15 states that every project should be consistent with the poverty reduction strategy, although not every Bank-financed project, or adjustment loan, need have a specific poverty reduction component. In addition, special attention should be paid to monitoring success in reaching poor beneficiaries and tracking, particularly during adjustment, the impact of programs on the poor. This Chapter examines the extent to which Bank projects and policy-based lending have addressed these guidelines, and assess their effectiveness in implementing poverty reduction objectives.

Policy-Based Lending

4.2 OD 4.15 states that poverty-focused adjustment loans should include measures that (a) focus specifically on eliminating distortions affecting poor groups, and (b) support a public expenditure program focused on poverty reduction. Examining first the aggregate performance data for adjustment lending in Table 4.1, operations classified as poverty-focused show a marginally better performance record in the second half of the 1990s than regular adjustment operations. Institutional development performance also appears to be better, although the likelihood of sustainability is weaker for poverty-focused operations. Looking at Bank and borrower performance, 70 percent of poverty-focused adjustment loans were judged to have satisfactory borrower performance during 1995–99 while 80 percent were judged to have satisfactory Bank performance.

Table 4.1. Comparative Performance of Poverty Focused and Adjustment Lending

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<tbody>
<tr>
<td>Adjustment</td>
<td>Outcome (% Satisfactory)</td>
<td>71</td>
<td>57</td>
<td>66</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td>Sustainability (% Likely)</td>
<td>37</td>
<td>51</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ID Impact (% Substantial)</td>
<td>23</td>
<td>34</td>
<td>35</td>
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<tr>
<td>Poverty-focused</td>
<td>Outcome (% Satisfactory)</td>
<td>100</td>
<td>84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>adjustment</td>
<td>Sustainability (% Likely)</td>
<td>60</td>
<td>56</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>ID Impact (% Substantial)</td>
<td></td>
<td></td>
<td>50</td>
<td></td>
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</tbody>
</table>

4.3 A critical question is whether the relatively better performance of poverty-focused loans is because of their efforts to address social impact, or because of other features of the adjustment operation. Table 4.2 examines the outcome performance of a sample of completed 'poverty-focused' adjustment operations. The data indicate whether policy measures targeted at enhancing social impact have been achieved at the time of completion. Most success appears to have come in managing inflation and in measures.

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45 The classification has been in use since 1992 and relates to adjustment operations that support government efforts to either reallocate public expenditures in favor of the poor; eliminate distortions and regulations that disadvantage the poor; and/ or support safety nets to protect the most vulnerable.

46 The sample was drawn from the universe of completed poverty focused adjustment operations between FY92–98. The sample reflects all the completed operations for the 20 countries used to define the CAS evaluation. More detail is provided in a background paper on the CAS evaluations.

47 This does not account for the possibility of policy reversal at some later date.
designed to protect (or improve) social expenditures. In the majority of cases social spending levels were protected, in a few cases spending levels increased significantly (Ghana Private Sector Adjustment 1995, Malawi Entrepreneurship Development 1992 and Uganda First Structural Adjustment 1992). This finding fits closely with the results of OED's Social Dimensions of Adjustment Evaluation (1996) that found reductions in inflation were an important factor in lower income poverty. The social impact of adjustment was also more positive for countries that, in addition to favorable macroeconomic policy and supply-side reforms, managed to preserve budgetary allocations for priority social expenditures (Box 4.1).

Box 4.1 Morocco – The Experience of a Social SAL

SAL II was the ninth in a series of adjustment operations implemented during 1984–92. Poverty objectives were addressed in a series of reform proposals in the area of public investment. Six ministries were targeted for special investment effort during the SAL period, all judged to be key sectors in facilitating the country’s future socio-economic development. SAL II aimed for a reallocation of public investment in favor of the targeted sectors while ensuring that investment in these sectors increased as a share of GDP. The first goal was largely achieved, despite vague articulation of targets in the policy matrix and loan agreement. The second goal was not achieved. Furthermore, evidence of the impact of expenditure reallocation on poverty/social objectives was not available, largely because attempts to monitor the program ran into serious difficulties. Despite an innovative approach in SAL II to monitor progress toward achievement of the social objectives, chosen indicators turned out to be non-operational because of design flaws and limitations in the data available. An additional goal was the provision of information and analysis of poverty (including the commissioning of three studies on poverty-related issues). The Performance Audit Report points out that in retrospect these studies should have been carried out before proceeding with the SAL. This would have permitted a more appropriate targeting of public expenditures and would have avoided the inadequacies in the design of monitoring indicators.

Stabilization measures are also a major part of non-poverty focused adjustment operations, which would also make a contribution to lower poverty.
### Table 4.2. Progress on Selected Poverty Focused Adjustment Operations 1992–1997

<table>
<thead>
<tr>
<th>Country/Adjustment Operation</th>
<th>Progress on Objectives at Completion</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>FY appr.</td>
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<tr>
<td>Côte d'Ivoire</td>
<td></td>
</tr>
<tr>
<td>Adjustment</td>
<td>1992</td>
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<tr>
<td>Human Resources Development</td>
<td></td>
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<tr>
<td>Ghana</td>
<td></td>
</tr>
<tr>
<td>Agricultural Sector Adjustment</td>
<td>1992</td>
</tr>
<tr>
<td>Private Sector Adjustment</td>
<td>1995</td>
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<tr>
<td>Kenya</td>
<td></td>
</tr>
<tr>
<td>Education Sector Adjustment</td>
<td>1992</td>
</tr>
<tr>
<td>Malawi</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship Development through Recovery</td>
<td>1992</td>
</tr>
<tr>
<td>Uganda</td>
<td></td>
</tr>
<tr>
<td>First Structural Adjustment Credit</td>
<td>1992</td>
</tr>
<tr>
<td>Second Structural Adjustment</td>
<td>1994</td>
</tr>
<tr>
<td>Morocco</td>
<td></td>
</tr>
<tr>
<td>Structural Adjustment Loan II</td>
<td>1992</td>
</tr>
<tr>
<td>Yemen, Republic</td>
<td></td>
</tr>
<tr>
<td>Economic Recovery Credit</td>
<td>1996</td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
</tr>
<tr>
<td>Public Resources Management Adjustment</td>
<td>1992</td>
</tr>
<tr>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Social Safety Nets</td>
<td>1993</td>
</tr>
<tr>
<td>Viet Nam</td>
<td></td>
</tr>
<tr>
<td>Structural Adjustment Credit</td>
<td>1995</td>
</tr>
<tr>
<td>Armenia</td>
<td></td>
</tr>
<tr>
<td>Rehabilitation Credit</td>
<td>1995</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td></td>
</tr>
<tr>
<td>Agricultural Privatization and Enterprise Adjustment</td>
<td>1995</td>
</tr>
<tr>
<td>Ukraine</td>
<td></td>
</tr>
<tr>
<td>Rehabilitation Loan</td>
<td>1995</td>
</tr>
</tbody>
</table>

\(^a\) Fiscal reform covers: improved public expenditure management, revenue mobilization, stabilization of budgets etc.

\(^b\) Price liberalization, monopolistic marketing, labor market flexibility etc.
4.4 In fewer cases, however, is the protection of social sector spending accompanied by a successful reorientation in spending to priority areas (primary health, basic education), and in at least three operations, social expenditures actually declined during the period of implementation, due mainly to a combination of weak borrower ownership and poor program coordination.

4.5 Notable is how few of the operations listed in Table 4.2 included a safety net component. Of those that did, the record of success was mixed. In Yemen, a public works project was implemented which helped to enhance political acceptability of the adjustment measures, but the scope of the project was limited. In India, the National Renewal Fund was established to provide compensation and training to workers made redundant by the closure of state enterprises, but lack of progress on the latter meant that demand for the NRF was well below expectations. In Armenia, the Rehabilitation Credit provided cash transfers to the most vulnerable and humanitarian assistance, but serious problems with targeting meant that many of the benefits went to the non-vulnerable and non-poor. In Ukraine no progress was made to strengthen the social safety net, improve social spending or on wider fiscal reforms despite rapidly deteriorating social and poverty indicators.

4.6 The data in Table 4.2 also point to an important issue of balance between the various objectives of poverty-focused adjustment. The focus on public expenditures far outweighs the focus on addressing economic distortions or safety nets. This emphasis is also confirmed by a recent OED evaluation of Higher Impact Adjustment Lending (OED, 1999b) which finds that 43 percent of operations included measures to reallocate expenditures to the social sectors. However, targeting of vulnerable groups with improved public expenditure procedures is not always specified and the impact of reforms on the poorest is rarely considered. Part of the problem stems from the limited guidance given in OD 4.15 and the Policy Paper *Assistance Strategies to Reduce Poverty* on how to assess the relative weight between the three elements of the poverty strategy in given country contexts, and how to identify possible trade-offs between the macro and micro implications of an adjustment program.

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49 Some success was achieved in the Morocco SAL II, and Bangladesh Public Resources Management.

50 For example, Mali’s HIAL addresses distortions that disadvantage the poor through the combination of a study and a media campaign, while Chad’s HIAL addresses such distortions through a cotton sector human resource development strategy.
Six ‘groupware’ sessions were held with Bank staff during May 1999 to elicit their views about the Bank’s poverty reduction strategy and its effectiveness. Staff from a wide range of operational, policy and research positions were invited to participate.

A widely held view was that the Bank’s strategy for poverty reduction is a sound strategy on paper but needs to be adapted to take account of emerging priorities such as the role of the private sector, participation, voice, gender equity, risk and vulnerability.

Staff pointed to what they perceived to be limited understanding about the appropriate policy mix and relative weight between the three elements of the strategy; a lack of clear guidance on the meaning of broad-based growth; and an uncertainty about how to operationalize effective safety nets.

On adjustment lending staff noted that while it had proven to be effective in removing policy distortions, it did not always result in high or pro-poor growth. As one staff member put it “we do not know how to advise the client in achieving rapid but broad-based growth which will benefit the poor disproportionately more”. Staff pointed to a tendency to over-support countries that displayed no real commitment to pro-poor reform.

Staff noted that experience has showed that lending based on good social assessment and participatory tools works well. As one member of staff put it “poverty impact is greater in areas where lending is linked with learning”. Nevertheless, many respondents felt that there was a fundamental misalignment between the ostensible overarching objectives of the Bank and the internal processes whereby resources are allocated to products and activities - “we often feel that we are working against the system of incentives rather than being encouraged by it”.

The record on integrating the priorities of the poverty strategy into policy-based lending is mixed. In particular, there continues to be a question mark around the provision of safety nets and the reform of basic economic distortions that inhibit access by the poor to assets and to the opportunities created by growth. Piecing together progress against the recommendations of the earlier SDA study it is clear that considerable progress has been made in supporting the collection of country poverty data and in emphasizing the importance of adequate social sector expenditure for long-term poverty reduction. Less progress, however, has been made in effectively integrating poverty concerns into PER analyses and adjustment operations, or in making adequate safety net provisions to include consultative and participatory mechanisms.

### Investment Lending

One of the main problems in assessing the effectiveness of project lending in terms of poverty reduction goals, is the lack of monitoring and evaluation data. This section draws on OED performance data which evaluates the relevance and efficacy of project objectives, although not necessarily in meeting overall poverty reduction goals. Using the heuristic categories developed in Chapter 2, Table 4.3 summarizes OED project performance ratings across the Bank’s portfolio. Overall there is little significant difference across each of the lending categories. Projects in Category A, which covers sub-sectors most directly concerned with growth, have a marginally stronger outcome performance, but projects in Category C, which covers sub-sectors most directly concerned with social service provision show a more consistent improvement in
performance over the past decade. All categories show an improvement in the percentage of operations that are likely to be sustained and the extent of institutional development after 1994, but the room for improvement is still significant.

Table 4.3. Effectiveness of Investment Lending by Poverty Lending Category (number of projects by FY of exit)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>Outcome (% Satisfactory)</td>
<td>73</td>
<td>70</td>
<td>64</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>Sustainability (% Likely)</td>
<td>14</td>
<td>50</td>
<td>50</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>ID Impact (% Substantial)</td>
<td>13</td>
<td>31</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>Category B</td>
<td>Outcome (% Satisfactory)</td>
<td>66</td>
<td>61</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sustainability (% Likely)</td>
<td>44</td>
<td>41</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ID Impact (% Substantial)</td>
<td>23</td>
<td>27</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Category C</td>
<td>Outcome (% Satisfactory)</td>
<td>55</td>
<td>64</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sustainability (% Likely)</td>
<td>38</td>
<td>38</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ID Impact (% Substantial)</td>
<td>27</td>
<td>29</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

4.9 Looking at the performance of specific sectors, Table 4.4 summarizes the outcome performance of the five sectors regularly monitored in the Annual Progress Reports on Poverty Reduction - agriculture, education, HNP, social protection and water supply and sanitation.

Table 4.4. Outcome Performance by Major Sector (number of projects by FY of exit)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent Satisfactory (no. of projects)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>67</td>
</tr>
<tr>
<td>Education</td>
<td>100</td>
</tr>
<tr>
<td>Health, Nutrition, Population</td>
<td>40</td>
</tr>
<tr>
<td>Social Protection</td>
<td>100</td>
</tr>
<tr>
<td>Water Supply and Sanitation</td>
<td>100</td>
</tr>
</tbody>
</table>

4.10 Overall, education and social protection show strong outcome performance, followed by HNP and agriculture. However, examining performance at the sub-sector level shows that lending for primary and secondary education has performed less well than other education sub-sectors in recent years (Figure 4.1). In HNP also, basic health projects have performed below the average for the Bank as a whole, and below the average for the sector as a whole, although the record is improving.
4.11 On institutional development impact and sustainability similar patterns are revealed. During 1995–99, primary education projects were judged to be of likely sustainability in only 39 percent of cases and were judged to have achieved substantial institutional development in only 14 percent of cases. This compares with 58 and 67 percent respectively for education adjustment and higher education projects. In HNP also, only 36 percent of projects were judged to have substantial institutional development impact, although a higher share of 54 percent were considered to have likely sustainability (Box 4.3). The fact that only a tiny percentage of projects are actually able to demonstrate clear results for the poor suggests that it is always dangerous to assume *ex-ante* that lending in a particular sector or sub-sector (e.g. primary education) will be pro-poor. A recent OED evaluation of lending in the HNP sector reveals that few project documents present a coherent analysis of how project interventions will be translated into improved health outcomes for the poor, despite being classified as a poverty-targeted operation.
Box 4.3. Institutional Development and HNP

Overcoming institutional challenges in the HNP sector is critical if Bank assistance is to effectively reach the poorest. Yet institutional development performance has been disappointing. OED's evaluation of development effectiveness in the HNP sector offers a number of explanations, many of which apply to other social sectors.

- The Bank often does not adequately assess borrower capacity to implement planned project activities.
- In seeking to promote institutional change and build borrower capacity, the Bank often does not adequately analyze the constraints underlying current performance.
- Weak analysis contributes to a lack of clarity in the articulation of institutional development objectives and weak performance monitoring.

Source: Johnston and Stout 1999.

Targeted Investments

4.12 Examining further the disaggregated performance of investment lending, development effectiveness ratings were compared for a sample of completed PTI and non-PTI projects for the same priority sectors listed above. The overall picture is presented in Figure 4.2.

4.13 Projects included under the PTI perform better in terms of outcome, institutional development, Bank and borrower performance. Both sets of projects appear to perform similarly when it comes to sustainability. These results are notable given the preponderance of PTI projects in IDA lending and the weaker historical performance of IDA investment projects, although IDA projects have begun to show significant improvement since FY97 (ARDE 1999).

Figure 4.2. The Relative Performance of PTI and non-PTI Projects 1992–99
4.14 It is difficult to explain a priori why projects included under the PTI are performing better, given that the PTI is really no more than a poverty marker system. A further analysis of the project data reveals some interesting results, however. First, for projects in similar sectors, those included under the PTI are more likely to adopt principles of participatory design than non-PTI projects. Thirty-seven percent of PTI projects were rated as having substantial or high participation from beneficiaries at project identification compared to just 17 percent of non-PTIs. At appraisal also 61 percent of PTIs performed satisfactorily in terms of carrying out institutional capacity analysis, and 41 percent performed satisfactorily in carrying out social and stakeholder analysis, compared to 49 percent and 18 percent respectively of non-PTIs.

4.15 Second, PTI projects are more likely to focus on beneficiary participation and community development during project implementation. Fifty-two percent of PTI projects focused on both beneficiary participation and community development, compared to 32 percent of non-PTIs. Third, more PTIs performed satisfactorily in incorporating monitoring and evaluation indicators (53 percent) and using performance indicators during project supervision (37 percent), than non-PTIs (33 percent and 25 percent respectively).

Box 4.4. Staff Views on the PTI

During the focus groups, Bank staff were asked to rate the PTI as a system for tracking the Bank’s progress in implementing its poverty strategy and meeting its overarching poverty reduction objectives. Of those that responded, 30 percent had not heard of the PTI at all, 30 percent felt that it was reasonably adequate, while 40 percent felt strongly that the PTI was not an effective instrument for tracking the Bank’s progress. On the broader question of the Bank’s experience with targeted interventions, many staff felt that the Bank had not yet acquired good targeting procedures nor sufficient best practice to identify and target the poor effectively. The PTI criteria were considered too broad to be operationally meaningful.

4.16 Overall, PTIs appear to have performed better because of their greater emphasis on beneficiary and community participation at design and implementation stages, and their relatively greater attention to performance monitoring. These are factors widely associated with good practice in the Bank, and as such reflect important changes in the way in which the Bank has been delivering its lending since 1990.

4.17 There are several reasons to be very cautious about the implications of this analysis, however. First, there are reasons to doubt the consistency with which the PTI classification is being applied ex ante (Box 4.4). The minimum requirement for inclusion is that a project meets either or both of the targeting criteria. However, a review of project appraisal documents and implementation completion reports finds that the criteria themselves are too broad to be operationally useful in targeting project benefits. PTI projects are also not always directly concerned with poverty reduction. They may include components that mention the poor but they are not necessarily synonymous with a ‘poverty project’. In other cases, PTIs appear to be assigned almost routinely to every other project.

51 For example The Armenian Institutional Building Loan approved in FY92 and completed in FY99 was intended to strengthen the capacity of the Ministry of Labor and Social Protection to design and administer programs for the unemployed. Classified as a PTI project, project progress indicators make no mention of any expected changes in the targeting or reach of the program for the unemployed, the project’s major
basic health and primary education project. Under these conditions it is difficult to assess the credibility of a project's intentions to target project benefits to the poor.\textsuperscript{52}

4.18 Second, the better outcome performance of individual PTI projects is not the same as saying that PTI projects have a larger impact on poverty. In many cases Implementation Completion Reports (ICRs) make no mention of the percentage of beneficiaries who are poor, or the share of project benefits that reached them. A review of ICRs for projects included in the PTI and evaluated by OED between 1992 and 1999 reveals that almost half (45 percent) were judged not to have an emphasis on poverty reduction. Of the remainder, the information on the achievement of explicitly poverty-related objectives was insufficient to draw any firm conclusions. Lesson learning and feedback have not been systematically applied to PTI projects, whether at the point of preparing an ICR or an ICR review.

4.19 As a poverty marker system, the PTI gives an account of the share of Bank lending directed to poor groups, but because it is limited to projects that provide direct assistance to the poor, there is little incentive for project and country managers to demonstrate the poverty relevance of all interventions, especially actions that support an enabling environment for poverty reduction. Limited learning and feedback mean that as a tool for enhancing the direction and impact of Bank lending on the poor, the PTI system is deficient (Box 4.5).

Box 4.5. Marker Systems for Poverty Reduction – the DAC Experience

Poverty reduction mainstreaming requires monitoring systems that provide accountability against poverty objectives and effective lesson-learning and feedback. A minority of international development agencies use marker systems to record agency intentions with respect to poverty reduction, the World Bank is among the few. The problem with existing marker systems, however, is that they tend to focus on interventions providing direct assistance to poor people, reducing the incentive to examine the poverty linkages of all interventions and mark them accordingly. The contribution of monitoring systems to accountability and lesson learning is currently seriously constrained by the widespread failure to provide evidence on how the poor in particular have benefited from outputs or impact. Even where agencies have sophisticated monitoring and evaluation systems, dissemination of information and incorporation of the knowledge gained is often weak. Holding country program managers accountable for their performance against poverty reduction objectives of the country assistance strategies would strengthen the desire to ensure an adequate poverty monitoring system.

Source: DAC/OECD (1999)

4.20 The Bank's approach to monitoring outcomes has been evolving quite rapidly over the last three years. This has involved a movement from a system largely focused on measuring inputs to one that tries to measure outcomes in terms of poverty and social impacts in client countries. It is too early to tell whether this shift has made a significant impact, although there are hopeful signs regards the experimental approaches to

achievements list no poverty related activities and the ICR rates the relevance of the project to poverty reduction goals as 'not applicable'!\textsuperscript{52}

There is a mechanism for checking PTI errors, which relate mainly to misclassification (Poverty Monitoring Unit, PRMPO). Nevertheless a closer look indicates that a wide variety of inclusion and exclusion errors are based on information provided by the task manager.
benchmarking and performance monitoring undertaken by CASs for Bolivia, Mali, Macedonia and Yemen. Most recently, in the context of the HIPC initiative and the PRSPs, participating IDA countries will be setting specific goals for poverty reduction.
5. Lessons Of Experience

5.1 There can be no doubt that, since 1990, considerable headway has been made in understanding poverty and identifying the key correlates of improved well-being. The Bank’s intellectual and operational work has made a significant contribution. Yet, the backdrop is also sobering. Global and regional poverty estimates for the mid to late 1990s suggest that the numbers of absolute poor are rising, and that despite the economic recovery of the mid to late 1990s, growth has been insufficient to make a significant impact on poverty in many parts of the world.\textsuperscript{53}

Progress Since 1990

5.2 Table 5.1 presents the latest estimates on growth for the decade and compares these with the forecasts used in the WDR 1990. Developing countries as a whole grew at 3.2 percent between 1991–98, compared to a forecast of 5.1 percent for the period 1989–2000. Much of the divergence is explained by the dramatic collapse of growth in the transition economies during the early 1990s.\textsuperscript{54} In fact, excluding the transition countries improves the growth estimate for developing countries to 5.3 percent for 1991–98, which slightly exceeds the forecast for the period. This average disguises important variations in regional growth performance. MENA, LAC and SSA all experienced growth below forecasted levels, compensated for by above trend growth in SAR and EAP.

### Table 5.1. Growth in the 1990s

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>High income countries</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Developing countries</td>
<td>4.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.0</td>
<td>3.7</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>8.4</td>
<td>6.6</td>
</tr>
<tr>
<td>South Asia</td>
<td>5.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>1.4*</td>
<td>1.9</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>2.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>1.6</td>
<td>4.2</td>
</tr>
<tr>
<td>Developing countries excl. transition countries</td>
<td>3.6</td>
<td>5.3</td>
</tr>
</tbody>
</table>


\textsuperscript{53} In a review of country experiences of growth and poverty, a study by UNDP 1998 found that of 27 countries sustaining moderate rates of per capita growth (0–4%), 13 also experienced rising poverty, in the case of countries experiencing per capita growth greater than 4%, poverty rose in 2 out of 5 cases.

\textsuperscript{54} The original growth estimate for ECA was based on a small set of Eastern European countries who were members of the World Bank in 1990. It was not until well after 1990 that the full impact of the transition in the FSU and the incorporation of a large number of new member states, was actually felt.
5.3 The latest long-term projections suggest that progress on poverty reduction will be even slower in the next few years, and for some regions, including SSA and LAC, reductions in poverty are likely to remain below the targets recently adopted by the international community.  

5.4 If the record on growth has been slower and more variable than was anticipated in 1990, how do social outcomes compare with those forecast in 1990? The latest social indicators data relate only to 1996/7 and are not available for all regions, nevertheless the direction of change is clear from Table 5.2. All regions have improved their primary school enrollment ratios, although MENA and LAC still lag behind forecasted levels. Progress has been marginally slower on improving under 5 mortality rates. Only MENA and LAC have improved on levels forecast for 2000, and some regions, such as ECA, are currently experiencing a worsening of under 5 mortality rates.

### Table 5.2. Social Indicators in the 1990s

<table>
<thead>
<tr>
<th>Region</th>
<th>Primary School Enrollment (% net)</th>
<th>Under 5 Mortality (per 1000 live births)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>86</td>
<td>136</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>100</td>
<td>101</td>
</tr>
<tr>
<td>China only</td>
<td>95</td>
<td>102</td>
</tr>
<tr>
<td>South Asia</td>
<td>88</td>
<td>98</td>
</tr>
<tr>
<td>India only</td>
<td>96</td>
<td>94</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>92</td>
<td>92*</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>94</td>
<td>87</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>100</td>
<td>91*</td>
</tr>
</tbody>
</table>

Source: WDR 1990 & World Development Indicators 1999

5.5 For IDA countries as a whole latest estimates suggest positive change across a wide spectrum of social indicators in the 1990s. On average primary school enrollment ratios have increased by 14 percent between 1990-97 for IDA countries, 15 percent if China is excluded, while the drop in the infant mortality rate has been close to 11 percent for all of IDA, and 12 percent excluding China. Once again, however, Africa lags behind the rest of IDA, especially in improvements in primary school enrollments and the infant mortality rate. Moreover the fragile gains in Africa are being overwhelmed by conflicts (internal and external) and AIDS related deaths.

5.6 The recent record on growth on social outcomes is particularly important in the light of the commitments made by the international community to achieving major reductions in poverty and social inequality by 2015. A key question is whether the type of

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strategy emphasized by the Bank since 1990 still has relevance for country’s pursuing poverty reduction goals?

**Growth and Social Sector Development**

5.7 There is no simple counterfactual for assessing the global relevance of the Bank’s strategy. The only available approach is to test whether the two main pillars of the poverty strategy – growth plus social service provision for the poor – explain variations in poverty levels across developing countries.

5.8 The basic relationship is tested using a multiple regression that assumes that the poverty outcome in a particular year is a function of the level of initial per capita income and the growth of per capita income in the intervening period. Poverty is measured in terms of the national headcount poverty estimate. The model is estimated separately for ten-year average growth, five-year average growth and previous year growth for a sample of 63 developing countries. The data set includes data that was not available at the time of preparing the WDR 1990.

5.9 The regression results confirm the negative relationship of poverty and growth underlying the 1990 strategy. This relationship holds for all growth periods studied. However, the effect of long-term average growth (in this case over the 10 year period preceding the year for which a poverty estimate is available) is significantly larger than that of the shorter periods. This is significant in the light of the long-term perspective now being encouraged in the context of the CDF. Figure 5.1 presents this relationship of poverty and average growth over ten years controlling for the initial level of country income. Countries are grouped by initial income and growth terciles.

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56 The level of initial income, measured in constant (1995) US$, is a scaling variable given the wide disparities in observed income per capita across countries.

57 The estimation used poverty data drawn from country poverty assessments, and not the $1/day measure as is more commonly used. In pulling together national estimates all efforts were made to select consistent estimates that had been verified by Bank teams preparing the poverty assessment.

58 A review of a sample of country experiences by UNDP 1998 also confirmed this overall negative relationship between growth and poverty. It found that when growth is negative poverty increases in all cases. But the study also found that the converse does not always hold. It found that of 27 countries in its sample that sustained moderate rates of per capita growth (0–4%), 13 experienced rising poverty; and, in the case of the 5 countries experiencing per capita growth greater than 4%, poverty rose in 2 cases. Although the study did not control for initial income and duration of growth it concluded that when it comes to reducing poverty some patterns of growth are more efficient than others.

59 Excludes transition countries of ECA for which there was no income data available ten years prior to the year of the poverty survey. Also excludes three outliers.
5.10 The regression analysis also confirms the relevance of the second major part of the 1990 strategy. The proxy variable for the level of social sector development, holding growth constant, is significantly related to the level of poverty. A reduction in poverty outcomes can, therefore, arise from either growth or an improvement in the level of social sector development or both. Of course, each can be reinforcing of the other.

5.11 Although the model results are significant and substantiate on aggregate the relevance of the two main pillars of the 1990 strategy, they fall short in at least three important respects. First, given its simplicity the model cannot capture the full diversity of country experiences of poverty, or efforts to reduce it, and the experience of both the 1980s and 1990s has been one of widely divergent country trends. A significant percentage of the variation in poverty remains unexplained. Second, because the model is based on outcome data — growth performance and poverty levels — it says little about the relevance of particular policies (such as trade liberalization and tariff reduction or increased social spending) for achieving these outcomes. Third, the model does not

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60 The infant mortality rate is used as a proxy for the inverse of the level of social sector development.
61 These synergies are not examined here.
62 As Ravallion 1998 has argued one thing to be careful of in these aggregate growth regressions is aggregation bias, which can be quite large.
63 Only during the 1990s have a significant number of African governments embarked on reform. In many ways it is too early to tell what the long-term effect on poverty levels will be. Current data can only account for the initial response to reform, and the reforms that have been undertaken so far are largely those capable of quick implementation (Collier and Gunning 1999).
64 Stiglitz remarked in connection with the performance of the East Asian countries that while the impact of individual policies in the region remain the subject of dispute, the combination of macro and micro policies
account for the effect of inequality on poverty. There is increasing evidence in the literature of its importance to poverty reduction (Box 5.1). For example, Birdsall and Londono (1997) find that the initial distribution of human capital affects future growth, while Deininger and Squire (1998) highlight the link between initial unequal distribution of land and low growth. Similarly Blackden and Bhanu (1998) conclude that high levels of gender inequality are associated with low levels of GDP growth. Thus, domestic policies that tackle access to public and private assets for the poor are critical both to induce growth and to reduce poverty.

Box 5.1. Labor-Intensive Growth and Inequality

While growth that takes place in areas and sectors where the poor live and work may be consistent with a labor-intensive growth path, it can also be accompanied by increasing, declining or static income inequality. In Ethiopia, for example, macroeconomic change looks promising and the first signs are that rural poverty has fallen sharply since the change of government in 1992. Yet those that have gained have been those with assets, including land, oxen for plowing, education and access to public goods such as roads. Rural households with few assets have lost out. Rural inequality has risen based largely on inequalities in access to assets (Dercon et al. 1998). Research on the pro-poor bias of growth in India also finds that between 1973 and 1989 growth was essentially pro-poor in Andhra Pradesh and anti-poor in Uttar Pradesh. Although poverty levels declined in both states, and the rural poor benefited, the scale of poverty reduction in Uttar Pradesh was significantly reduced by a worsening income distribution (McCulloch & Baulch 1999).

Which Policies Matter?

5.12 The WDR 1990 pointed to the importance of a stable macroeconomic environment, undistorted inter-sectoral terms of trade and factor markets, and public provision of infrastructure to raise per capita incomes and to release resources for investments in human capital. Reviewing empirical work on the role of economic policy, it has been observed that over the years the positive actions by governments and others to affect the quality and sustainability of growth for poverty reduction have often lagged seriously behind efforts at macroeconomic stabilization.

5.13 Policies for openness and competition are closely related to macroeconomic stability. Recent research by Thomas et al (1999) finds that measures of openness are generally positively related to poverty reduction, human development and GDP growth, although more specific measures, such as trade to GDP ratios and tariff reductions have positive but insignificant associations with GDP growth. Lundberg and Squire (1999) find that openness, financial depth and land redistribution are all policies that spur growth but, whereas financial depth and land redistribution also benefit equality (albeit with a

and a capable state clearly worked well (1998 Prebisch Lecture, UNCTAD). Temple (1999) notes that although policy matters, the growth evidence still does not point to which elements of policy are crucial. In a review of the new growth evidence, Temple (1999) finds that somewhat unusually for the growth literature, studies have tended to concur in the finding that high inequality has a negative effect on subsequent growth. However, just because high inequality lowers growth does not automatically lead to the conclusion that governments should redistribute. Political economy explanations, for instance, suggest that redistribution may be driving the correlation in the first place and that tackling inefficient redistributive mechanisms is an important place to start in redressing the balance between the poor and non-poor.
much smaller effect than growth), the relationship between openness and equality is less clear. In Latin America, for example, trade opening during the late 1980s and 1990s has been linked to rising inequality, particularly between skilled and unskilled workers (Birdsall and Sabot, 1995). Other research points to the importance of physical infrastructure, particularly in spurring agricultural growth and distributing the benefits amongst the rural poor (White 1997).

5.14 Looking to sub-Saharan Africa, which has struggled the most to make significant inroads against poverty, recent empirical work points to a number of factors behind the continents variable performance. These include a lack of social capital, both public and civic, a lack of openness, a continuing deficit of public services, and the added complications of geography and risk. Not only are these factors significant at the country level, they are also significant in explaining outcomes at the level of agents and markets (Collier et al. 1999). An independent evaluation of the impact of reforms supported by the Special Program of Assistance for Africa (SPA) found that of the eight countries that remained on track during 1992–96, aggregate investment performance was consistently better than those countries that did not stay on course. The on-track countries also achieved higher export growth rates and were more successful in curbing fiscal deficits than the 20 other SPA countries (OED 1997). Social development indicators also showed similar differences, with the on track countries reducing infant mortality rates, providing access to safe water and increasing primary school enrollment rates faster than the remaining SPA countries.

5.15 The human development literature confirms a broad correlation between income levels and life expectancy, literacy and infant mortality. Research on Africa points to a 'basic needs multiplier' in which higher human development results in higher growth, which in turn increases welfare and future growth (White 1997). Yet, counterintuitively, levels of government spending on social services are only weakly associated with human development outcomes (Filmer et al 1998). Policies that encourage investment in human capital are clearly critical, but improvements in welfare outcomes are the result of more complex processes, including the technical and institutional characteristics of public service delivery systems (Stout et al. 1997, Girishankar 1999).

Box 5.2. Will the International Development Targets be Met?

Work by Hanmer 1999 shows that if the 4 percent annual growth rate predicted for developing countries up to 2015 is accompanied by low inequality, achieving the international target of halving absolute poverty is actually feasible ahead of time. However, if high income inequality accompanies growth then the target is not achieved. Higher rates of growth will help, but the effect will be limited. To achieve the target, high inequality countries need to address inequality by designing growth strategies that increase disproportionately the incomes of the poorest, or ex post through redistributing income through taxation.

Source: Hanmer et al 1999

66 The 8 on track countries were – Benin, Burkina Faso, Ghana, Malawi, Mali, Mozambique, Uganda and Zambia, although both Zambia and Ghana experienced serious lapses during the period.

67 In fact primary enrollment declined in the remaining 20 countries.
5.16 These observations suggest that, while a strategy that emphasizes the mutually reinforcing benefits of growth and human resource development is relevant, finding the right combination of policies to support long-term growth, and to ensure that the poor benefit directly, is a more complex challenge. The most recent empirical evidence points to the importance of contingent factors such as property rights, a capable bureaucracy and the distribution of assets in mediating the poverty reducing effects of growth, and to the negative effects of corruption on both inequality and poverty. Research on the impact of debt and globalization point to the importance of increased policy coherence between the macro and financial policies of the industrialized countries and those of developing countries, and the need for well targeted safety nets to addressing the problems of short term volatility and economic adjustment (Tanzi 1999). New evidence on participation points to the role of social capital and empowerment in shaping the ability of the poor to take advantage of income and welfare-enhancing opportunities.

5.17 The challenge of poverty reduction is therefore both multi-dimensional and multi-sectoral. To date, the level of growth has been insufficient to make a sustained impact on poverty. Human development has proven to be vital for long-term growth, but ultimately it is the interaction between policies that sustain long-term growth, improve the distribution as well as the stock of human capital, curb corruption and enhance the social and physical capital of the poor, that are likely to make the real difference. These are all elements making up the new Comprehensive Development Framework. The key will be understanding the interaction between them and designing country assistance strategies accordingly.

Lessons from Project Experience

5.18 The findings of macro-analysis are echoed at the micro-level. A review of recent donor and government experience with different types of poverty-targeted intervention is summarized in Table 5.3. The findings suggest that reaching the poor and making tangible differences to their well-being depends not just on 'a good project design' but on the macro institutional environment (formal and informal rules), specific local institutional capabilities (public as well as private), as well as the cultural acceptability of different types of interventions. Distilling the lessons from a review of completed and active Bank projects over the past five years points to similar findings.

Gupta & Davoodi (1998) find that corruption increases inequality through a number of channels including: lower economic growth, biased tax systems favoring the rich, poor targeting of social programs, lower social spending and unequal access to education.

WDR 2000/1 forthcoming, and the Voices of the Poor consultation exercise.
<table>
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<tr>
<th><strong>Table 5.3. Evaluation Lessons on Poverty Targeted Interventions</strong></th>
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<td><strong>Prospects for Replicability</strong></td>
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Achieving Results

5.19 Tightly targeted projects with good communication, supervision and in-built flexibility can work, even in difficult institutional/policy environments. In some cases they can also lay the basis for future, larger-scale operations. In Ukraine, where persistent weaknesses in the policy environment and in the relationship between central and local governments make implementation particularly difficult, a safety net operation designed to compensate and assist laid-off mine workers has been successful. Supported by a detailed social assessment, and close consultation with affected individuals and communities, mine workers under the Bank-supported scheme have received more effective compensation, retraining and advice than workers from mines not covered by the scheme.

5.20 Of course there are limits to the effectiveness of the project approach within difficult policy environments. In Kenya an ambitious cross-sectoral project designed to alleviate the impact of drought in arid and semi-arid areas was too complex to deliver on all its development objectives. Nevertheless, the project had a positive and long-lasting impact via the smaller and more tightly targeted relief components – livestock, water, health and local drought management – which were effectively implemented even in a poor policy environment. The main contribution of the project was its decentralized support for the development of local water user and livestock drug users associations. Underlying the success of the smaller project components was close supervision from the Bank’s Country Office in Nairobi, direct and regular contact between Bank staff and government officials, flexibility in project implementation and extensive community participation. The experience also laid the basis for a larger operation that is also showing signs of success (Box 5.3).

Box 5.3. Building on the Lessons of Success – The ALMP in Kenya

The Arid Lands Resource Management Project (ALMP) in Kenya builds on the groundwork laid down by the IDA-funded Emergency Drought Recovery program (mentioned above) as well as other agency programs such as the EU funded Kenya Livestock Development program, the UNDP funded Pastoralist Integrated Development program and the Dutch funded Drought Management project. The ALMP has incorporated the lessons learned during the implementation of these projects. Care is being taken to ensure that community ownership is fostered and project interventions are kept simple so that the communities can manage them on their own. Program components are expanded only when the capacity of the communities, participating NGOs and government agencies has been adequately strengthened. The ALMP has been emphasizing community development initiatives and training in participatory methods based on participatory rural appraisal tools and methodologies (including the logframe). The entire community and not just the community elders are included in the training. There is evidence to show that the capacity of these PAs to prepare proposals for micro-projects has improved. As in the case of the EDRP, close supervision by the resident staff in Nairobi and periodic progress monitoring workshops have been crucial to the satisfactory performance of the ALMP. Donor coordination has also been good. Positive synergies have developed among the Dutch-funded Drought preparedness, Intervention and Recovery project (DPIRP), the GTZ funded Samburu and Marsabit district development projects the Wajir based OXFAM Pastoral development project (PDP) and ALMP.

5.21 In difficult institutional environments, experience indicates that it is best to avoid the temptation to do too much or to scale up too quickly. Keeping targeted projects small
and flexible with close participation from beneficiaries is a surer way to ensure short- 
term results. Systemic weaknesses within a country’s institutional framework are an ever-
present threat to development projects, yet strong institutional design can provide some 
degree of protection against the vagaries of the implementation environment. But 
builtiding a credible set of institutional arrangements requires long-term government and 
donor commitment.

5.22 Projects, and more specifically targeted projects, continue to be important 
mechanisms for addressing the basic needs of the poor, but there are important limitations 
to what individual projects can achieve. In isolation they are often too small to make a 
significant dent on the scale or depth of poverty. Conditions in the wider policy and 
institutional environment can also diffuse, even nullify the beneficial impact of individual 
projects, especially when implemented top-down. The benefits that flow from one project 
may only be realized if there are complementary investments in other areas. Given these 
shortcomings, the Bank and other development agencies have increasingly come to stress 
the importance of sector-wide initiatives, supporting the institutional framework and 
builtiding synergy within the lending program. Adaptable lending instruments and Sector 
Investment Programs are specifically designed to address these issues.

Building on the Institutional Framework

5.23 The Bank’s involvement in the dairy sector in India provides an example of how 
investment projects supporting sectoral initiatives can have wide-ranging benefits for 
poor producers (Box 5.4). Central to the success of the program, according to a 1998 
OED impact evaluation, was a well-designed institutional framework (with government 
ownership) for projects. The Bank did not have to build a sense of ownership nor did it 
have to support new institutions for the project. It focused mainly on providing funds to 
well-designed farmer-driven initiatives in the dairy sector and on strengthening the 
extisting institutional framework.

Box 5.4. India’s Dairy Revolution

Operation Flood was aimed at assisting dairy cooperatives to (a) provide farmer members with an assured 
market for their output; (b) enable farmers to directly share the returns generated by the cooperative; and 
(c) offer farmer-controlled mechanisms for delivering essential support services such as technology 
transfer. In all, the Bank committed nearly $245 million of credit/loans for the three phases of Operation 
farmer-members supplying an average of 10,900 metric tons of milk per day through nearly 72,000 village 
cooperatives attached to 170 MPUs. It is estimated that 40 million metric tons of additional milk was 
produced in 1995 than would have been produced if the pre-1971 growth rate had continued. Even though 
this project was not designed as a “poverty” project, it has proved to be a major source of income and 
employment generation. Nearly 60 percent of the beneficiaries are small or marginal farmers or landless 
producers. The OED report “India: The Dairy Revolution” notes that the growth in milk production under 
Operation Flood is comparable to increases in grain production achieved under the Green Revolution. By 
1996, 6,000 women-only dairy cooperatives societies had been set up. The DCSs and the MPUs represent a 
major addition to social capital in the participating villages.
5.24 The institutional framework is also critical to the effectiveness of social service delivery. Water and sanitation is a critical area in the fight against poverty. Early Bank lending for rural water supply and sanitation was based on supply-driven, top-down approaches to project design and implementation. Limited results and persistent problems with sustainability led to a gradual shift to demand-driven approaches based on private sector participation and community-based systems. A recent OED review of completed RWS projects finds that this shift has been critical. The review finds that local institutional structures are often a key to project success or failure, hence the Bank needs to take account of local specificity and avoid promoting standardized models for project design. Assessing long-term system operating costs and finding sustainable ways of managing them, not only for this but for the next generation, is also critical. In small systems, support for local organizations and water funds may be the way forward.

5.25 Lack of proximity is one of the stumbling blocks to effective public action on behalf of the poor. Social funds and decentralization of government services are now widely used as mechanisms for bringing government closer to people and enhancing responsiveness to the needs of the poor. The Bank has sought to address the need for a greater emphasis on demand and decentralization in a wide variety of sectors, including the social sectors. However, a review of studies on the impact of social funds and decentralization finds that while they offer the potential for improved outcomes for the poor, there is no reason to expect that the benefits will always be pro-poor.

5.26 Evaluations from Bolivia and Ecuador reveal that the number of days of work created for the poor has often been below expectations, moreover the beneficiaries of both jobs created and the newly created infrastructure have often not been from the poorest regions or districts. Reddy (1998) finds that the equity record of social funds is mixed, including in the popular area of microfinance (Box 5.5). Evidence from some funds suggests that their beneficiaries were moderately, but not especially poor, and disproportionately male. Regional imbalance is also a problem. Various aspects of fund design may reduce impact on the poor, such as cost-recovery for financial sustainability or the need to secure the political support of the non-poor. There may also be a tension between the goal of targeting the poor and the demand-driven nature of social funds. In Bolivia, it is better organized communities rather than the poorest that are most likely to obtain SIF investments. How to target the poorest within municipalities is a key policy question.
5.5 The Bank’s Project Experience with Microenterprise Finance

The Bank has considerable experience in attempting to measure the scale or social impact of its support for microenterprise finance. Indeed, in all projects covered by a recent OED evaluation of microenterprise finance, poverty alleviation was stressed as an objective. In only 40 percent of the projects was consideration given to the kinds of performance indicators that could determine the project’s impact on poverty. Similarly, in only 40 percent of the completed projects were gender issues raised as a concern, even though the evidence is that this form of borrowing is particularly beneficial for poor women. Furthermore, of the limited number of projects that considered gender concerns, in only one third were the effects of gender rates as substantial. The development of impact measures and cost-effective poverty measurement methodologies are areas in which the Bank should be able to make a substantial contribution.

Source: OED 1999 The World Bank and Microenterprise Finance – From Concept to Practice

5.27 Decentralization in situations where the relationship between local and central government is weak or conflict-ridden can be problematic. In Ghana, a Bank-supported primary education project foundered due to resistance to central government authority by local stakeholders. Decentralized interventions risk creating greater disparities and inefficiencies in the provision of basic education. By way of contrast, the experience of the EDUCO program of community managed schools in El Salvador has been positive.

5.28 Where increased decentralization has had a positive impact on pro-poor outcomes, it has been due to a combination of strong central authority, pro-poor ideology (often in the form of resources for centrally driven programs) and active engagement by the center (Crook et al. 1999). Evidence from comparative work on Indian states reinforces this conclusion (cited in Crook 1999, WDR 1997). In India, the federal system has allowed enough room for state governments with alliances favorable to the poor to have an impact on poverty outcomes. Yet, such alliances are not always present. Decentralization without effective local accountability to a local electorate, is less likely to establish pro-poor policies. Experiments in Ghana and Bangladesh suffered from inadequate staffing and poor management, as well as weak local accountability. Decentralization is a complex, long-term process and not a quick or easy solution to the problem of pro-poor public action (WDR 1997).

Creating Synergy

5.29 A qualitative review of the Bank’s private sector development agenda in early 1999 suggests that the Bank’s poverty reduction strategy has been weak with respect to the role of private sector. The 1990 strategy placed labor-intensive growth at the center of its agenda for poverty reduction. However, with the exception of the message that growth was absolutely necessary, it was not clear what the operational imperatives were for private sector development. Similarly, the 1997 Strategic Compact reaffirmed the Bank’s focus on poverty and emphasized the critical role of private sector development, but there was no clear articulation of the relationship between the two. As a result, until recently, the expectation has persisted that poverty should be properly addressed by ‘lifting the whole tide’ rather than being directly leveraged through private sector and infrastructure development. But creating and institutionalizing awareness of poverty issues in sectors with a traditionally indirect relationship to the poor can also have positive effects.
5.30 In transport, while economic efficiency is the primary objective, there is growing awareness that efficiency-oriented transport may benefit the rich more than the poor, while transport externalities such as vehicle emissions and traffic accidents may harm the poor more than the rich (Gannon 1997). An impact study of 129 villages in Bangladesh found that villages with better transport access were significantly better off in a number of areas including household incomes, wage incomes of landless labor; health and the participation of women in the economy (Ahmed and Hossain 1990). Local infrastructure and communications, water and sanitation are all important areas for public/private partnership. Each has potentially significant complementarity with other areas of public action such as health care and education in both rural and urban areas. Consequently there is a need to understand better the synergy between key areas of public and private action to better address the 'merit’ needs of the chronically poor.70

5.31 A key lesson from the evolution of the Bank’s approach, and one that fits very closely with the principles of the CDF, is that consciously taking account of intersectoral synergies and side-effects has the potential to substantially increase the positive social impact of individual and sector-wide investments. Poverty is a multi-dimensional, multi-sector phenomenon, which deserves multi-sectoral, context-specific responses.

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70. A recent multi-sectoral initiative set up by the Urban Sector Board to provide services in poorly serviced urban neighborhoods will attempt to link a multi-sectoral approach to service delivery with national poverty reduction strategies currently being developed.
6. Conclusions and Recommendations

6.1 Has the Bank aligned itself with the objectives of 1990 strategy? The Bank has come a considerable distance in the past decade in recognizing that poverty and its eradication go beyond economics. The WDR 00/1 will add new and important information in this area. The Bank has also made headway in aligning its instruments with its poverty reduction strategy. The most tangible improvements are the linking of country poverty profiles to country assistance strategies, the articulation of CAS goals in relation to country poverty reduction goals, and the shifting of resources to sectors and sub-sectors—particularly the human development sectors—consistent with the aims of the strategy. These are substantial achievements. In addition, the Bank’s research and analytical work on poverty has resonated positively with borrowers and the development community. However, not all CAS policy frameworks have moved in tandem with the broadening of the poverty agenda in the 1990s. Emphasis on diversity among the poor, especially its gender and ethnic dimensions, and on the multidimensional nature of poverty is still weakly reflected in many CAS documents. Policy frameworks have taken a long time to move from the generalities of the initial strategy to recommendations that are concrete and tailored to specific country contexts. Social safety net issues are still treated ad hoc, and the Bank’s ability to link its activities with progress indicators on poverty reduction and social development remains seriously deficient.

6.2 Has the Bank linked lending volume and country efforts to reduce poverty? The results in this area are promising. Aggregate Bank lending in the 1990s has been greater in countries showing stronger borrower and institutional performance, although the same does not appear to hold for macro-policy performance. Further analysis of country poverty reduction efforts using the CPIA measure finds that, over the past three fiscal years (1997–99), lending commitments have been higher in countries showing better performance on poverty actions (monitoring, targeted poverty programs and safety nets). Nevertheless, there is still a need to improve both the criteria and the extent of country selectivity based on assessments of country poverty reduction effort.

6.3 Has the Bank been effective in implementing its poverty strategy and has it monitored its impact on poverty outcomes? The efficacy of Bank lending presents a mixed picture. While there has been a major shift in lending composition, the record on integrating a poverty focus into policy-based lending has been uneven. In investment lending, while projects included under the PTI and those focused on community-based lending have performed well on average, projects in key sectors such as primary education and basic health have performed below average and have had limited impact on institutional development. Of equal concern is the lack of a clear link between lending and poverty outcomes, even for projects intended to provide direct assistance to the poor. A history of inadequate project monitoring data and weak follow-up on poverty-related project objectives in ICRs and ICR reviews, has resulted in a serious gap in the Bank’s knowledge about the effectiveness of its lending in reaching poverty goals. The lack of a clear poverty focus in OED’s work until recently has only served to perpetuate this gap.

6.4 Is the Bank’s 1990 strategy still relevant? The answer to this question is inevitably very complex. A review of the latest policy literature suggest that the strategy
is relevant, but that a more comprehensive approach is required. Growth and social sector development have made positive contributions to poverty outcomes, but there is also increasing evidence that income inequality, as well as inequalities in the distribution of land and human capital inhibit the translation of growth into reduced poverty. Thus, domestic policies that tackle access to public and private assets for the poor are critical both to induce growth and to reduce poverty. Nurturing reform in these areas is a demanding and long term task in most developing countries.

6.5 Recent research also reveals a wider set of policies necessary for long-term growth and poverty reduction than envisaged in 1990. In sub-Saharan Africa, which has struggled the most to make significant inroads on poverty, factors such as the availability of public and civic social capital, the quality as well as quantity of social and physical infrastructure and buoyant private investment, have all been associated with better growth performance and social progress. To date the level of growth has been insufficient to make a sustained impact on poverty in most countries. Human development has proven vital for long-term growth, but ultimately it is the interaction between policies that sustain long-term growth, improve the distribution as well as the stock of human capital, and enhance the social and physical capital of the poor that are needed for sustained poverty reduction. Here too, the reform agenda and capacity building requirements are demanding and require a long term focus.

The Road Ahead

6.6 Since 1990, the Bank and the development assistance environment have been evolving. The volume of official aid has been declining (until the past fiscal year), while the agenda of development assistance has increased significantly. Projects have evolved to take into account the complexities of the implementation environment, while increased focus on the institutional framework for development assistance has taken the Bank and other donors in the direction of greater policy-based lending and sector-wide investments. The Bank has increased its lending volumes and has focused on the need to improve effectiveness through the Strategic Compact, and in partnership with others in the context of the CDF and the PRSP. These new approaches represent a commitment to move to a more comprehensive approach to poverty reduction. They are moves in the right direction. Yet there remains a great deal of ignorance about the benefits and costs of much of what the Bank does.

Recommendations

6.7 Poverty reduction is the primary objective of the Bank’s strategy and should be the organizing principle for the Bank’s self-evaluation and independent evaluation of development effectiveness. The recommendations which follow are designed to feed into processes currently underway, particularly the implementation of the CDF, the PRSP process and the translation of the forthcoming WDR 00/1 into operational policies and procedures.
Operational Policy and Bank Procedures

- Reworking the Operational Directive on Poverty Reduction in the light of the WDR 2000/1 should be based on the findings of this evaluation and full consultation with representatives from civil society, the private sector and the Bank’s development assistance partners. It should include clear monitorable benchmarks for assessing implementation performance. The Poverty Sector Board should also identify strategic elements of the revised policy framework for periodic review.

- Sector Strategy Papers (SSPs), need to be fully integrated into the revision of the Bank’s policy framework for poverty reduction. To overcome fragmentation of effort, Sector Boards need to improve their connectivity to the Poverty Sector Board, and SSPs should make sustainable poverty reduction their central objective.

- Country strategies and policy documents can contribute by better integrating quantitative and qualitative data about the diversity of the poor (particularly gender issues, indigenous and socially excluded groups) and their informal safety net strategies, and improving ex ante analysis of the likely social impact of proposed policy changes.

Good Practice

- The increased focus on poverty and the new directions in thinking and operationalization of the poverty reduction strategy will require stepping up the effort on policy guidance and training. The Poverty Reduction Strategies Sourcebook will go some of the way to filling this knowledge gap. This should be accompanied by a systematic program of knowledge dissemination and training, including for Borrower staff, on monitoring and implementing poverty reduction strategies. The effectiveness of such training should be carefully reviewed by the Poverty Sector Board at regular intervals.

- Capacity development is crucial to make the CDF and PRSP work for the poor. The focus should be on supporting a wide spectrum of capacity inside and outside government to prepare, implement and evaluate national poverty reduction strategies. This should be based on extensive consultation and participation. Support for capacity building should be done sensitively and flexibly to ensure that local ownership is not undermined.

Monitoring and Evaluation

- A strategic framework for evaluating poverty outcomes must be developed alongside the revised poverty reduction policy and should include: (i) regional strategies for improving the stock of evaluative data on the relationship between Bank assistance and poverty outcomes and (ii) a set of criteria for identifying self-evaluation priorities to maximize learning about poverty reduction.
• Sector Strategy Papers (SSPs) can support enhanced monitoring of the revised policy framework by committing to an overarching results-framework that systematically links sector-specific and intermediate development objectives with progress indicators on poverty reduction. SSPs should also help to clarify DAC objectives and develop intermediate targets to meet them. A new kind of poverty progress report should be developed that combines these sector- and region-specific results into a report that covers overall progress towards poverty reduction goals.

• Self-evaluation and independent evaluation must move in tandem. OED must strengthen its internal processes to ensure that a poverty focus is the organizing principle of all OED evaluations. The format for ICR reviews and project performance audits should be revised to serve as building blocks for country and sector evaluations. Apex and corporate evaluations should provide the framework for evaluating the Bank’s progress towards its corporate mission. Developing methodological tools for enhancing the poverty focus of country and sector evaluations should be carried out in consultation with Bank staff and with partner agencies, including the MDBs, the UNDP and bilateral donors through the DAC.

*Note: Recommendations for which OED is seeking a response from Management are presented in Annex 1.*
## Annex 1: Management Action Record

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<tr>
<th>Major Monitorable OED Recommendations Requiring Response</th>
<th>Management Response</th>
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<tr>
<td><strong>Effectiveness of the Bank's Poverty Reduction Strategy</strong></td>
<td>The WDR 2000/01 is providing an opportunity to bring together the lessons of experience of the 1990s and the major themes that have emerged (the importance of good governance, empowerment and participation, the focus on inequality and vulnerability) and synthesize current thinking. A first major step in updating and expanding the Bank's poverty strategy was covered in the Poverty Reduction Strategy initiative launched in FY00 — see the joint IMF-WB Board papers on <em>Building Poverty Reduction Strategies in Developing Countries</em> (Sept. 1999) and <em>PRSPs: Operational Issues</em> (Dec. 1999). Work is also ongoing to develop a program of global initiatives and support community-based development.</td>
<td>The WDR and documents on the PRSP Initiative will be complemented in FY01 by a strategic statement on additional shifts that will be prepared based on the 1990 strategy, the findings of the WDR 2000/01, the OED evaluation and other recent developments. This statement will include guidance on the links between the CDF and the PRSP initiative, updating of poverty diagnostics, monitorable benchmarks and a monitoring and evaluation strategy. Operational guidelines will be revised as needed, recognizing that country ownership will lead the content and form of poverty analyses. Broad consultations will be held on this strategy. To allow sufficient time for consultation it is anticipated that the strategic statement will be formally submitted to the Board of Directors in the second half of FY01.</td>
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<td>Operational Policy and Bank Procedures</td>
<td>Reworking the Operational Directive on Poverty Reduction in the light of the WDR2000/1 should be based on the findings of this evaluation and full consultation with representatives from civil society, the private sector and the Bank's development assistance partners. It should include clear, monitorable benchmarks for assessing implementation performance. The Poverty Sector Board should also identify strategic elements of the revised policy framework for periodic review.</td>
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<td><strong>Good Practice</strong></td>
<td>As discussed in the note, management disagrees that practical policy guidance was lacking; in fact, the 1990 WDR was the first to be followed by an Operational Directive and a Handbook; both captured what was at the time state-of-the-art analytical and policy guidance.</td>
<td>In parallel with consultations to finalize the Sourcebook, a major capacity building program is under preparation for staff and country counterparts, beginning with those involved in the poverty reduction strategy initiative. This is being complemented by a broadening of existing training for all clients, working increasingly with external partners, and for staff. Implementation will be monitored by the Poverty Reduction Board.</td>
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<td>The increased focus on poverty and the new directions in thinking and operationalization of the poverty reduction strategy will require stepping up the effort on policy guidance and training. The Poverty Reduction Strategy will go some way in filling the knowledge gap. This should be accompanied by a systematic program of knowledge dissemination and training, including for Borrower staff, on monitoring and implementing poverty reduction strategies. The effectiveness of such training should be carefully reviewed by the Poverty Sector Board at regular intervals.</td>
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<td>Monitoring and Evaluation</td>
<td>As discussed in earlier documents such as the Poverty Progress Report and Country Assistance Strategies --- Retrospective and Implications (R99-228), December 7, 1999, management agrees with the need to, and is already taking steps toward, strengthening monitoring and evaluation capacities, especially in the area of poverty reduction. A Handbook on Impact Evaluation has been prepared under the leadership of the Poverty Reduction Board to provide guidance on how to carry out structured evaluations of interventions, and is being disseminated among staff and partners.</td>
<td>The strategic document mentioned above will include a monitoring and evaluation strategy, as well as a discussion of how to strengthen incentives to learn from experience. For country-level monitoring and evaluation of poverty trends, the strategy will discuss how monitoring and evaluation strategies will be systematically integrated within country assistance strategies over time. For sector strategies, the SSP stocktaking planned for the first half of FY01 will examine the scope and timetable for SSPs to systematically improve or introduce: (a) monitorable poverty outcome indicators (with poverty intended in a multidimensional sense, as in the WDR 2000/01) and intermediate indicators; (b) a discussion of the links between actions in the sector and these indicators; (c) evaluation plans for selected program interventions that contribute to the realization of planned outcomes.</td>
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A strategic framework for evaluating poverty outcomes must be developed alongside the new policy framework and should include: (i) regional strategies for improving the stock of evaluative data on the relationship between Bank assistance and poverty outcomes and (ii) a set of criteria for identifying self-evaluation priorities to maximize learning about poverty reduction.

Sector Strategy Papers (SSPs) can support enhanced monitoring of the revised policy framework by committing to an overarching results-framework that systematically links sector-specific and intermediate development objectives with progress indicators on poverty reduction.
Committee on Development Effectiveness

Statement to the Board by Jan Piercy, Chairman

on


Board Meeting on April 20, 2000

The Chairman, Members of the Board:

1. The Committee is pleased to report on its deliberations concerning the three documents on poverty: The Effectiveness of the World Bank’s Poverty Reduction Strategy: An Evaluation (CODE2000-11); Poverty Reduction and the World Bank: Progress in Fiscal 1999 (Discussion Draft) (CODE2000-12); and Draft Management Response to The Effectiveness of the World Bank’s Poverty Reduction Strategy: An Evaluation (CODE2000-13). The Committee commended the high quality of the reports and considered it fortunate to have them discussed together. The Committee also commended the productive synergy and interaction between OED and Management that resulted in the incorporation of many OED recommendations in the Progress report and the Management Response.

2. The Committee welcomed the positive findings of the OED report: that the 1990 strategy and the momentum it created have had a positive and significant impact on the Bank’s operational and analytical work, including CASs and composition of lending. However, it generally agreed with OED’s further findings that in certain areas—for example, social safety nets—the Bank belatedly moved to reflect them in its country assistance strategies, as the importance of social risk management became apparent. The Committee also agreed that further progress was needed on operationalizing broad-based growth. The Committee appreciated that, as described in the Progress Report, the Bank’s poverty strategy is already moving in new directions, with the WDR 2000/01 providing new themes and the CDF and PRSP initiatives providing a new approach—country-ownership, participation of civil society, partnerships with development partners, and greater focus on measuring and monitoring.

3. The challenge will be the implementation of new themes and initiatives. The Committee would like to bring the following issues to the Board’s attention (as a way of focusing the Board’s discussion).

4. Updating/Revising Bank’s Poverty Reduction Strategy: Questions were raised as to whether the 1990 WDR strategy needed to be updated or simply strengthened and implemented better. In general, members felt that the paradigm had shifted, to include new themes such as inequality, volatility, vulnerability and institutions, and a multi-sectoral approach that included private sector, trade, public expenditure and other macro-policies. Finding the right combination of policies and programs would be the key, and sector strategies would play an important role in promoting poverty impact. The Committee noted that there was considerable urgency to defining the new paradigm, particularly in view of initiatives already ongoing, and that a new strategy document should not be delayed until the second half of FY01 (paras 5-8 of Implementation Note). Members urged Management to undertake corrective measures as and when issues arise without waiting for the implementation of the WDR 2000-01 recommendations.
5. **Guidelines on Poverty Analysis**: The Committee called for sufficient guidance to staff on the new requirements for poverty diagnosis and the link to country assistance strategies (para. 9 of Implementation Note).

6. **Monitoring and Evaluation**: The Committee shares Management's and OED's major concern with lack of adequate monitoring and evaluation of Bank projects and programs at the country level, as well as disentangling the effects of country performance and impact of Bank assistance. Management has acknowledged this weakness, while raising legitimate issues about methodology and cost. The task-force on project impact evaluation will discuss its work with CODE in the coming months; the Committee would suggest that both benefits and costs be considered. Questions were also raised regarding lack of monitoring capacity in countries, and the possible source of financing for an enhanced impact monitoring effort (paras 10-11 of Implementation Note).

7. **Program of Targeted Interventions (PTIs)**: The Committee raised the question of whether the Bank should discontinue the use of PTIs since there was not enough evidence that they had more direct impact on poverty than the indirect effects of other projects (paras 12-14 of Implementation Note).

8. **Organization, Staff Capacity and Matrix Management**: The Committee emphasized the need to clearly address organizational implications, including training of staff, incentives and skill-mix issues. Questions were raised regarding the role of the Networks in quality assurance and the responsibilities of country directors. Committee members also expressed a desire to hear directly from regional and Networks staff on these issues as well as recent experience with PRSPs (paras 15-17 of Implementation Note).

9. **Future Progress Reports on Poverty**: The Committee requested information on Management's plans for future progress reports, including its timing, content and the desirability of an Apex Report (para 18 of Implementation Note).

10. **Other Issues: Poverty and Gender**: Several Committee members questioned whether Gender had been adequately addressed in the reports and in the Management Response.

11. The Committee recognizes that all of these issues are high on the Management agenda. The Committee asked Management to prepare an Implementation Note outlining how it plans to address these issues. The Implementation Note that has been prepared provides a good basis for Board discussion. The Committee looks forward to working with Management in effectively implementing the Bank's poverty reduction agenda.

Thank you.
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