2000 ANNUAL REVIEW OF DEVELOPMENT EFFECTIVENESS
The Operations Evaluation Department (OED) is an independent unit within the World Bank; it reports directly to the Bank’s Board of Executive Directors. OED assesses what works, and what does not; how a borrower plans to run and maintain a project; and the lasting contribution of the Bank to a country’s overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank’s work, and to provide accountability in the achievement of its objectives. It also improves Bank work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.
2000 ANNUAL REVIEW OF DEVELOPMENT EFFECTIVENESS

From Strategy to Results

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with
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FOREWORD

The World Bank is uniquely placed to provide finance, knowledge, connectivity, and capacity building services to its developing member countries. As the premier multilateral financial institution, it is mandated to help its developing country members hook into the global economy. As a global development agency, its mission is to reduce poverty through socially and environmentally sustainable growth. This twin mandate must be implemented in a demanding operating environment characterized by financial instability, rapid technological change, and growing environmental fragility.

The Annual Review of Development Effectiveness 2000 builds on those of past years. The 1998 Review, released in a hostile environment of financial crisis, concluded that improvements in project performance are not enough—there must also be improvements at the higher plane of program and country performance.

The 1999 Review described the dilemmas and implementation challenges of implementing the Comprehensive Development Framework. It identified several promising practices for dealing with those challenges—all predicated on strong country commitments to poverty reduction and sustainable growth.

This year’s Review finds that progress in 2000 was solid on a broad front, and that further progress is likely. Portfolio performance is likely to exceed the Strategic Compact target of 75 percent satisfactory outcomes. Sus-

PREFACIO

El Banco Mundial se encuentra en situación privilegiada para ofrecer financiamiento, conocimientos, posibilidades de conexión y servicios para el desarrollo de la capacidad de sus países miembros en desarrollo. En cuanto primera institución financiera multilateral, tiene como mandato ayudar a sus países miembros en desarrollo a integrarse en la economía mundial. En cuanto organismo mundial de desarrollo, su misión es reducir la pobreza mediante un crecimiento socialmente y ecológicamente sostenible. Ese doble mandato debe ponerse en práctica en una coyuntura caracterizada por la inestabilidad financiera, el rápido cambio tecnológico y una creciente fragilidad ambiental.

El Examen anual de la eficacia en términos de desarrollo, 2000 está basado en las ediciones de años anteriores. En el Examen de 1998, publicado en el contexto hostil de la crisis financiera, se llegaba la conclusión de que las mejoras conseguidas en los resultados de los proyectos no son suficientes: hay que lograr también mejoras en el plan más elevado de los programas y países. En el Examen de 1999 se describían los dilemas y desafíos que presentaba la aplicación del Marco Integral de Desarrollo. Se identificaban varias prácticas prometedoras para superar esos desafíos, todas ellas basadas en el firme compromiso de los países con la reducción de la pobreza y el crecimiento sostenible.

AVANT-PROPOS

La Banque est dans une position idéale pour fournir des services de financement, d'information, de connectivité et de renforcement des capacités à ses pays membres en développement. En sa qualité d'institution financière multilatérale de premier plan, elle a pour mission d'aider les pays en développement à prendre pied dans l'économie mondiale. En sa qualité d'organisme de développement mondial, elle a pour mission de réduire la pauvreté par le biais d'une croissance socialement et écologiquement durable. Elle doit poursuivre ce double objectif dans un cadre opérationnel difficile, caractérisé par une situation financière instable, des progrès technologiques rapides et un environnement de plus en plus fragile.

L'Examen annuel de l'efficacité du développement 2000 s'inscrit dans le prolongement des examens antérieurs. L'Examen de 1998, publié alors que le monde était en proie à la crise financière, notait en conclusion qu'il ne suffirait pas d'améliorer les résultats des projets — il fallait viser plus haut, et améliorer les résultats des programmes et des pays. L'examen de 1999 décrivait les dilemmes et les problèmes posés par la mise en œuvre du Cadre de développement intégré. Il identifiait plusieurs méthodes prometteuses pour faire face à ces problèmes, qui nécessitaient toutes que les pays s'engagent fermement à réduire la pauvreté et à assurer une croissance durable.
tainability and institutional development ratings have also improved. Given the increased complexity, riskiness, and demandingness of Bank operations, especially in low-income countries, this progress is commendable.

The Review examines four tensions the Bank currently faces. As it seeks to implement an increasingly crowded agenda, the Bank must learn to reconcile client and corporate priorities; to adapt global prescriptions to local conditions; to balance country performance and poverty incidence in allocating its resources; and to achieve efficiency and selectivity while seeking to implement a long-term, holistic vision of development. The Bank has also taken it upon itself to generate and disseminate development knowledge, engage its partners in global policy debates, and deal with global development challenges that cannot be tackled effectively at the country level.

The Review concludes that the Bank can further improve its development effectiveness by directly confronting the dilemmas it faces. First, Bank strategies should explicitly acknowledge differences between client and Bank priorities, and Bank instruments should be mobilized more strategically to build consensus at the country and global levels. Second, the Bank should concentrate on the effective implementation of its policies and strategies through judicious adaptation to diverse institutional, social, and political environments. Third, the Bank should clarify and strengthen its approach to poor-performing countries and to middle-income countries with access to capital markets.

En el Examen de este año se comprueba que los progresos conseguidos en el año 2000 fueron sólidos en un amplio frente, y que es probable que se realicen nuevos avances. El desempeño de la cartera superará, probablemente, la meta del 75% de resultados satisfactorios establecida en el Pacto Estratégico. Han mejorado las calificaciones con respecto a la sostenibilidad y el desarrollo institucional. Este progreso es especialmente encomiable si se tienen en cuenta las mayores exigencias, riesgo y dificultad de las operaciones del Banco, sobre todo en los países en desarrollo.

En el Examen se analizan cuatro tensiones existentes actualmente en el Banco. A medida que intenta aplicar un programa cada vez más ambicioso, el Banco debe aprender a compaginar las prioridades de los clientes y de la institución, a adaptar las soluciones mundiales a las condiciones locales, a equilibrar el desempeño de los países y la incidencia en la pobreza al asignar sus recursos, y a garantizar la eficiencia y la selectividad al mismo tiempo que intenta alcanzar una visión a largo tiempo y global del desarrollo. El Banco ha asumido la tarea de generar y difundir los conocimientos relacionados con el desarrollo, implicar a sus socios en los debates sobre políticas de alcance mundial y hacer frente a los desafíos del desarrollo que no se pueden resolver de manera eficaz con intervenciones limitadas únicamente a los países.

En el Examen se llega a la conclusión de que el Banco puede mejorar todavía más su eficacia en términos de desarrollo si afronta directamente los dilemas que se le propone.

Cette année, l'Examen fait état des solides progrès accomplis dans de nombreux domaines et prévoit la poursuite de cette évolution positive. La performance du portefeuille devrait être supérieure à l'objectif fixé dans le cadre du Pacte stratégique, soit l'obtention de résultats satisfaisants pour 75 % des projets. Les notes obtenues au plan de la durabilité et du développement institutionnel se sont également améliorées. On ne peut que s'en féliciter, étant donné la complexité, les risques et à la difficulté des opérations de la Banque, notamment dans les pays à faible revenu.

L'Examen passe en revue quatre domaines dans lesquels la Banque doit actuellement procéder à des arbitrages. Alors même qu'elle s'efforce de poursuivre un programme de plus en plus volumineux, l'institution doit apprendre à réconcilier les priorités de ses clients et ses priorités institutionnelles ; adapter aux conditions locales des remèdes formulés au plan mondial ; allouer ses ressources en fonction non seulement des résultats obtenus par les pays mais aussi de l'incidence la pauvreté ; et faire preuve d'efficacité et de sélectivité tout en s'efforçant de promouvoir une vision globale du développement à long terme. La Banque a également entrepris de générer et de diffuser des connaissances dans le domaine du développement, de participer avec ses partenaires à des débats d'orientation au plan mondial, et de relever les défis que pose le développement et qui ne peuvent être relevés de manière efficace au niveau national.

L'Examen conclut que la Banque pourrait encore accroître son im-
The Bank will also have to adapt its organizational structure, business practices, and operational instruments to reduce the enormous stress the organization is suffering from—and which, unless it is remedied, could undermine its development effectiveness. First, Bank strategies, programs, budgeting processes, and staff incentives must be linked to the achievement of results, and budget processes reformed to align corporate strategies with resource allocations. Second, the Bank should give greater priority to knowledge creation, at both the country and global levels, and establish quality monitoring and tracking processes to strengthen the quality and coherence of its activities. Third, the Bank should continually assess its comparative advantage relative to international and country partners—and achieve responsible selectivity through businesslike partnerships.

FOREWORD

plantean. En primer lugar, las estrategias del Banco deberían reconocer de forma expresa las diferencias entre las prioridades de los clientes y las del Banco, y los instrumentos de éste deberían movilizarse de manera más estratégica para conseguir el consenso en los países y en todo el mundo. En segundo lugar, el Banco debería concentrarse en la aplicación eficaz de sus políticas y estrategias mediante la sabia aceptación a los diferentes entornos institucionales, sociales y políticos. En tercer lugar, el Banco debería aclarar y consolidar su posición con respecto a los países con resultados poco satisfactorios y a los países de ingresos medios, que tienen acceso a los mercados de capital.

El Banco tendrá que adaptar también su estructura orgánica, prácticas e instrumentos operacionales con el fin de reducir la enorme presión a que se ve sometida la organización —y que, si no se pone remedio, podría echar por tierra su eficacia en términos de desarrollo. En primer lugar, las estrategias, programas, procesos presupuestarios e incentivos de personal del Banco deberían estar vinculados al logro de resultados, y los procesos presupuestarios deberían reformarse para que las estrategias institucionales vayan acompañadas de las correspondientes asignaciones de recursos. En segundo lugar, el Banco debería otorgar mayor prioridad a la creación de conocimientos, tanto en los países como en todo el mundo, y establecer procesos de seguimiento y supervisión de la calidad con el fin de elevar ésta y lograr una mayor coherencia de sus actividades. En tercer lugar, el Banco debería evaluar ininterrumpidamente
su ventaja comparativa con respecto a los asociados internacionales y nacionales, y lograr una selectividad responsable mediante asociaciones eficaces.

renforcer la qualité et la cohérence de ses activités. Troisièmement, la Banque devrait systématiquement évaluer l’avantage comparatif dont elle jouit par rapport à ses partenaires internationaux et nationaux, et se montrer judicieusement sélective en constituant des partenariats productifs.

Robert Picciotto
Director-General, Operations Evaluation
The World Bank’s mandate has expanded and deepened over the past decade. Changes in the international economy and the development system have challenged the Bank to give more emphasis to institutional development, good governance, social development, post-conflict reconstruction, debt relief, and global public goods. As a result, fresh development effectiveness challenges emerged.

To meet them, the institution launched a renewal process five years ago to build new competencies, update systems and processes, establish new management arrangements, and reorient its values and culture. In parallel, the Bank refocused its mission toward poverty reduction; redeployed budget resources toward portfolio management; strengthened its environmental, social, and fiduciary safeguard

íerno, el desarrollo social, la reconstrucción después de los conflictos, el alivio de la deuda y los bienes públicos mundiales. En consecuencia, la eficacia en las actividades del desarrollo se ha visto expuesta a nuevos desafíos.

Para hacerles frente, la institución puso en marcha hace cinco años un proceso de renovación para conseguir nuevas competencias, actualizar los sistemas y procesos, establecer nuevos mecanismos de gestión y revisar sus valores y cultura. Paralelamente, el Banco reorientó su misión hacia la reducción de la pobreza; realignó los recursos presupuestales con actividades de gestión del portafolio; fortaleció su cultura y sus valores. En paralelo, la institución se reorientó hacia la reducción de la pobreza, la creación de instituciones sólidas, el buen gobierno, el desarrollo social, la reconstrucción post-conflicto, la reducción de la deuda y los bienes públicos mundiales. En consecuencia, la eficacia en las actividades del desarrollo se ha visto expuesta a nuevos desafíos.

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While these enhancements have increased the development rewards of Bank assistance, they have also increased the complexity of Bank operations, raised the cost of doing business with the Bank, and generated stress on structures, processes, and people. The Bank faces trade-offs among diverse goals and must reconcile tensions, including those between corporate and client objectives, country performance and poverty prevalence, and global prescriptions and local adaptation.

This Annual Review of Development Effectiveness (ARDE 2000) draws on the findings of the Operations Evaluation Department’s (OED) most recent evaluative work to help guide management of the above tensions. The report is structured around the three main objects of OED’s evaluations: the Bank’s completed projects, its country assistance programs, and its sector and thematic activities. Key cross-cutting messages are:

- Reforms and development programs are more likely to be sustained if there is consensus within the country and a shared vision between the Bank and the country. At the country level, the Bank needs to use its lending and non-lending tools more deliberately to foster consensus through increased local involvement and more widespread dissemination of analytic work, more systematic use of pilot projects to test new approaches, and greater use of advisory services and flexible lending instruments to nurture policy development; and encouraged participation in project implementation and policy development.

- La pobreza; transfirió recursos presupuestarios hacia la gestión de la cartera; consolidó su marco de políticas ambientales, sociales y de salvaguardia fiduciaria y alentó la participación en la ejecución de los proyectos y la formulación de políticas.

Si bien estas mejoras han hecho posible que la asistencia del Banco contribuya en mayor medida al desarrollo, han aumentado también la complejidad de sus operaciones, elevado el costo de las operaciones con el y generado una mayor presión para las estructuras, procesos y personas. El Banco tiene que tomar soluciones de compromiso entre metas distintas y reconciliar las tensiones, en particular las existentes entre los objetivos de la institución y de los clientes, el desempeño de los países y la difusión de la pobreza, y las soluciones de alcance mundial y la adaptación local.

Este Examen anual de la eficacia en términos de desarrollo está basado en las conclusiones de los estudios de evaluación más recientes del Departamento de Evaluación de Operaciones (DEO), y su objetivo es ayudar a controlar esas tensiones. El informe está estructurado en torno a los tres objetivos principales de las evaluaciones del DEO: proyectos terminados del Banco, sus programas de asistencia a los países y sus actividades sectoriales y temáticas. Pueden extraerse varias enseñanzas interdisciplinarias:

- Los programas de reforma y de desarrollo tienen mayores probabilidades de recibir apoyo si hay un consenso dentro del país y una visión compartida entre el Banco y el país. En los países, el Banco debe utilizar sus instru-

- Les réformes et les programmes de développement ont plus de chance d’être durables lorsqu’ils font l’objet d’un consensus dans le pays et lorsque la Banque et le pays poursuivent les mêmes objectifs. Au niveau national, la Banque doit utiliser ses instruments de prêts et hors prêts de manière plus systématique pour forger un consensus en accordant la participation locale et en diffusant plus largement les études réalisées ; elle doit plus souvent monter des projets pilotes pour tester de nouvelles approches, et recourir plus largement à des services de conseils et à des instruments de prêts flexibles pour promouvoir les processus de réorientation des politiques. Au niveau des stratégies sectorielles
change processes. In sector and corporate strategies, the Bank should acknowledge areas of disagreement and identify priorities for knowledge creation, cross-country learning, and strategic use of its convening role.

- Development effectiveness depends critically on adapting institutional priorities and programs to individual countries' constraints and opportunities. Such adaptation requires an up-to-date knowledge base about country operating contexts and the enabling environment. Despite an increased focus on knowledge management, current resource allocation patterns do not give sufficient priority to economic and sector work.
- Countries with stronger policy frameworks receive more lending resources per capita. But for each individual country, especially those with poor policies and institutions, the Bank's effectiveness depends not solely on lending volume but also on the mix of instruments, the timing of policy-based loans, and the judicious use of partnerships.
- The Bank has initiated a wide range of productive partnerships, but will only realize their full potential by being more businesslike and selective about what they are intended to achieve, what risks they entail, and how they can yield operating economies for the Bank through sharper delineation of its comparative advantage.

**Improved Project Results**

Despite the challenging business environment, the Bank's long-standing efforts to improve project quality and corporate strategies, the Bank should acknowledge areas of disagreement and identify priorities for knowledge creation, cross-country learning, and strategic use of its convening role.

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**ÉTUDES INSTITUTIONNELLES**

La Banque doit reconnaître les terrains de désaccord, identifier les priorités relatives à la création de savoir, au partage de l'expérience et à l'utilisation stratégique de son rôle mobilisateur.

**FRANÇAIS**

• L'efficacité du développement dépend dans une très large mesure de l'adaptation des priorités institutionnelles et des programmes compte tenu des obstacles et des possibilités qui existent dans chaque pays. Pour ce faire, il est important de disposer d'informations à jour sur le cadre des affaires et les conditions dans lesquelles se déroulent les activités. Bien qu'une importance accrue soit accordée à la gestion des connaissances, la structure actuelle des allocations de ressources n'accorde pas une priorité suffisante aux études économiques et sectorielles.

• Les pays dans lesquels l'action publique s'inscrit dans un cadre solide reçoivent un volume de prêts plus élevé par habitant. Toutefois, dans tous les pays, mais surtout dans ceux dont les institutions sont précaires et les politiques peu judicieuses, l'efficacité de l'action de la Banque dépend non seulement du volume des prêts mais aussi de l'ensemble des instruments utilisés, du moment où des prêts sont consentis à l'appui de réforme et du recours judiciaire à des partenariats.

• La Banque a entrepris de former un large éventail de partenariats productifs, mais ne pourra pleinement exploiter leur potentiel qu'en se montrant pragmatique et en déterminant soigneusement
ity have borne fruit. Portfolio performance has improved over the past five years, and is likely to exceed the Strategic Compact target of 75 percent satisfactory in FY00. Sustainability and institutional development ratings have also improved. Project performance remains disappointing in Africa, but Quality Assurance Group (QAG) data from the current portfolio could signal a promising turnaround in response to portfolio improvement efforts.

These gains have been achieved even though projects are becoming increasingly complex and demanding, especially in low-income countries. More than four of every five recently evaluated projects were substantially demanding for the borrower. Since more than one in three projects show unsatisfactory borrower implementation, further progress will require parallel improvements in capacity building and adapting each project’s design to borrower capacity.

Overall lending ratings improved to 75 percent satisfactory for the partial FY00 sample, after plateauing near 70 percent for several years. Performance of adjustment operations has improved steadily over the past five years. But findings from project audits and country evaluations suggest that the achievement of immediate policy objectives does not necessarily translate into long-term impact on incomes and poverty. Such impact requires government commitment and a sufficient consensus to sustain reform.

Outcomes can also be undermined by exogenous factors. As the Bank moves toward a results-based framework, the objectives of adjust-

**Amélioration des résultats des projets**

Malgré l’environnement difficile dans lequel prennent place ses opérations, les efforts déployés de longue date par la Banque pour améliorer la qualité des projets portent leurs fruits. La performance du portefeuille s’est améliorée au cours des cinq dernières années et devrait être supérieure à l’objectif indiqué dans le Pacte stratégique, qui fixait à 75% la proportion des projets pouvant être jugés satisfaisants durant l’exercice 00. Les notes attribuées au titre de la pérennité des projets et du développement institutionnel se sont également améliorées. Les projets ont continué de donner des résultats décevants en Afrique, mais les informations du Groupe de contrôle de la qualité (QAG) sur le portefeuille actuel semblent indiquer une reprise prometteuse par suite des efforts d’amélioration du portefeuille.

Ces progrès ont été accomplis alors même que les projets devenaient de plus en plus complexes et difficiles, en particulier dans les pays à faible revenu. Plus des quatre cinquièmes des projets qui viennent être évalués exigeraient beaucoup des emprunteurs. Comme plus d’un tiers des projets ont été jugés ne pas avoir été exécutés de manière satisfaisante par ces derniers, il faudra, pour pouvoir continuer de progresser, renforcer les capacités et
Adapting to Country Contexts to Achieve Results

In recent years, the Bank has sought to shift its focus from individual projects to the “higher plane” of country programs. The outcomes of country programs, as evaluated in OED Country Assistance Evaluations (CAEs), frequently differ from the aggregate portfolio performance in the country. Nor are country program outcomes necessarily determined by per capita income. Instead, development effectiveness at the country level depends on the way in which strategy and instrument mix—including partnerships—are selected, and adapted to country conditions.

The level of country consensus for reform is a critical determinant of the relevance and outcome of country strategies. Inadequate borrower commitment to the Bank’s country program and to policy reforms was the major cause of poor implementation. CAEs find a pattern of over-optimism about borrower governments’ receptivity to Bank advice, willingness to undertake difficult reforms, and capacity to implement recommended measures. In some cases the Bank has lent to support reforms—either through adjustment or investment lending—before sufficient consensus had emerged. Stakeholder analysis remains the exception rather than the rule.

The Bank should deploy lending and nonlending instruments more strategically in relation to country conditions to achieve results. In some cases the Bank has lent to support reforms—either through adjustment or investment lending—before sufficient consensus had emerged. Stakeholder analysis remains the exception rather than the rule.

Adaptación al contexto de los países para conseguir resultados

En los últimos años, el Banco ha tratado de desviar su atención de los representaban unas exigencias considerablemente mayores para el prestatario. Como en más de uno de cada tres proyectos se observa una aplicación poco satisfactoria por parte del prestatario, para conseguir nuevos progresos se requerirán mejoras paralelas en el desarrollo de la capacidad y la adaptación de cada proyecto a la capacidad del prestatario.

Las clasificaciones satisfactorias de los proyectos de inversión alcanzaron un 75% en la muestra parcial del ejercicio de 2000, después de haberse estabilizado en cifras próximas al 70% durante varios años. Los resultados de las operaciones de ajuste han mejorado de forma constante en los cinco últimos años. Por otro lado, las comprobaciones relativas a las auditorías de proyectos y evaluaciones de los países revelan que el logro de los objetivos normativos inmediatos no se traduce necesariamente en consecuencias a largo plazo en los ingresos y la pobreza. Estas consecuencias requieren el compromiso gubernamental y un consenso suficiente en apoyo de la reforma. En algunos casos, los resultados se han deteriorado por factores exógenos. A medida que el Banco avanza hacia una estructura basada en los resultados, los objetivos de los programas de ajuste deberán concebirse cada vez más como avances graduales hacia resultados relacionados expresamente con el desarrollo, con una clara definición de las responsabilidades entre los responsables del desarrollo.

Amélioration des résultats par l’adaptation des opérations aux conditions en vigueur dans les pays

Depuis quelques années, la Banque s’efforce de mettre moins l’accent sur la poursuite de projets indépendants pour privilégier la formulation de programmes par pays. Les résultats de ces programmes, tels qu’ils fig-
circumstances. Adjustment lending can support countries seeking to improve macroeconomic or sectoral policies, but only when stakeholders are convinced of the need for reforms. Complementary support for economic and sector work, capacity building, and sector investments are often necessary to maximize the impact of policy-based lending. Where consensus for reform is weak, pilot projects, dialogue, and economic and sector work can help build consensus—but local involvement and widespread dissemination of findings is essential.

Most CAEs rate the Bank’s contribution to institutional development at the country level as modest. They confirm that institutional and risk analysis are typically the weakest part of diagnostic work, and that Bank projects and policy recommendations frequently are still too complex and demanding, particularly in countries with weak institutions and capacity.

Development assistance is generally more effective in countries with a stable macroeconomic framework and an effective public sector. On a per capita basis, IDA lends almost twice as much to countries that receive higher performance ratings on the Bank’s Country Policy and Institutional Assessment (CPIA) as it does to countries with relatively low ratings. A similar pattern holds for International Bank for Reconstruction and Development (IBRD) lending, despite the lack of formal performance-based lending mechanisms. These linkages will be enhanced once the Bank begins to share its performance assessments with IDA borrower authorities, as is planned for FY01.

proyectos individuales hacia el “plano superior” de los programas de alcance nacional. Los resultados de éstos, según las evaluaciones de asistencia a los países, difieren con frecuencia de los resultados agregados de la cartera de un país, y no están necesariamente determinados por el ingreso per cápita. Más bien, la eficacia del desarrollo en cada país depende de la forma en que se seleccionan las estrategias e instrumentos, incluidas las asociaciones, y se adaptan a las situaciones concretas.

El consenso de los países en relación con la reforma es un determinante decisivo de la pertinencia y resultados de las estrategias. La falta de compromiso de los prestatarios con el programa del Banco en un país y con las medidas de reforma fue la principal causa de una ejecución poco satisfactoria. En las evaluaciones de asistencia a los países se observa una tendencia de excesivo optimismo acerca de la apertura de los países al asesoramiento del Banco, su disposición a entablar reformas difíciles y su capacidad de aplicar las medidas recomendadas. En algunos casos, el Banco ha otorgado préstamos en apoyo de las reformas —mediante financiamiento para el ajuste o la inversión— antes de que se hubiera llegado a un consenso suficiente. El análisis de las partes interesadas continúa siendo la excepción, más que la norma.

El Banco debería desplegar sus instrumentos crediticios y no crediticios de manera más estratégica en relación con las circunstancias de los países. Los préstamos para el ajuste pueden ayudar a los países a tratar de mejorar las políticas macroeconómicas o sectoriales, pero úni-

La Banque devrait recourir de manière plus stratégique à ses instruments de prêt et hors prêt, en fonction des conditions en vigueur
A special challenge is to find ways to reduce poverty in low-income countries with weak governance and policy frameworks. The Bank needs to strengthen and clarify its approach. It should focus on diagnosing the factors affecting weak performance and use its convening role to build consensus for reform. Adjustment lending should be avoided pending concrete actions that signal commitment to change. Depending on country circumstances, limited, targeted grants or lending operations to strengthen public sector accountability systems or to provide support to targeted and closely monitored poverty programs may be appropriate.

The Bank's process for allocating its administrative resources could be enhanced to foster development effectiveness. Given the large number of country departments and their dominant role in budget management, resource redeployment is hard to achieve. Country program budget allocations are relatively invariant with respect to country policy and project performance, and are not always fully aligned with the Country Assistance Strategy. The high share of fixed costs within a country program—especially where there are field offices—further limits flexibility.

Partnerships in support of country programs flourish when the Bank and client country have a well-specified and agreed policy framework “owned” by the borrowing country. Clearly specified policy frameworks facilitate the development of two critical elements of successful partnership: a clearly defined role for each partner, and a shared understanding of each partner’s distinct accountability.
But the Bank’s matrix management structure complicates commitment to global goals and related resource allocations to country programs. At the sector and corporate levels, the establishment of more businesslike partnership arrangements is a priority. Networks need to clarify the Bank’s core competencies and comparative advantage in relation to its partners, and establish businesslike alliances with appropriate sharing of responsibility. This includes streamlining the number of partnership arrangements, assuring that any agreements are backed by corporate commitments, with a full recognition of resource implications, and letting go of activities that can be implemented by other actors.

**Toward Global Results: Sector and Thematic Dimensions**

The Bank’s ability to articulate a broad strategic vision is one of its strengths, and it has an obligation to provide consistent advice across countries and Regions. Sector and thematic strategies are important vehicles for articulating corporate objectives and achieving international development targets, but must be reconciled with the increasingly demand-driven approach of Bank country programs. Agreement or consistency between the priorities identified in the Bank’s strategy and those of the borrower—or other stakeholders—fosters the implementation of Bank sector or thematic strategies. But few Bank strategies and policies provide explicit guidance on what instruments to use and what posture to take in the country dialogue if governments do not want to address an issue of global interest—for example, gender equity or forest conservation.

Un problema especial es encontrar la manera de reducir la pobreza en los países de ingreso bajo con sistemas de gobierno y marcos normativos deficientes. El Banco debe reforzar y aclarar su planteamiento. Deberá tratar de diagnosticar los factores que condicionan el desempeño, y utilizar su capacidad de convocatoria para lograr mayor consenso en torno a la reforma. Deberán evitarse los préstamos para el ajuste mientras no se adopten medidas concretas que demuestren el compromiso con el cambio. Según las circunstancias del país, podrían ser aconsejables donaciones o préstamos otorgados de forma selectiva para reforzar los sistemas de rendición de cuentas del sector público o apoyar programas focalizados y estrechamente supervisados contra la pobreza.

El proceso del Banco para asignar sus recursos administrativos podría modificarse con el fin de fomentar una mayor eficacia en términos de desarrollo. Dado el gran número de departamentos geográficos y su influencia dominante en la gestión del presupuesto, es difícil conseguir una redistribución de los recursos. Las asignaciones presupuestarias para los programas en los países han cambiado relativamente poco con respecto a la política nacional y los resultados de los proyectos, y no siempre están en total consonancia con la estrategia de asistencia adoptada. La elevada pro...
Customizing strategies and policy recommendations is an important determinant of local program success. Country-specific analytic work is crucial to support such adaptation; the decline in funding for economic and sector work is a concern. So is the chronic weakness observed in monitoring and evaluation arrangements—essential for adapting and updating strategies.

Operational policies guide staff about implementation of corporate and sector priorities. But ambiguities or gaps in the Bank’s policy framework have made Bank staff and management, clients, and partners uncertain about requirements. Enforcement of Safeguard Policies has been inconsistent because of a combination of highly decentralized accountability and weak central coordination and oversight. Bank management has taken steps to clarify the Bank’s policy framework, but further progress is needed to enhance accountability and harmonize Bank policies and Safeguard requirements with those of client countries and international partners.

With the introduction of Sector Strategy Papers (SSPs) in 1996, the Bank began to standardize the process of sector strategy development and to address some of the weaknesses observed in the earlier policy development process. Most budgetary resources and decision-making, however, reside with country departments. As a result, none of the sector strategies evaluated included an explicit and verifiable plan for implementation. Recently some SSPs have given greater attention to the business implications of sectoral and thematic goals, but the continued imbalance in the matrix structure renders the business and sector priorities.

Las asociaciones en apoyo de los programas prosperan cuando el Banco y el gobierno tienen un marco de políticas bien especificado y concordado, con el que se siente identificado el país prestatario. Unos marcos normativos claramente especificados facilitan la aparición de dos elementos críticos de una asociación eficaz: clara delimitación del papel de cada uno de los socios, y una opinión compartida acerca de la responsabilidad de cada uno de ellos. Por otro lado, la estructura de gestión matricial del Banco dificulta el compromiso con metas mundiales y las correspondientes asignaciones de recursos a los programas en los países. En lo que se refiere a los sectores y empresas, es prioritario el establecimiento de mecanismos de asociación más rigurosos. Las redes deben aclarar las competencias básicas y la ventaja comparativa del Banco, y establecer alianzas formales con el correspondiente reparto de responsabilidades. Ello supone la racionalización de un número de acuerdos de asociación, la garantía de que todos los acuerdos estén respaldados por compromisos institucionales, la atención a sus repercusiones en los recursos, y el abandono de las actividades que pueden ser realizadas por otros.

Hacia resultados de alcance mundial: dimensiones sectoriales y temáticas

La capacidad del Banco de articular una amplia visión estratégica es uno de sus puntos de fuerza, e implica desarrollo. Étant donné le grand nombre de départements-payes et le rôle primordial qu’ils jouent au niveau de la gestion budgétaire, il est difficile de réaffecter les ressources. Les allocations budgétaires aux programmes des pays sont relativement indépendantes des résultats obtenus par ces derniers au plan des politiques et des projets, et ne sont pas toujours vraiment adaptées à la stratégie d’aide aux pays. L’ampleur relative des coûts fixes du programme d’un pays, en particulier lorsque que la Banque a un bureau dans ce dernier, réduit encore cette flexibilité.

Il est aisé de constituer des partenariats à l’appui du programme formulé pour un pays lorsque la Banque et le pays client ont un cadre de politique bien déterminé auquel le pays emprunteur s’adhere pleinement. Lorsque le cadre de l’action publique est clairement défini, il est plus facile de réunir les deux conditions essentielles à un partenariat fructueux : la définition d’un rôle précis pour chaque partie-naire, et une répartition claire et nette des responsabilités entre les partenaires. Or, en raison de la structure de gestion matricielle de la Banque, il est plus difficile de s’engager à poursuivre des objectifs globaux et d’affecter les ressources requises aux programmes des pays. Au niveau sectoriel et institutionnel, il importe de donner la priorité à l’adoption de structures de partenariat plus pragmatiques. Les réseaux doivent déterminer clairement les compétences et avantages comparatifs de la Banque par rapport à ses partenaires, et forger des alliances productives donnant
ders results-oriented management of sector and thematic strategies difficult to achieve.

A preliminary stocktaking on SSPs carried out by Bank management notes steady improvements, but many of the issues identified above remain relevant. OED’s analysis of Bank experience with the design and implementation of sector strategies and policies suggests that further attention to four elements of successful strategies—Policy, Performance, Program, and Partnership—could further strengthen the efficacy of the Bank’s sector and thematic strategies.

Corporate Management Implications

The findings in this review have implications for the Bank’s corporate management.

- Bank strategies, programs, and budgeting processes should be more explicitly linked to the achievement of results, consistent with the Bank’s mission and comparative advantage. This implies that budget processes should allocate resources in alignment with corporate strategies. Approved Country Assistance Strategies, sector strategies, and global partnerships should be fully costed, and the costs linked to the annual budget process. Staff incentives should be linked to results and performance, not inputs and processes.

- Maintaining the Bank’s knowledge base is critical. The Bank should strike a more appropriate balance between knowledge management and knowledge creation, at both the country and global levels. It
should monitor and track the quality and coherence of all Bank knowledge activities.

- Achieving selectivity will require the Bank to seriously and continuously assess the comparative advantage of the institution relative to international and client country partners. This may entail "letting go" of activities that other partners can carry out.

Cada entre su personal y administración, los clientes y otras partes interesadas una considerable incertidumbre sobre cuáles son los requisitos. La aplicación de las políticas de salvaguardia ha sido poco coherente por una combinación de excesiva centralización en la rendición de cuentas y escasa coordinación y supervisión central. La administración del Banco ha adoptado medidas para aclarar el marco de políticas, pero se requieren nuevos progresos para lograr una mayor rendición de cuentas y armonizar las políticas del Banco y los requisitos de salvaguardia con los de los países clientes y los asociados internacionales.

A raíz de la introducción de los documentos de estrategia sectorial en 1996 el Banco comenzó a unificar el proceso de elaboración de estrategias sectoriales y a abordar algunas de las deficiencias observadas anteriormente en el proceso de elaboración de políticas. No obstante, la mayor parte de los recursos presupuestarios y de la toma de decisiones es competencia de los departamentos geográficos por países. En consecuencia, ninguna de las estrategias sectoriales evaluadas contenía un plan explícito y verificable para su ejecución. Recientemente, algunos documentos de estrategia sectorial han otorgado mayor atención a las consecuencias financieras de las metas sectoriales y temáticas, pero el constante desequilibrio de la estructural matricial hace muy difícil la consecución de una gestión de las estrategias sectoriales y temáticas orientada a los resultados.

Las enseñanzas preliminares obtenidas por la administración del Banco tras la aplicación de los doc-

Por les frontières — comme la parité hommes-femmes ou la préservation des forêts.

Le succès des programmes à l'échelon local est large- ment fonction de l'adaptation des stratégies et des politiques recommandées. Pour pouvoir procéder à cette adaptation, il est essentiel d'analyser les besoins de chaque pays ; la diminution des ressources affectées aux études économiques et sectorielles ne manque donc pas d'être préoccupante, de même que la faiblesse chronique des modalités de suivi et d'évaluation — qui sont pourtant essentielles à l'adaptation et à la mise à jour des stratégies.

Les politiques opérationnelles guident la mise en œuvre des priorités institutionnelles et sectorielles par les services de l’institution. Le cadre de l’action de la Banque présente toutefois certaines ambiguïtés ou lacunes de sorte que le personnel, la direction, les clients et les partenaires de l’institution ne sont pas certains des conditions à remplir. L’application des mesures de sauvegarde n’est pas systématique parce que la responsabilité de cet effort a été placée à un niveau très décentralisé et que les activités de coordination et de suivi au niveau central sont restées limitées. La direction de la Banque a pris des mesures pour préciser le cadre de ses politiques mais il lui faudra renforcer le processus de responsabilisation et harmoniser ses politiques et obligations en matière de sauvegarde avec celles de ses pays clients et des partenaires internationaux.

Depuis qu’il a été décidé, en 1996, de réaliser des études sur la stratégie sectorielle, la Banque a
umentos de estrategia sectorial revelan una constante mejora, pero continuaban existiendo muchos de los problemas mencionados más arriba. El análisis del DEO sobre la experiencia del Banco en el diseño y aplicación de estrategias y políticas sectoriales revela que una mayor atención a los cuatro elementos de una estrategia eficaz —políticas, desempeño, programas y asociaciones— podría multiplicar la eficacia de las estrategias sectoriales y temáticas del Banco.

Repercusiones para la gestión de la institución
Las comprobaciones de este examen tienen repercusiones para la gestión del Banco.

- Las estrategias, programas y procesos presupuestarios del Banco deberían estar más expresamente vinculados con el logro de resultados, de conformidad con la misión y la ventaja comparativa del Banco. Ello significa que los procesos presupuestarios deberían asignar recursos de acuerdo con las estrategias institucionales. Deberían calcularse atentamente los costos de las estrategias de asistencia a los países, las estrategias sectoriales y las asociaciones mundiales aprobadas, y esos costos deberían vincularse al proceso presupuestario anual. Los incentivos al personal deberían estar asociados a los resultados y al desempeño, no a los insumos ni a los procesos.
- El mantenimiento de la base de conocimientos del Banco es decisivo. El Banco debería lograr un equilibrio más adecuado entre empresas de standardiser le processus de formulation de ces stratégies et de remédier à certaines des carences observées antérieurement au niveau de la formulation des politiques. Or, les départements-pays ayant l'essentiel des ressources budgétaires et régissant en grande partie le processus de décision, aucune des stratégies sectorielles évaluées n'était assortie de plans d'exécution explicite et vérifiable. Certaines récentes études sur la stratégie sectorielle prétendent une plus grande attention aux implications pour l'institution des objectifs sectoriels et thématiques mais, en raison du déséquilibre qui persiste au niveau de la structure matricielle, il reste toujours très difficile de gérer les stratégies sectorielles et thématiques sur la base des résultats.

La dirección de la Banque a procédé à un examen préliminaire de ces études qui l'a amené à conclure que la situation s'améliorait progressivement mais que nombre des problèmes identifiés ci-dessus continuent de se poser. L'analyse par l'OED des accomplissements de la Banque dans le cadre de la conception et de l'exécution des stratégies et politiques sectorielles laisse penser que, pour accroître l'efficacité des stratégies sectorielles et thématiques de la Banque, il faudra mettre l'accent sur les quatre éléments nécessaires au succès d'une stratégie, à savoir les politiques, les résultats, les programmes et les partenariats.

Implications pour la direction de la Banque
Les conclusions de cet examen présentent certaines implications
gestión de los conocimientos y creación de conocimientos, tanto a escala nacional como mundial. Debería encargarse de la supervisión y seguimiento de la calidad y coherencia de todas sus actividades en relación con los conocimientos.

• Para lograr una mayor selectividad, el Banco deberá evaluar de forma seria y constante la ventaja comparativa de la institución con respecto a los países clientes y los socios internacionales. Ello puede significar el "abandono" de actividades que pueden realizar otros socios.

• Il est crucial de maintenir la base de connaissance de la Banque. L’institution devrait s’efforcer de mieux équilibrer la gestion et la création de savoir, aussi bien au niveau national qu’au niveau mondial. Elle devrait suivre et évaluer en permanence la qualité et la cohérence de toutes ses activités en ce domaine.

• Pour pouvoir se montrer sélective, la Banque devra soigneusement et systématiquement évaluer ses avantages comparatifs par rapport à ceux de ses partenaires internationaux et des pays clients. Cela pourrait signifier « l’abandon » d’activités dont d’autres partenaires peuvent se charger.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>AFR</td>
<td>Africa Region</td>
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<td>APL</td>
<td>Adaptable Program Lending</td>
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<td>ARDE</td>
<td>Annual Review of Development Effectiveness</td>
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<td>CAE</td>
<td>Country Assistance Evaluation</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>CDF</td>
<td>Comprehensive Development Framework</td>
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<tr>
<td>CFA</td>
<td>Communauté Financière Africaine (Africa Financial Community)</td>
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<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
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<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DGO</td>
<td>Director-General, Operations Evaluation</td>
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<td>EAP</td>
<td>East Asia and Pacific Region</td>
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<tr>
<td>ECA</td>
<td>Europe and Central Asia Region</td>
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<tr>
<td>ESW</td>
<td>Economic and sector work</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
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<td>HNP</td>
<td>Health, Nutrition, and Population</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>ID</td>
<td>Institutional development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>LCR</td>
<td>Latin America and the Caribbean Region</td>
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<td>LIL</td>
<td>Learning and Innovation Loan</td>
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<td>MNA</td>
<td>Middle East and North Africa Region</td>
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<tr>
<td>NGO</td>
<td>Nongovernmental organization</td>
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<td>OED</td>
<td>Operations Evaluation Department</td>
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<td>OP</td>
<td>Operational Policy</td>
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<td>PRSI</td>
<td>Poverty Reduction Strategy Initiative</td>
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<td>QAG</td>
<td>Quality Assurance Group</td>
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<td>SAL</td>
<td>Structural Adjustment Loan</td>
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<td>SAR</td>
<td>South Asia Region</td>
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<td>SECAL</td>
<td>Sectoral Adjustment Loan</td>
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<td>SSP</td>
<td>Sector Strategy Paper</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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FROM STRATEGY TO RESULTS

The World Bank’s mandate has expanded and deepened over the past decade. In response to changes in the international economy and the development system, the Bank is giving more emphasis to institutional development, good governance, social development, post-conflict reconstruction, debt relief, and global public goods. These institutional responses, in turn, have given rise to tensions and tradeoffs among goals. Evaluation results shed light on how development effectiveness can be improved in a more complex, demanding, and risky operating environment.

A Complex Operating Environment
Changes in development thinking, an expanding and changing group of client countries, and demands from shareholders, borrowers, private corporations, and civil society organizations have led the World Bank to take on new activities. The Bank’s authorizing environment has become more complex and contentious. Member governments are the Bank’s primary clients, but the Bank must also reckon with an ascendant civil society and an expanding transnational corporate sector. These diverse stakeholders have strong and often opposing views about the Bank’s role, and the Bank has become a favorite target of both critics and supporters of globalization. The criticisms converge on one imperative—the Bank must keep improving its development effectiveness.

Doing so requires judicious adaptation to greatly differing country settings. The needs of the Bank’s borrowers have always been diverse, but the increased level and volatility of private capital flows under globalization are changing the Bank’s role in middle-income countries. At the same time, the rising number of failed states and conflict-ridden countries has induced new approaches in post-conflict countries, and disappointing growth and poverty reduction trends (especially in highly indebted countries) have spawned new assistance strategies for low-income countries.

The Bank’s Response
In response to changes in borrowers’ needs and partners’ expectations, the Bank launched a debt reduction program, strengthened its alliance with the International Monetary Fund (IMF); made increased use of new investment lending instruments, including Adaptable Program Loans (APLs) and Learning and Innovation Loans (LILs);
and laid the foundations for new forms of programmatic lending. In particular, with the advent of special adjustment operations geared to social needs and structural change, the Bank was able to respond in the late 1990s to a countercyclical demand for funding in middle-income countries.

Finally, nonlending services have assumed more importance across the board and the number of partnerships has grown exponentially.

The Bank has also sought to enhance the development impact of its traditional activities. It has strengthened the poverty focus of its lending and nonlending services, established “do no harm” environmental and social Safeguards, strengthened financial management and fiduciary Safeguards for investment lending, and strengthened participatory approaches to project implementation and policy development. These enhancements have increased the development rewards of Bank operations, while increasing complexity and adding substantially to the cost of doing business with the Bank.

In parallel, the institution launched a renewal process to build new competencies, update systems and processes, establish new management arrangements, and reorient its values and culture. Although lending operations have remained key building blocks of assistance programs, the Bank has given more emphasis to knowledge dissemination and other nonlending services, and has sought to strengthen its strategic focus by making the Country Assistance Strategy (CAS) the core instrument for operational programming. The Bank also established sectoral and thematic networks and initiated the preparation of Sector Strategy Papers (SSPs).

Finally, the President’s Comprehensive Development Framework (CDF) initiative has challenged the Bank and its partners to address a holistic, long-term development agenda and to adopt higher standards of cooperation, participation, and results orientation. CDF principles are embedded in the Poverty Reduction Strategy Initiative (PRSI). Both the CDF and the PRSI aim to strengthen the ownership of pro-poor policies and improve the quality of aid to the world’s poorest countries. On the policy research front, the World Development Report 2000/01: Attacking Poverty has proposed a comprehensive approach to poverty reduction based on opportunity, empowerment, and security (World Bank 2000a). It has yet to be translated into operational guidelines.

**Changes to make Bank efforts more relevant and responsive have increased costs and expanded the range of skills required.**

**Challenges and Tensions**

Changes to make Bank efforts more relevant and responsive (for example, through decentralization) have increased costs and expanded the range of skills required for Bank involvement. Paradoxically, partnership has contributed to the overload, rather than to greater burden sharing and selectivity. New lines of business have opened, but few old ones have closed. The Bank’s administrative budget has also come under pressure from the increased demands of improved project design and supervision, nonlending services, global activities, grant facilities, the CDF, and the PRSI. These trends have led to a remarkable increase in organizational and staff stress.

Nevertheless, efforts to improve project quality have borne fruit. Portfolio performance has improved over the past five years, and, in terms of project outcomes, is likely to exceed the Strategic Compact target of 75 percent satisfactory in FY00. But there is still major scope for improvements in sustainability and institutional development ratings, and project performance remains disappointing in Africa. Furthermore, achieving results at the country and sector levels—where the Bank is only one of many players—remains a tough challenge. Safeguard Policies have established minimum standards for development effectiveness (“do no harm”), but a few visible cases of inadequate compliance have damaged the Bank’s reputation.

The evaluative evidence underlying this year’s Annual Review of Development Effectiveness (ARDE) points to four tensions in the Bank’s work with its clients—balancing global prescription and local adaptation, reconciling client ownership and corporate priorities, balancing country performance
and poverty in resource allocation decisions, and achieving selectivity through partnerships. These tensions are faced by the Bank when it decides whether to provide assistance, what assistance it provides, and how it provides it.

**Balancing Performance and Poverty in Resource Allocation**

Evaluation results confirm that development assistance is more effective in countries with a stable macroeconomic framework, effective public sectors, limited corruption, independent judiciaries, and government commitment to poverty reduction. Many of the countries in which the poorest live lack these attributes. How, and how much, should the Bank assist countries with deep poverty but flawed policy environments? And how can the Bank better adapt its assistance to such environments?

**Reconciling Client Ownership and Corporate Priorities**

The Bank has made poverty reduction its mission and is committed to environmental protection, participation, good governance, and gender equity. But the Bank also strives to “put the country in the drivers’ seat”—which creates a dilemma when Bank objectives are not aligned with borrowers’ priorities and capacities. The growing role of civil society in development further complicates the balancing act.

**Adapting Global Knowledge to Local Conditions**

The Bank synthesizes and disseminates global development knowledge, but development effectiveness requires adapting strategies and policies to national and local contexts. How can Bank operations respond to country needs, while maintaining equitable standards and leveraging global development experience?

**Achieving Selectivity Through Partnerships**

Evaluation results show that Bank projects and policy recommendations are increasingly complex and demanding, particularly in countries with weak institutions and capacity. Moreover, there remains considerable unrealized potential to make judicious use of partnerships. While partnerships are essential to achieve selectivity, partnerships that are not aligned with the Bank’s core mission can undermine selectivity. Improving development effectiveness thus requires establishing priorities and clearly defining the Bank’s role and comparative advantage in relation to its public and private partners.

**The 2000 ARDE**

To assess how the Bank has addressed these tensions and what lessons can be drawn from experience, this review draws on evaluation findings from:

- Audits and evaluation summaries for 269 projects evaluated in the past year. In addition, more than 5,000 previously evaluated projects in OED’s database allow assessments of long-term performance trends and statistical analyses of the determinants of project success.
- Country Assistance Evaluations (CAEs) of 38 borrowing countries, especially the 15 most recent.
- Studies of 12 sectors and thematic areas.¹

The 2000 ARDE builds on the findings and themes of its predecessors. The 1998 ARDE drew the lessons of the 1997 financial crisis for development effectiveness. It concluded that stable macroeconomic policies were not enough, and that weaknesses in institutions—particularly in the financial and social sectors—can undermine prospects for growth and poverty reduction. The 1999 ARDE examined evaluation evidence to identify the tensions and dilemmas likely to be involved in implementing the CDF. The central focus of this year’s review is on the effective implementation of operational strategies to deliver development results.
TRENDS AND LESSONS IN PROJECT PERFORMANCE

Lending operations are important instruments for achieving development effectiveness. OED evaluations in the past year confirm quality improvements in Bank-supported development projects since the mid-1990s. Preliminary results for FY00 exits show an increase to 77 percent satisfactory outcomes from 72 percent in FY99. This suggests that efforts to enhance quality over the past five years are yielding results. Adjustment lending continues to perform strongly. OED project evaluations also forecast longer-lasting net benefits and greater institutional development impact, but there remains substantial room for improvement in both Bank performance and borrower capacity development.

World Bank lending has changed in focus and intensity over the past 10 years to address new priorities and development challenges in client countries. OED project evaluations provide insight into the Bank's lending effectiveness in this changing environment. Since last year's ARDE, OED has evaluated 269 completed projects that exited in FY99–00, covering over $18 billion in Bank disbursements. These projects reflect the Bank's movement into social sector support, increased adjustment lending, transitory crisis lending, and greater assistance to transition economies. The majority of the recently evaluated adjustment operations were approved in the early/mid-1990s (figure 2.1). Overall, nearly one in four were approved in the last five years. These evaluations, together with a stock of more than 5,000 project evaluations, constitute a rich reservoir of lessons for current and future lending (see box 2.1 for evaluation methods).

The complexity and demandingness of evaluated projects have increased by more than 50 percent in the past 10 years, reflecting an increased focus on institutional and policy change in both investment and adjustment lending. Three of four recently evaluated projects were seen as substantially complex by OED evaluators, and more than four of five as substantially demanding for the borrower. More than one in three
show unsatisfactory borrower implementation. While there is no simple correlation between project complexity and outcomes, OED evaluations consistently point to problems of excessive complexity, particularly in low-capacity environments. For borrowers with weak institutions, borrower implementation performance is more likely to be unsatisfactory for projects that were substantially or highly demanding. While improved portfolio performance has been achieved despite increased complexity, further progress will require better adaptation of project design to institutional capacity, greater attention to sequencing of reforms, and more effective enhancement of borrower capacity.

Attention to quality has increased since the early 1990s, stimulated by an institutional stock-taking of portfolio quality.

<table>
<thead>
<tr>
<th>Approval fiscal year</th>
<th>Number of projects evaluated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1990</td>
<td>10</td>
</tr>
<tr>
<td>1990</td>
<td>20</td>
</tr>
<tr>
<td>1991</td>
<td>30</td>
</tr>
<tr>
<td>1992</td>
<td>15</td>
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<td>1993</td>
<td>25</td>
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<td>1994</td>
<td>10</td>
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<td>1995</td>
<td>15</td>
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<td>1996</td>
<td>10</td>
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<td>1997</td>
<td>5</td>
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<tr>
<td>1998</td>
<td>10</td>
</tr>
<tr>
<td>1999</td>
<td>5</td>
</tr>
</tbody>
</table>

Note: The sample comprises 269 projects evaluated since ARDE 1999.
TRENDS AND LESSONS IN PROJECT PERFORMANCE

Trends in Outcome, Institutional Development, and Sustainability

Outcome

Bankwide outcome performance of exiting projects plateaued during FY97–99 (figure 2.2), in part because of loan and credit closures and associated cancellations for a large number of problem projects. The FY00 preliminary results—based on Implementation Completion Reports for 45 percent of FY00 exiting projects—show a rise to 77 percent satisfactory outcomes. This appears representative of the entire cohort of exiting projects, indicating that the Strategic Compact target of 75 percent satisfactory outcomes is likely to be met or exceeded.

Weighted by disbursements, satisfactory outcomes deteriorated from 83 to 73 percent satisfactory between FY99 and FY00. This downturn largely reflects the exit of two large, unsatisfactory oil and gas projects in Russia, and it may not persist in the second half of FY00. But the volatility of disbursement-weighted portfolio performance may continue, given the great variation in loan sizes—ranging from small Learning and Innovation Loans to increasingly large adjustment and programmatic loans.

Project outcomes by approval year are improving, although not enough of the FY96–00 approvals have closed to permit a representative estimate of performance. OED has evaluated only 132 of more than 1,200 projects approved in FY96–00. Ninety percent of these operations have satisfactory outcomes, but this is a small and unrepresentative sample: it includes a large share of adjustment operations, and projects evaluated early for each approval year are typically the best performers. The outcome of the first 10 percent of FY92–95 approvals, for example, showed 86 percent of

Box 2.1 How Project Results Are Measured

Operational staff prepare completion reports for all projects within six months of loan closing. All self-evaluations are reviewed by OED to validate performance ratings. OED carries out field performance audits for 25 percent of all operations one to seven years after project completion, with a further reassessment of performance ratings and active interaction with borrowers, cofinanciers, and beneficiaries. While two independent reviews found OED methods to be closest to best practice among multilateral banks, OED continues to review and adjust its evaluation methodology and practices while encouraging the Bank and its partners to remedy chronic weaknesses in monitoring and evaluation systems.

Three key performance criteria capture likely development results—the project's outcome, institutional development (ID) impact, and sustainability.

1. Outcome, the primary measure of project performance, summarizes the likelihood that the project will achieve its major relevant objectives (do the right things) efficiently (do things right). The relevance check assures that achievements rated satisfactory address the country's current development needs and Bank operational priorities. Outcome captures both accomplishments and the expected level of future net benefits.

2. ID impact assesses achievements in addressing institutional constraints to development. Overcoming such constraints—through capacity building, for example—creates direct benefits and better operating environments for other development activities.

3. Sustainability assesses the durability of net project benefits. For example, the likelihood that they will be maintained or exceeded over the long haul. While the outcome rating is the best estimate of whether an operation justifies the use of scarce resources, the sustainability criterion reflects the evaluator's judgment of its ability to continue producing net benefits in the face of risk and uncertainty.

Evaluation ratings must be interpreted with caution. Even a decade or more following approval they are forward-looking—exogenous events, policy reversals, or other factors can change expected outcomes. Such changes are more likely to affect completion reviews than audits, and adjustment lending more than investment lending. Ratings also focus only on specific project activities. To capture the full development impact of lending interventions, higher-scale evaluations such as Country Assistance Evaluations and sector reviews are necessary to assess the indirect and secondary effects and the synergy with other interventions (see Chapters 3 and 4).
projects as satisfactory, which indicates some improvement in the evaluated FY96-00 approvals.

**Institutional Development Impact**
Recognizing and addressing institutional constraints is critical to the development effectiveness of Bank lending. Since the mid-1990s, the Bank has geared more of its lending to address such constraints. The share of evaluated lending focused primarily on ID increased from 18 percent of projects exiting in 1996 to nearly 30 percent for 1999-00 exits, and most projects include some components aimed at ID or capacity building. Increased attention to ID appears to have contributed to steady progress in ID impact, although there remains substantial room for improvement (figure 2.3). Forty-three percent of FY99-00 exiting projects had substantial ID impact, and the share of Bank-supported projects with negligible ID impact has fallen consistently since FY95.

Bank interventions to address institutional constraints are of two main types: efforts to change the "rules of the game" at the national or sector levels and strengthening organizational effectiveness through the development of administrative and management skills or restructuring. Adjustment operations typically focus on the former, and investment projects on capacity building, although the reform content of investment operations has increased. The municipal development projects in Brazil and the Philippines sought to combine changes in institutional arrangements with targeted capacity building. These projects significantly enhanced the fiscal autonomy of local municipalities by decentralizing decisionmaking in revenue collection and budget management. The improvements in property tax collection helped pay off existing obligations, balance the budget, and support entrepreneurial management. The focus on organizations can be found in the cotton sector in Benin, where a number of semiautonomous state agencies—responsible for production, ginning, marketing, and export—were consolidated within a new institution (SONAPRA) under the first Borgou Project. The prior complex distribution of responsibilities had created

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**Figure 2.2 Trends in Satisfactory Project Outcomes**

<table>
<thead>
<tr>
<th>Exit fiscal year</th>
<th>Percent satisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>50</td>
</tr>
<tr>
<td>1991</td>
<td>60</td>
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<tr>
<td>1992</td>
<td>70</td>
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<td>1998</td>
<td>50</td>
</tr>
<tr>
<td>1999</td>
<td>40</td>
</tr>
<tr>
<td>2000</td>
<td>30</td>
</tr>
</tbody>
</table>

By disbursements

By projects
TRENDS AND LESSONS IN PROJECT PERFORMANCE

an inefficient, high-cost operation. SONAPRA was a substantive step toward institutional simplification and efficient restructuring of the sector.

Many ID projects fail because they are poorly adapted to the local environment. Some are overly complex. The Ghana Economic Management Support Project, for example, aimed to enhance analytical and administrative capacity through improved economic statistics, a computerized budget and accounting system, and civil service reforms. But the wide-ranging objectives of the project and the lack of political and managerial support presented a formidable management task that exceeded the supervisory capacity of both the implementing agencies and the International Development Association (IDA), and project achievements were limited. Better long-term sequencing would have facilitated cumulative learning and a gradual transition to more complex operations. In other cases, a program design that has succeeded in one context proves a poor fit in another. For instance, the Agricultural Services Project in Burkina Faso supported the training and visit system of agricultural extension, which is characterized by a rigid, top-down management style, without considering two other types of extension and adaptive research already in place. The result was dispersion of scarce administrative and budget resources and a mismatch between project activities and farmers' needs. Better customization of ID design holds the key to high-quality outcomes.

**Sustainability**
Sustainability has improved from 48 percent likely sustainability in FY95–98 exits to 57 percent in FY99–00.

**Figure 2.3** Trends in Institutional Development Impact

![Figure 2.3 Trends in Institutional Development Impact](image-url)

- Negligible
- Modest
- Substantial

**Exit fiscal year**

- 1990
- 1991
- 1992
- 1993
- 1994
- 1995
- 1996
- 1997
- 1998
- 1999
- 2000

**Sustainability has improved from 48 percent likely sustainability in FY95–98 exits to 57 percent in FY99–00.**
partly as a result of the financial crisis and its aftermath. Banking systems have high levels of non-performing loans and there is a large share of insolvent firms. This poses continued risk to the development benefits of lending to the East Asia Region (World Bank 2000b).

The Aggregate Project Performance Index has shown consistent gains, both by projects and by disbursements. The Aggregate Project Performance Index (APPI) combines information on outcome, sustainability, and ID impact into a single index (figure 2.5). Since the FY94 exit cohort, the APPI has shown consistent gains, both by projects and by disbursements. This positive trend reflects overall project improvement, with the slight decline in the outcomes of FY98 and FY99 exits offset by increases in ID impact and sustainability.3

Performance by Region, Sector, and Instrument

Regional Performance
Outcomes have improved across most Regions (figure 2.6). The Europe and Central Asia Region (ECA) is again the top performer, with 84 percent satisfactory project outcomes. The Latin America and Caribbean Region (LCR) follows with nearly 80 percent, while the East Asia and Pacific Region (EAP) and the South Asia Region (SAR) both reached 79 percent satisfactory. EAP is the only Region with performance for FY99–00 exits below its FY90–94 average. The Africa Region (AFR) is again the lowest performer in all three dimensions. While performance in all other Regions has consistently averaged 75 percent satisfactory in the 1990s, AFR has averaged 56 percent. But QAG data show improvement in the active FY00 AFR portfolio to near the Bankwide average in projects at risk. The gains suggested by QAG data are largest in Kenya, Senegal, and Uganda. Of the sectors, improvements are most

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**Figure 2.4 Trends in Sustainability**

<table>
<thead>
<tr>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
<tr>
<td>80</td>
</tr>
<tr>
<td>60</td>
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<tr>
<td>40</td>
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<td>20</td>
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<tr>
<td>0</td>
</tr>
</tbody>
</table>

Exit fiscal year

- **Unlikely**
- **Uncertain**
- **Likely or better**
noticeable in water; power; and health, nutrition, and population.\(^4\)

Weighted by disbursements, LCR and EAP continue as top performers, with over 88 percent satisfactory. ECA's outcome performance decreased to 74 percent; two recently evaluated investment operations in Russia (Oil Rehabilitation I and II) are responsible for roughly two-thirds of overall unsatisfactory net disbursements (box 2.2).

Improvements in sustainability and ID impact were shared broadly among Regions. Between FY95–98 and FY99–00, the share of projects rated...
likely to be sustained increased by more than 10 percentage points in LCR and SAR, and by 8 percentage points in AFR. In ID impact, there was a 9 point increase in the Bankwide average for substantial or better ID performance between FY95–98 and FY99–00, from 34 to 43 percent. Key gains were reflected in the MNA and SAR Regions. Preliminary data for the FY00 exits suggest further improvements across Regions in the near term, with fully half of the sample receiving substantial or higher ID ratings Bankwide.

Adjustment lending outcomes have remained strong since the mid-1990s, rising from 68 percent satisfactory in FY90–94 to 86 percent for FY99–00 exits.

Sectoral Performance
There are large variations in sector outcomes between FY95–98 and FY99–00 (figure 2.7). Improvements in outcomes between these periods are particularly strong in public sector management (PSM), with a rise of 20 percentage points in satisfactory outcomes (to 94 percent), and urban development, which gained 15 percentage points (to 80 percent). The PSM gains appear to reflect a narrower focus, with movement toward public finance objectives, and away from more general policy and planning enhancements. QAG data suggest that future performance in PSM appears likely to remain above average, but not at such an exceptionally high level. Performance declined most for agriculture, multisector, and extractive industry-related projects. Water sector performance remains weak, although the preliminary FY00 data suggest an upward trend in satisfactory outcomes. This is supported by QAG data on the active water sector projects. On the downside, QAG data shows that finance is still a problem area—22 percent of active projects are at risk, the second-highest percentage among all Bank sectors.

Adjustment Lending Performance
Adjustment lending outcomes have remained strong since the mid-1990s, rising from 68 percent satisfactory in FY90–94 to 86 percent for FY99–00 exits. Weighted by disbursements, satisfactory outcomes rise to 97 percent, although heavily influenced by several large crisis loans. But the numbers need to be interpreted with caution (box 2.3). The improved adjustment operation outcomes reflect greater success in achieving relevant stated objectives. These typically take the form of intermediate outputs, such as policy reforms adopted, legislation approved, or privatizations achieved. The adjustment reform agenda has shifted from an emphasis on macroeconomic stabilization to

Box 2.2

Effects of Country Conditions on Project Performance in Russia

Since Russia became a member of the World Bank Group, OED has evaluated and rated the outcome of six operations; five of these were completely disbursed before the 1998 financial crisis. Three of the six, representing 38 percent of disbursements, received unsatisfactory performance ratings.

Oil Rehabilitation I (L3623) and II (L3768), totaling $1.1 billion, were the largest investment operations approved by the Bank during 1993 and 1994 respectively. Their objectives were to slow the decline in oil production while fostering private sector investment in the upstream oil sector through legal, tax, price, and institutional reform. Implementation delays in the technical assistance components, together with 1995 tax changes, severely curtailed the scope and financial viability of the projects. Returns were also affected by the 1998 fall in international oil prices. Implementation Completion Reports and Evaluation Summaries for both projects found they had unsatisfactory outcomes, unlikely sustainability, and modest ID impact.

The August 1998 financial crisis in Russia further exacerbated implementation constraints throughout FY00. At the end of FY98, 32 percent of the Bank’s projects were at risk, and 18 percent were considered problem projects. Two years later, by the end of FY00, 39 percent of the Bank’s active projects in Russia were at risk, and 29 percent were considered problem projects. One of every two dollars committed was at risk.
**TRENDS AND LESSONS IN PROJECT PERFORMANCE**

**Figure 2.7 Sectoral Trends in Satisfactory Operations**

![Bar chart showing sectoral trends in satisfactory operations](image)

*Note: Only sectors with at least 10 exiting projects in FY99-00 are included.*

**Box 2.3 Assessing Adjustment Lending: Timing Matters**

Reliable rating of adjustment lending is difficult, especially when the evaluation is done soon after disbursements are completed. Recent experience with Bank lending to East Asia crisis countries confirms that the momentum of reform triggered by an adjustment loan may not be durable. The Bank responded quickly to the 1997 financial crisis in East Asia, along with the IMF. The “crisis loans” to the Republic of Korea and Indonesia have since closed, and over the past two years OED has reviewed the completion reports. Although the worst of the crisis has passed and output in both countries began to increase, their economic structure has proved more difficult to change.

Korea’s three loans ($3 billion Economic Reconstruction Loan approved in 1997, and SAL I and II, of $2 billion each, in 1998) were evaluated as having satisfactory outcomes, gains likely to be sustainable, and moderate to substantial ID. Although Korea’s economic decline was halted and growth has resumed, the bulk of unserviceable domestic bank loans remains unresolved. The country’s large conglomerates (chaebols) have neither been restructured nor sold.

Indonesia obtained $2.1 billion in three SALs (Policy Reform Support Loan I, $1 billion, in 1998; Policy Reform Support Loan II, $500 million; and the Social Safety Net Adjustment Loan, $600 million, in mid-1999). OED has rated only the first of these loans and found the outcome satisfactory but with uncertain sustainability. While loan conditions were met, some of the measures have not made a difference. Despite new bankruptcy laws, for example, there are few bankruptcy filings in Indonesia despite the large unpaid claims. The blanket protection of banking depositors has doubled the public debt. Even if these debts are sustainable, the major redistribution of wealth may adversely affect the poor through the future tax burden.

Work is underway in OED to augment and refine approaches to assessing adjustment lending.
reforming public sector management and the financial and private sectors, medium-term institution building, and ameliorating social impacts. Among adjustment instruments, a larger share of sectoral adjustment loans (SECALs) are rated satisfactory than are structural adjustment loans (72 percent) for FY99–00 exiting operations. Over the past decade, SECAL performance has improved fairly steadily, while SAL performance has been more variable.

Several factors explain this improved adjustment performance. First, the Bank has incorporated lessons learned from previous adjustment experience, including increased attention to borrower ownership, fewer conditions, and an increased number of single-tranche operations—which disburse based on actions taken rather than future promises. Second, adjustment lending has shifted toward better-performing countries. Over a quarter of the improvement in adjustment lending performance is explained by the lower share of evaluated adjustment operations in the Africa Region, which has ranked last among Regions in adjustment lending performance. The Africa Region's share of evaluated adjustment lending declined from 44 percent in the FY90–94 period to only 20 percent for FY99–00, with an increasing share exiting from the ECA Region. Third, overall borrower performance improved, particularly among upper-middle-income countries.

Adjustment lending has improved achievement of the direct objectives of macro or sectoral reform, but less progress has been made in integrating poverty concerns. OED's 1999 poverty study highlighted the need to take account of the effects of adjustment lending on the poor and the environment. Although adjustment lending is often criticized for reducing social expenditures, most of the loans reviewed successfully protected—and sometimes increased—social sector spending (Evans 2000; Hassan 1999). But they were less successful in reorienting spending within the social sectors to priority areas (primary health, basic education) or to an improved focus on results of social spending. Although a number of operations included safety net provisions, the record of success was mixed. For most adjustment operations, the focus on public expenditures outweighs that on addressing economic distortions or safety nets, and the impact of reforms on the poorest is rarely considered. This partly reflects difficulties in assessing tradeoffs among the macro and micro implications of adjustment programs (Evans 2000) and highlights the importance of enhanced poverty focus in the evaluation of both adjustment and investment lending.

**Risks and Rewards of Operations**

To manage development risk, the Bank should consider the expected rewards of various types of operations and the likelihood, or risk, that the expected development returns will not materialize as intended. Past operational results can be a useful indicator of the risks and rewards of projects in different Regions and sectors. Figure 2.8 shows the rewards (as measured by the average APPI) and the risks (as measured by the APPI's standard deviation) of the evaluated FY99–00 exiting projects.

The figure allows comparison of the average project results and the dispersion of results around the corresponding Bankwide values. This relative risk-reward framework illustrates potential weaknesses and strengths of Bank interventions in terms of specific loan and credit portfolios.

The figure highlights with arrows the sectors and Regions whose risks and rewards changed significantly between FY95–98 and FY99–00. Project rewards improved significantly in the transport, social, and PSM sectors. The average rewards of financial sector projects have not significantly changed, but their variation has been reduced from very high levels in FY95–98 to average levels in FY99–00. Regionally, ECA and MNA have achieved significant declines in risk, while SAR performance has moved to higher reward but also higher risk. These movements in the relative risk-reward framework can help sector and country managers identify priorities for improving portfolio management as well as providing a tool for enhancing selectivity. Risk and reward at the project level should be complemented by recognition of tradeoffs at the country and sector levels (see Chapters 3 and 4).

**Determinants of Project Success**

The performance of evaluated projects can provide lessons for the implementation of the Bank's
Figure 2.8 Risks and Rewards, by Sector and Region, FY99–00 and Selected FY95–98 Averages

Note: The axes measure differences relative to Bankwide averages. Hence, each quadrant, starting from the upper-left and moving clockwise, corresponds to one of the four classes: higher risk–lower reward, higher risk–higher reward, lower risk–higher reward, and lower risk–lower reward. Reward is represented by the average Aggregate Policy Performance Index (APPI) for the sector or region. Risk is proxied by the standard deviation of the APPI.
approximately 1,600 active projects, as well as the design of new projects. This section updates the model of investment-project outcome determinants used in previous ARDEs. It uses the project as the unit of account and includes three main groups of explanatory factors—Bank performance, borrower performance, and country factors exogenous to the project—while controlling for other characteristics, such as size, sector, and location.⁶

Updated econometric testing confirms and extends the results of past ARDEs. The country environment has a significant impact on project outcomes. Two dimensions of country conditions are modeled: macroeconomic policy performance (proxied by average growth during project implementation) and Bank staff assessments of institutional quality for borrower countries.⁷ A particular value of the current exercise is the inclusion of project-specific performance assessments, testing for their significance while controlling for the country’s socioeconomic environment.⁸ For evaluated FY99–00 exits, Bank effort in bringing the project to approval and during supervision are significant; the effort during supervision shows greater impact on the probability of satisfactory outcome for recent evaluations relative to FY95–98 exits. Quality at entry has the greatest effect on the likelihood of project success for FY99–00 exits. Borrower implementation performance and compliance with legal covenants are also significant determinants of project success. Borrower implementation performance has nearly the same effect as Bank supervision, followed by compliance.

**Country Factors**

Country conditions are critical to the success of projects, as figure 2.9 illustrates. Countries are classified as high or low for both macroeconomic policy and institutional quality, and portfolio performance is the average percentage of satisfactory projects across countries in each of the four groups. Both sound macroeconomic policy and higher-quality institutions increase the effectiveness of public sector investments, with institutional quality slightly more influential than sound macro policy.

Project-level econometric testing confirms this analysis. Both macroeconomic policy performance and institutional quality are significant explanatory variables for project outcomes. While controlling for aggregate macro performance and country policies (proxied by the CPIA), the importance of debt servicing on project performance was explored, confirming the hypothesis that larger debt service payments are associated with poor investment-project performance. A one percentage point increase in the debt service as a share of GDP is associated with more than a two percentage point decline in likely satisfactory outcome. Care must be taken in drawing causal inferences, but the findings suggest that debt relief under HIPC could make a modest contribution to improved project performance in the long term.

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*Sound macroeconomic policy and higher-quality institutions increase the effectiveness of public sector investments.*
Bank Performance

The determinants model also confirms the influence of Bank performance on project outcomes. Satisfactory quality at Board approval is associated with a 33 percentage point greater probability of satisfactory outcome than projects with unsatisfactory quality at entry. Satisfactory Bank supervision had a 21 percentage point marginal effect on project outcome. Overall Bank performance averaged 75 percent satisfactory for evaluated FY99–00 exits, remaining effectively unchanged from 74 percent for evaluated FY96–98 exits. Weighted by disbursements, overall Bank performance shows more improvement over the same time periods, rising to 83 percent from 78 percent satisfactory. Preliminary FY00 data show the significant upturn of quality at entry associated with the recent improvements in project outcomes, from roughly 60 to 70 percent satisfactory between FY93–96 and FY97. Self-evaluation assessments on the quality at entry of the active portfolio suggest that future exits will build on past performance progress—nearly 9 of 10 projects assessed by QAG from the FY99 approval cohort were rated satisfactory or better. While satisfactory Bank supervision has stagnated at 76 percent satisfactory (FY96–98 to FY99–00), the preliminary results for FY00 exits suggest an improvement. Supervision for 85 percent of FY00 exits was satisfactory. If maintained for the entire FY00 exit cohort, this would be the first exit year group to top 80 percent satisfactory in supervision. Gains for the partial FY00 sample were made in all Regions. These results are consistent with the FY99 quality of supervision assessments by QAG, which reported 84 percent satisfactory performance for the sample reviewed.

Despite an improvement in the evaluated FY00 exits in Africa, the gap between Bank performance in Africa and that in the other Regions has widened over the last two years, from 10 percentage points for FY96–98 exits (67 percent satisfactory for Africa compared with 77 percent for other Regions) to 24 percentage points in FY99–00. Overall Bank performance in Africa has fallen to 58 percent satisfactory, while the average for the other Regions has improved to 82 percent. The pattern is the same for disbursement-weighted results. But recent QAG results suggest that ongoing Africa Region efforts to improve portfolio quality could yield substantial improvements.

Borrower Project Performance

Seventy percent of FY99–00 exits had satisfactory overall borrower project performance, near the average for FY96–98 exits. Weighted by disbursements, performance improved over the same time periods, rising from 75 to 80 percent satisfactory. As with Bank performance, preliminary FY00 data signal significant improvement.

Borrower project performance comprises three dimensions—the quality of the borrower's contribution to preparation, implementation, and compliance with legal covenants. The quality of preparation and compliance remained unchanged, at 80 percent and 74 percent satisfactory respectively, between FY96–98 and FY99–00. Borrower compliance for the partial FY00 sample notched down, with only 72 percent of the projects rated satisfactory. Satisfactory borrower implementation has remained between 59 and 63 percent since FY93 and continues to be the poorest performing dimension of borrower performance. The stagnation in borrower implementation performance underscores the need for capacity building, and to further adaptation of project design and Bank procedures to borrower capacity.
Adapting to the Country Context

In recent years, the Bank has sought to shift its focus from individual projects to the “higher plane” of country programs. This chapter uses OED Country Assistance Evaluations (CAEs), project evaluation data, and other evidence to assess the relevance and efficacy of Country Assistance Strategies (CASs). The two most important determinants of country program outcomes are the level of borrower commitment to the country program and the extent to which Bank strategies, programs, processes, and partnerships are adapted to the country setting. Lending operations remain the basic building blocks of country programs, but Bank nonlending services also influence the effectiveness of lending and overall program outcomes. The Bank is exercising more selectivity by relating lending volumes to country performance ratings. But continued lending despite poor performance contributes to unsatisfactory outcomes.

Project-level performance is an important indicator of the Bank's contribution at the country level, but it tells only part of the story. The Bank also provides nonlending services and interacts with the borrowing country and its partners to overcome structural and social obstacles to development. OED therefore supplements its project evaluations with CAEs, which assess the overall effectiveness of the Bank’s country programs, usually over 5–10 years. Project portfolio performance tends to be positively but weakly associated with OED’s overall rating of the Bank’s country program, as illustrated by table 3.1. For 15 recently completed CAEs, only 7 lie on the diagonal from the upper-left to the lower right of the table. Thus, ratings of country program outcomes can differ from those of the aggregate country portfolio performance. For example, program outcomes were fully satisfactory in Ghana and Uganda, where portfolio performance was acceptable but not outstanding. Conversely, all projects completed during the 1990s were rated satisfactory in Costa Rica, but OED rated the Bank’s program outcome unsatisfactory.
Evaluation and research results suggest that development effectiveness at the country level depends not only on the outcome of individual projects but also on the relevance of the Bank’s country strategy; the effectiveness of nonlending services, including the synergies between lending and nonlending activities; the efficacy of partnerships; and the overall quality of country policies, institutions, and governance. External shocks and initial conditions (including the extent of indebtedness) also play a role. Finally, political instability or conflict can undermine program outcomes.

At the corporate level, development effectiveness is influenced by the policy framework and by the allocation of lending and nonlending resources among countries. To assess development effectiveness at the country level, this chapter asks four questions:

- What factors influence the relevance and outcome of Bank country programs?
- What is the role of partnerships at the country level?
- Does the Bank’s choice and mix of instruments match the strategic objectives and country context?
- Does the Bank’s allocation of lending and administrative resources among countries contribute to improved development effectiveness?

The chapter concludes by drawing implications for the Bank’s role and effectiveness in differing country contexts.

### What Influences Country Program Outcomes?

A country strategy can be relevant and the country program outcome satisfactory even for countries with poor policies or weak institutions. What is important is the extent to which strategy, instrument mix, and efficacy of program implementation—including partnerships—respond to country conditions and move the country forward. As table 3.1 shows, country program outcomes are not strongly associated with country income. More important to the success of country strategies are the government’s commitment to development and implementation of the objectives selected for the Bank-sponsored program and how well the Bank’s strategy and program address the country’s most important development constraints. OED reviews of completed CAEs, including a detailed assessment of 15 recently completed CAEs, identify several key determinants linking program outcomes with Bank performance.

#### Diagnosis

The Bank’s diagnosis of major development issues and constraints—what needs to be done—is generally good, averaging fully satisfactory across the sample of 15 CAEs. But the quality of diagnosis varies by issue and sector. Diagnosis of macroeconomic issues and constraints is usually strong, but the links between stabilization and

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**Table 3.1** How Country Program Outcomes Stack Up Against Portfolio Performance

<table>
<thead>
<tr>
<th>Portfolio performance (% projects satisfactory)</th>
<th>Fully satisfactory</th>
<th>Partially satisfactory</th>
<th>Marginal</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Uruguay (1990–00)</td>
<td>Burkina Faso (1989–99)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tanzania (1996–00)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Uganda (1986–99)</td>
<td>India (1980–00)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Income: bold=upper-middle; standard=lower-middle; italic=low.
growth are not always well articulated. The quality and coverage of ESW explain much of the variation in the diagnosis within and among countries. For example, the relevance and outcome of the Bank’s program in Kazakhstan was less than satisfactory because of inadequate up-front sector work—leading to a less than satisfactory program outcome despite good project performance. Conversely, high-quality and timely ESW in Uganda has strengthened the relevance of Bank programs and contributed to a fully satisfactory program outcome, despite a mixed investment project performance (see table 3.1). The overall impact of public expenditure reviews and poverty assessments is strongly correlated with their quality—as well as the degree of local involvement, consultation, and timeliness (OED 1999a).

**Poverty Focus**
CAEs, the recently completed OED poverty study, and the Bank’s 2000 CAS retrospective confirm that the Bank has strengthened the poverty orientation of its country programs. Economic growth—a necessary if not sufficient condition for poverty reduction—is at the center of nearly all country strategies, and most emphasize provision of basic social services (World Bank 2000a; Evans 2000). The 2000 CAS retrospective reported that two-thirds of FY99 CASs reviewed were rated satisfactory or better for treatment of poverty, with significant improvements since FY96. But the linkages between Bank country programs and poverty outcomes were not always well articulated. OED analysis and emerging research inside and outside the Bank—including the recent *World Development Report*—suggest that equity affects the poverty impact of growth, and that safety nets and empowerment for the poor deserve increased attention (World Bank 2000a). More needs to be done to integrate broad-based poverty reduction strategies into macroeconomic and sectoral strategies and interventions. Inadequate attention by the Bank and other donors to poverty monitoring and evaluation has meant that significant knowledge gaps persist regarding the linkages between policies and programs commonly supported by the Bank and poverty outcomes (Evans 2000).

**Balancing Corporate and Client Priorities**
The Bank has improved its client focus. But client ownership does not eliminate divergence between Bank and borrower priorities, or contrary views regarding the “right” policies (Williamson 1999). OED evaluators identified inadequate borrower commitment as the most important reason for poor policy or project implementation (box 3.1). Differences may arise about overarching priorities—such as poverty reduction or improved governance—or specific policies and programs. OED country evaluations consistently emphasize the level of country consensus about reform as critical to program outcome (Costa Rica, Kazakhstan, Paraguay). Even in countries with good macroeconomic frameworks and institutions, structural constraints remain because changing them is politically or institutionally difficult, or because stakeholders have not agreed on how they should be changed. CAEs point to numerous examples of Bank lending to promote reforms—either through adjustment or investment lending—before enough consensus had emerged (Cameroon, Costa Rica, Papua New Guinea, Paraguay). While in some countries the lack of consensus reflected severe social tensions and governance weaknesses (Cameroon, Papua New Guinea), in others it was the consequence of democratic institutions based on a strong tradition of gradual consensus building (Costa Rica, Uruguay).

**Assessing Ownership**
Priorities are likely to differ among ministries and agencies within governments, between government and civil society, and among different groups and civil society. The Bank and government may agree on broad objectives but disagree regarding the measures and timetables to achieve them (Costa Rica, India, Mexico). Concrete actions and track records are better indicators of ownership than statements of intent. But the ownership of policy reforms or programs can be assessed based on the degree of intellectual consensus among decisionmakers, the political commitment of national leaders, the locus of pol-
The client and the Bank may have different values or priorities about the country's development:

- In Kazakhstan and some large states in India, for example, the authorities did not place high priority on poverty reduction.
- Client countries may resist Bank involvement in such politically sensitive issues as corruption. Indonesian authorities refused to address widespread corruption, and the Bank did not raise the issue forcefully until after the 1998 crisis.
- In Paraguay, despite the vulnerable and undercapitalized banking system, authorities have not been interested in structural reform.
- Gender equality is a Bank priority that does not spark the interest of all governments.

Even where governments share the Bank's overall objectives and priorities, they may not necessarily wish to undertake the kind of lending operations the Bank proposes, or may wish to forestall the Bank's involvement in sensitive areas.

In some cases, the Bank's desire to sustain lending has moved proposed loans to an advanced stage of preparation despite limited government interest. While cancellation of nonperforming loans is part of good portfolio management, a high incidence of cancelled loans may indicate weak borrower "commitment" and contribute to higher average costs. Cancelled loans are more common in countries with access to alternative sources of financing. In Egypt, for example, over a five-year period more Bank resources were spent on preparing projects that were eventually dropped than on projects that were eventually approved.

The Bank's contribution to institutional development at the country level has been modest, both in middle- and low-income countries. This reflects the inherent difficulties of institutional change and capacity building, as well as shortcomings in the Bank's approach. The Bank's diagnosis of institutional, political, and governance constraints generally has been weaker than its economic and technical diagnosis. This reflects both the professional orientation of Bank staff—mostly economists and sector specialists—and the Bank's traditional reluctance to address these issues. Recently, the Bank has displayed increased attention to governance and institutional issues in its policy research and country strategies (World Bank 1997a), and is piloting Institutional Governance Reviews in several countries. QAG data suggest some improvements in quality of institutional analysis in project documents. These efforts are starting to show at the country level, but further progress is needed to articulate comprehensive institutional development and governance strategies (Burkina Faso, Kazakhstan, Tanzania).

**Over-Optimism**

The Burkina Faso, Costa Rica, India, Indonesia, Paraguay, and Uruguay (in the earlier years) CAEs found a pattern of over-optimism about borrower governments' receptivity to Bank advice, willingness to undertake difficult reforms, and capacity to implement recommended measures. Over-optimism is largely the result of inadequate risk analysis, or reluctance to face up to risks in program design. The Bank often underestimates the political difficulties and the obstacles to rapid change of long-established socioeconomic systems, especially in transition economies (Kazakhstan).7 Risk analysis was rated as the weakest aspect of CAE diagnosis; reviews by QAG have also called for increased attention to risk analysis (QAG 2000). Some of the reasons for chronic optimism are listed in box 3.2.

**Adaptation**

The Bank does not always adapt its programs to the prevailing context, especially in low-
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**Box 3.2 Sources of Over-Optimism**

Some of the reasons for excessive optimism are identified in CAEs:

- Inadequate tools for risk analysis contribute to a tendency to underestimate risks and to overestimate the influence of proposed risk-mitigation measures (Indonesia, Papua New Guinea).
- A “halo effect” from previous good performance can cloud perceptions about emerging structural problems (Indonesia, Mexico). In Indonesia, warnings by Bank staff regarding weaknesses in the financial sector were not adequately conveyed by Bank management in country dialogue, partly because of the country’s good macroeconomic record. The Bank subsequently incorporated these lessons into its country strategy.
- There may be a perceived need to justify new loans to maintain a positive flow of net disbursements to countries with large repayment obligations on existing loans (Argentina, Mexico).
- Outside observers—including Bank staff—may not fully appreciate the political difficulties and social costs of deep changes in transition economies (Kazakhstan, Ukraine).
- Proposed timetables for project preparation or policy implementation may not account for delays and complications that arise in the course of consultative and participatory processes.

Income countries with weak implementation capacity. Project design and recommended policy reforms may be too complex and inadequately adapted to country capacity. Uneven ESW and insufficient engagement with local counterparts can contribute to promulgation of standard policy prescriptions. The OED poverty study found “surprisingly limited differentiation in the policy agenda across CASs over the past decade,” although it noted promising new signs of diversity, particularly in ECA (Evans 2000).8

**Strategy and Program Deficiencies**

Good, well-executed country strategies produce good results (Argentina, Uganda). But about half of the 15 CAEs reviewed pointed to some deficiencies in the CAS. The most common shortcomings were excessive focus on macroeconomic issues; neglecting nonlending services; avoiding complex, sensitive governance issues; and overestimating borrower ownership and implementation capacity. Conversely, if the CAS was sound but the subsequent program deviated from it (Morocco), the results were generally disappointing. But when the CAS is flawed (Jamaica), or if country circumstances change significantly (Indonesia), deviating from the CAS may be desirable. This suggests that flexibility in CAS implementation is necessary, but also that significant changes should be clearly justified.

**Selectivity**

At the country level, selectivity requires identifying interventions that are consistent with the Bank’s comparative advantage relative to partners. The CAE review, as well as the Bank’s recent CAS retrospective, suggest that the Bank is getting better at establishing priorities for country programs, but that there is room for improvement. The Bank successfully exercised selectivity in Argentina, Uganda, and Uruguay. In Argentina, for example, the Bank’s program has evolved in response to changing development needs, from public sector reform and privatization to provincial reform and social sector issues—issues that attract limited private capital. But in a number of low-income countries, including Bolivia, Burkina Faso, and Tanzania—where many donors are active—the Bank and donors are involved in too many sectors and have not sufficiently established priorities. Donor overload is a particular problem for “popular” sectors, such as education, health, and agriculture.9 Justifying the Bank’s presence in many sectors by its convening role and capacity for policy analysis may underestimate the capacity of other actors or take into account the need to use Bank administrative resources selectively to achieve results. The Tanzania CAE, among others, suggests that the Bank should work with UNDP to move the donor selectivity process forward.
Do Instruments Match Objectives?
The choice and mix of instruments should be matched to the specific development objectives, the level of consensus for reform, and the country’s policy, institutional, and political context. But evidence from CAEs and the CAS retrospective suggest that country strategies rarely state the strategic rationale for choosing one instrument over another.

Country strategies rarely state the strategic rationale for choosing one instrument over another.

Lending Instruments and Country Context
On average, all lending instruments perform better in countries with better policy and institutional environments—as measured by the Bank’s Country Policy and Institutional Assessment (CPIA) ratings. But the sensitivity varies by instrument (figure 3.1). Technical assistance loans, which support targeted capacity building, perform well in countries with above-average performance ratings, but only half are satisfactory in countries with lower ratings. Investment loans fare slightly worse, which reflects the well-known negative influence of weak policy environments for investments, as well as inadequate adaptation of project design and Bank processes to weak contexts. SECALs perform well in both high- and medium-rated borrower countries, but the worst for low-rated countries—possibly reflecting weaker sectoral capacity and the complexity of many sectoral reforms in poor performers. SALs seek changes in macroeconomic policies, but evaluation evidence suggests that “stroke of the pen” changes can be implemented even in weak institutional environments if key senior officials are committed (Killick, Gunatilaka, and Marr 1998; Nelson and Eglinton 1993).

ESW and Country Context
The Bank has begun to rely on borrowers’ institutions to carry out analytical work, particularly for large borrowers and middle-income

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Figure 3.1: Country Performance Influences Instrument Performance

<table>
<thead>
<tr>
<th>Percent satisfactory outcomes</th>
<th>High CPIA</th>
<th>Medium CPIA</th>
<th>Low CPIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency &amp; rehabilitation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural adjustment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectoral adjustment</td>
<td></td>
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</tbody>
</table>

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countries. This was done effectively in Argentina, India, and Mexico, which have skilled government officials, reputable think tanks, and well-trained social scientists. The Bank can complement and expand on local findings with relevant international experience and bring an independent perspective to country analysis. But the same problems that influence lending in weak institutional and policy environments can have a negative impact on analytic work. According to QAG data, quality ratings for ESW investment projects are highest in countries with high CPIA ratings, but less than 60 percent satisfactory for low CPIA countries. The average cost per ESW task is also higher in weaker performers. This suggests the need for selectivity and a more differentiated approach to ESW in weaker environments, including strong supervision, quality assurance, and striking an appropriate balance between analytic quality and the local involvement needed to improve the relevance and ownership of findings.

**Investment Lending**

Investment lending is less likely to attract controversy. It can allow experimentation and joint problem solving for specific development constraints and is more appropriate for targeted capacity building. Some borrowers—such as China and India—therefore prefer investment loans. But investment projects are more likely to be hampered by shortfalls in counterpart funds or weak public sectors. Particularly in middle-income countries or large borrowers, the wider impact of investment lending depends on "spin-off" effects on other government programs—but few investment projects are designed with this explicitly in mind. The procurement and other due diligence requirements associated with investment lending can help strengthen borrower accountability and capacity, but are not always well adapted to borrower procedures.

**Adjustment Lending**

Adjustment lending can support policy changes and reforms at the macroeconomic or sectoral levels, but only when a critical mass of stakeholders become convinced of the need and direction for reform.\(^1\)\(^2\) Conditionality can be effective as an instrument of mutual commitment, shared objectives, and reciprocal obligations, but not as a coercive tool (Branson and Hanna 2000). Cash-strapped poor countries may be coaxed into accepting externally imposed conditions, but it is likely that such policies will be poorly implemented or subsequently reversed (Killick, Gunatilaka, and Marr 1998; Devarajan, Dollar, and Hohmgren 1999). Adjustment lending has traditionally supported "stroke of the pen" reforms involving limited public consultation, but is increasingly being used to support more complex "second-generation" reforms, involving many stakeholders. Bank efforts to promote civil service reform through adjustment have been mostly unsuccessful (Girishankar 1999), but the Bank is beginning to experiment with more flexible and consultative approaches. These efforts are promising (Kazakhstan, Uganda).

**Instrument Mix**

Combining adjustment lending with other instruments—such as analytic and advisory services, technical assistance, and investment loans—may improve the policy environment, and hence outcomes. Complementary investments to build capacity, improve service delivery, or develop supportive infrastructure often are necessary to achieve the benefits of policy change.\(^1\)\(^3\) Adaptable program lending may be appropriate for long-term public sector reform, depending on authorities' commitment to reform and the quality of the trigger points and evaluation benchmarks selected. In Tanzania, for example, a new 12-year programmatic public sector reform credit represents an encouraging departure from previous piecemeal efforts, although the CAE expresses concern that the triggers are poorly defined.

**Building Consensus**

When consensus is weak, adjustment is unlikely to be effective. Pilot projects can help test possible approaches and build consensus—if key stakeholders are engaged in the design process, the pilot is adequately evaluated, and the find-
Recent OED CAEs for Burkina Faso and India show that the Bank can facilitate complex reforms through careful sequencing of analytic and advisory work, consensus building and policy dialogue, and lending operations. In Burkina Faso, a World Bank Public Expenditure Review in the early 1990s identified very high teacher salaries as a significant constraint on the expansion of basic education. The findings fed into discussions among the government, civil society, unions, and donors, and government eventually negotiated a deal with the teachers’ union to “grandfather” existing teacher salaries and to hire new teachers at a reduced pay scale. There were several times more applicants than positions available. These reforms, together with support from a World Bank basic education loan, helped increase primary school enrollment.

In India the government has always insisted that it remain fully in charge of its policies and the Bank’s program. The Bank’s program initially was oriented toward supporting the government’s country strategy through a wide range of project loans. The Bank eventually realized that its lending—and India’s development—were being undermined by distorted macroeconomic policies and inefficiencies in the public sector. In the late 1980s, the Bank sponsored a series of economic and sector studies focusing on macroeconomic and public sector issues and sought to engage government officials and Indian specialists in a dialogue on reform. The studies helped build technical consensus between Bank staff and country colleagues, and the financial crisis in 1991 created political space for economic reform. The Bank was well-positioned to provide a series of adjustment loans to support agreed policy changes.

How Are Resources Allocated among Countries?

Lending Resources

Development projects are more effective in countries with good basic policies, strong institutions, and good governance. But when poor countries lack good institutions and policies, the Bank faces a dilemma: projects tend to be less effective, but poverty is more pervasive. How does the Bank manage the tension between country performance and its poverty reduction mandate in allocating lending and administrative resources?

IDA lending to low-income countries is influenced by population size, country performance criteria, and—to a lesser extent—GDP per capita. The performance criteria reflects Bank staff assessments of country performance—captured by the Country Policy and Institutional Assessment (CPIA) rating—and previous portfolio performance. Lending levels may be reduced by up to one-third for countries with severe governance problems. The process allows for flexibility and judgment in taking account of country circumstances. Each CAS—whether for IDA or IBRD borrowers—specifies a “base case” level and possible range of lending, taking assessed and prospective performance into account. While there is normally no explicit linkage to “norm” allocations or CPIA ratings in the CAS, the evidence is that, in the past decade, IDA has reduced its lending per capita to countries with poor performance ratings and lent more per capita to the better-rated performers (see figure 3.2). IBRD lending is not rationed, and the Bank has no formal mechanisms for allocating IBRD lending based on country performance ratings, except as it may affect the Bank’s creditworthiness. Nevertheless, it appears that, since the early 1990s, the Bank has lent more per capita to IBRD borrowers with relatively good performance ratings (figure 3.3).

Although figures 3.2 and 3.3 suggest that the Bank shifted toward a greater performance or-
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entation in its lending decisions, OED country evaluations point to a number of instances where the Bank has continued to lend despite poor country performance—sometimes despite commitments in the CAS that the Bank would reduce lending if performance did not improve. Cameroon (1982–95), Papua New Guinea (1989–00), and Tanzania (1986–95) received marginal or unsatisfactory outcome ratings because the Bank continued to lend despite these shortcomings (see table 3.1). This can be attributed to poor country performance, but also to the Bank’s failure to reorient its country program on a timely basis. The Bank must take calculated risks when conditions seem promising, but sometimes the sheer momentum of project processing, combined with over-optimism, overwhelms prudential considerations. Nimble, flexible management of Bank programs is important, but so is effective quality assurance.

The Bank has taken an important first step toward greater transparency of the performance measurement system: deciding to discuss the recent CPIA ratings with borrower governments. The ratings still are not made public. Greater transparency would encourage more rigor in performance measurement and stimulate debate regarding reform within member countries. It also could increase the costs of the exercise and entail adjustments in the indicators to improve their credibility and acceptance.

In federal states, performance factors at the subnational level may influence the direction of lending. In Argentina and Brazil, commitment to poverty reduction and reform at the provincial level has been significant in the design of lending programs. In India, the Bank has allocated two-thirds of total lending to states that demonstrate commitment to reform and poverty reduction. Government officials and civil society representatives generally supported the focus on better-performing states but recommended greater transparency in the Bank’s performance criteria and a more proactive stance on behalf of poor states that are weak performers (OED 2000).

Allocation of Administrative Resources
The Bank’s process for allocating administrative resources is not fully aligned with the drive for
more selective, performance-based lending. Research for the forthcoming OED review of
IDA identifies three interrelated factors that contribute to misalignment: inertia, inflexibility, and
fragmentation.

**Inertia.** Budget allocations vary slowly in response to changing country conditions. Full and
transparent costing of CASs and Sector Strategy Papers (SSPs) is still not the foundation of corpo-
rate budgeting. The current system is governed by country norms (involving such characteristics as population, per
capita income, and access to private capital) and also by normative input-output relationships
related to lending plans and the size of the portfolio at the time of budget construction.

CPIA ratings and portfolio performance influence budgets only at the margin, through “overrides”
by Regional management. The Bank appears to allocate more funds per capita for analytical
work to medium performers than to low or high performers, which may reflect Regional
management’s desire to deploy policy advice to
ward potential “turnaround” countries.

**Inflexibility.** High fixed costs limit country program directors’ opportunities to be responsive
to emerging development opportunities. After providing for supervision, such mandated ana-
lytical work as CASs, country office overhead, and completion of work for loans already launched,
little funding may be available for new analysis
or loan preparation. Country work for demand-
ing sectors and themes (such as forestry and
gender) gets no preference in budget allocations. Indeed, country directors tend to shy away
from risky operations likely to attract contro-
versy and burden country programs with high transaction costs, even when these operations lie
at the core of the Bank’s corporate priorities
(such as gender, forestry, water resource develop-
ment, and so on).

**Fragmentation.** Decentralization of the budget to relatively small country departments
may be contributing to limited redeployment
across country programs and to a tendency to
hoard budget resources and carry large “stocks”
of lending work to ensure funding for special-
ized staff. Currently, 50–80 percent over-
programming is common 6–12 months before
the beginning of a fiscal year—compared with
a norm of 25–30 percent. This is a rational re-
ponse by country managers faced by a budget
process separate from the CAS process with no
reliable mechanism for assuring consistency
between the two. Over time, the CAS and the
budget can diverge significantly. Access to lim-
ited contingencies held at the institutional and
regional levels tends to be restricted to excep-
tional situations (such as new, reactivating, or
post-conflict countries). As a result, the search
for incremental resources—for example, through
trust funds—is pervasive and costly.

**Are Bank Country-Level Partnerships
Strategic?**

In principle, partnership can be used to over-
come budget stress; being selective means leaving
some issues and sectors to other agencies.

But this assumes efficient specialization, coordi-
nation, and motivation (Picciotto 1998). Absent
such prerequisites, the cost of partnerships
may add to overload and stress. Partnerships in
support of country programs flourish best when
the Bank and its partners agree to a specific as-
assistance strategy, which the borrowing country
“owns.” In Mozambique, Tanzania, and Uganda,
for example, the Bank has established produc-
tive partnerships with donors and nongovern-
mental organizations (NGOs). Policy frameworks
clearly specify each partner’s role and accoun-
tability. The experience of the Strategic
Partnership for Africa (SPA) suggests potential
for more efficient partnerships and harmoniza-
tion of donor approaches. Partnerships work
well for the Bank when the Bank clearly lacks
comparative advantage in an area. Local agen-
cies and well-selected NGOs are typically better
than the Bank at service delivery and inde-
pendent verification of results, for example.

The Bank is still learning how to be a better
partner with other agencies. Recurrent com-
plaints about Bank staff “arrogance” are in part
connected to the Bank’s perceived reluctance to
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Box 3.4 Moving to a New Level in Partnerships

OED’s recent study of aid coordination recommends that the Bank move closer to its enunciated policy “to put the country in the driver’s seat” (Eriksson 1999). To align Bank policy with the CDF principles of partnership, ownership, and results orientation, the study suggests a new operational policy that would declare that

country leadership of the management and coordination of aid resources is Bank policy and that would emphasize partnership and collaboration among all governmental and nongovernmental actors at the country level. To bolster country capacity, each Bank country team should work with government and other development partners to formulate a strategy to (1) help government strengthen its capacity for aid management and coordination, (2) reach partnership agreements with donors that delineate mutual responsibilities and distinct accountabilities; (3) design agreed coordination principles and procedures, and (4) present a plan for carrying out joint monitoring and evaluation missions with other donors to reduce barriers to country leadership.

Successful collaboration among donors is needed at the global level. The Bank should work closely with the UNDP, which shares with the Bank extensive experience in capacity building; Development Assistance Committee (DAC) members, including the EU; and regional development banks (RDBs) to establish a common understanding of, and commitment to, building partnerships at the country level.

adapt procedures to local needs (Eriksson 1999). There is still much to be done, especially in adapting procurement, disbursement, and safeguard policy compliance procedures toward results. To be more successful at initiating and fostering partnerships, the Bank will need to change the way it does business and be willing to compensate for the weaknesses of some of its client-country partners by helping them build capacity (box 3.4). Although the Bank and donors have taken steps toward harmonization of donor procedures, progress has been slow, and some donor governments have resisted change—sometimes for commercial or geopolitical reasons.

Different Roles for the Bank?

This review suggests several broad conclusions about matching Bank programs to borrower characteristics.

Middle-Income Countries

In middle-income countries, particularly those with access to private capital, the Bank’s financial contribution is relatively small. Lending trends suggest that the Bank should reconsider its role in countries with strong capacity and ready access to private capital and refine its approach to countries whose capital markets have closed because of poor performance or external shocks. Access to private capital varies by country and sector and is not binary.

The Bank’s role is to catalyze support for selected reforms and institutional development; facilitate cross-national learning; and promote global public goods (Hinds 2000). This makes it important to establish a shared agenda with the client, select the right mix of instruments, and establish appropriate partnerships, domestic and international. Additional priorities are likely to include mitigating the effects of capital market volatility—in partnership with the IMF—while seeking to minimize moral hazard concerns associated with crisis lending. The Bank can also help catalyze private sector investment by supporting structural reforms to enhance the enabling environment for private investment (Hinds 2000). The wide variation in income, capital market access, and institutional capacity suggest the need for differentiated approaches among middle-income countries. In response, Bank management has established a Middle-income Country Task Force to explore these issues in consultation with clients and partners.

Low-Income Countries

In many low-income countries, borrower capacity and local financial resources are binding constraints. First, the Bank should strengthen capacity for aid coordination, help harmonize donor standards, and assist the borrowers in enhancing the coordination and coherence of donor activities
(Eriksson 1999). Second, even in "good performing" low-income countries, such as Ghana and Uganda, simplifying project and program design and sequencing reforms is a priority. Third, as confirmed in CAEs for Burkina Faso and Uganda, Bank efforts to strengthen country offices in low-income countries should continue since this helps to improve project supervision and enhance country dialogue. Debt relief under the enhanced Highly Indebted Poor Countries Initiative (HIPC) should help release resources for poverty reduction, improve the environment for public and private investment, sharpen the poverty focus of country policies, and facilitate improved selectivity in future lending (Birdsall, Claessons, and Diwan 2000). The impact is likely to be modest overall, however, both because of the limitations of conditionality (Killick 2000) and because debt is only one of many development constraints for these countries (World Bank 2001; Morrison 2000). The PRSI has potential for a substantial change in the way the Bank and international partners do business in low-income countries—if the expectations for greater country ownership, increased poverty focus, and significant harmonization of donor activities are fulfilled while meeting Bank and IMF technical and procedural requirements.

Poor Policy Environments
Countries with weak governance and poor policies have limited access to external capital. They need external finance but lack many of the prerequisites for effective assistance. Accordingly, Bank diagnostic work should seek to identify the underlying institutional, political, or exogenous factors affecting weak performance. But adjustment lending should be deployed prudently since it is likely to be ineffective in the absence of commitment for reform (Cameroon, Ecuador, Kenya, Papua New Guinea). In "turnaround" countries—following a change in leadership, for example—adjustment can provide needed support for reform, but should be based on a sober assessment of prospects for genuine change. Equally, limited lending operations may help strengthen public sector accountability systems or support targeted and closely monitored poverty programs (Evans 2000).

But because all lending is channeled through government, CAEs and Bank research suggest caution (Dollar and Pritchett 1999). Where policy reform and governance improvements have yet to take hold, grants may be more effective instruments for building consensus and supporting civil society. Hence, economic and sector work, aid coordination, and policy dialogue with government and civil society organizations can help build consensus for reform; effective donor coordination is critical. These activities still tend to be underused in poor-performing countries (Cameroon, Kenya, Nepal, Tajikistan). In light of scarce administrative and grant resources, the Bank faces difficult choices regarding appropriate levels of resources for poor-performers, particularly given the demand for complementary inputs to support lending in better performers. Guidelines are needed to ensure a coherent approach to these situations.
TOWARD GLOBAL RESULTS: SECTOR AND THEMATIC DIMENSIONS

The Bank’s shift toward the higher plane of country strategy has been paralleled by a shift toward improving sector and thematic performance at the country and global levels. The challenge has been to strengthen the strategic focus and policy content of Bank lending and non-lending services within particular sectors, and to integrate cross-cutting thematic priorities—including poverty, participation, and gender—into a range of Bank activities. OED’s analysis suggests that much remains to be done to deliver on the four “Ps” of successful sector strategies: a clear Policy framework; an action plan to improve on past Performance; a specific Program of development assistance at country and global levels; and a definition of the Bank’s role, taking account of the ongoing and planned activities of Partners.

The challenges of sector and thematic issues reflect (but also go beyond) the dilemmas experienced at the country level, especially where global objectives are sought in line with the Bank’s global mandate and reach. This chapter identifies those challenges based on evaluation information in response to four related questions:

- What explains the variations in project performance within and among sectors?
- What factors influence the Bank’s relevance and efficacy in promoting sector and thematic objectives at the country and global levels?
- What lessons can be drawn about the design and implementation of Bank sector strategies and policies?
- What are the implications for the Bank’s recently established Sector Strategy Paper (SSP) process?

What Affects Sector Performance?
Achieving sustained poverty reduction requires macroeconomic, sectoral, and local progress, but the average performance of Bank projects varies widely among sectors. What factors affect these variations, and what are the implications for Bank programs and strategies?

Country Income and Performance
Bank projects generally perform better on average in middle-income countries than in low-income countries. Across 14 sectors, in only 2
cases do lower-middle-income countries perform worse than low-income countries, and in only 3 cases do upper-middle-income countries perform worse than lower-middle-income ones (figure 4.1). But the sensitivity of sector performance to country income varies considerably. Social-protection project outcomes show no significant variation by country income group, but for projects in the energy and electric power; water supply and sanitation; and health, nutrition, and population sectors, the portfolio performance gap between low-income and upper-middle-income countries exceeds 30 percent. When comparing sector outcomes by country performance (as measured by CPIA), a similar pattern emerges, but with even greater differences in sector outcomes between strong and weak performers.

**Institutional Design**

Bank sectors differ in the extent to which sector or project performance is influenced by, or insulated from, institutional or policy factors. For example, most social protection projects in low-income countries are social funds, which operate outside line agencies to finance and implement projects, often through local communities. Yet while “enclave” approaches can improve service delivery to the poor, they may limit the catalytic influence of projects and undermine government capacity if not properly designed (Erickson 1999). In infrastructure sectors, such as telecommunications and transport, the Bank has shifted from supporting parastatal organizations toward encouraging competition, “unbundling” of services, and privatization. Bank-financed health and education projects, in contrast, generally rely on government ministries for implementation and seek to improve overall sector performance. The low pay and distorted incentives that prevail in the civil services

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**Figure 4.1 Sector Project Outcomes Vary by Country Income**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Low income</th>
<th>Lower-middle income</th>
<th>Upper-middle income</th>
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<td>Social protection</td>
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<td>Telecom</td>
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<td>Oil &amp; gas</td>
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<td>Transport</td>
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<td>Multisector</td>
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<tr>
<td>Environment</td>
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<td>PSM</td>
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<tr>
<td>Agriculture</td>
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<td>Health</td>
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<tr>
<td>Nutrition</td>
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<tr>
<td>Population</td>
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<td></td>
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<tr>
<td>Water supply &amp; sanitation</td>
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</tbody>
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* Percent
of many low-income countries often have a negative effect on project implementation and sector performance and complicate efforts to strengthen capacity (van de Walle and Johnston 1996). Community-based approaches can improve social service delivery, as demonstrated by the success of community-managed water provision or health services in many poor countries (Parker and Skytta 2000; UNICEF 1999). But no consensus has emerged regarding the appropriate balance of public and private provision in the social sectors (Nelson 1999). Results-based approaches need to be developed given the high transaction costs and low capacity utilization associated with traditional investment projects.

Quality of Analysis
Project outcomes are influenced by the extent and quality of prior analytic work—both economic and sector studies, as well as analyses conducted during project preparation. Health project outcomes were significantly correlated with the quality of institutional analysis during project preparation (Johnston and Stout 1999). Comprehensive ESW completed prior to project design is associated with better project outcomes (Squire, Deninger, and Basu 1997), but most OED sector studies noted with concern the uneven coverage and quality of ESW (Evans 2000; Lele 2000). The OED financial sector evaluation, for example, found that only half of the sector’s projects were preceded by ESW in the previous five years. Financial sector outcomes at the country level were strongly associated with prior ESW; only one-third of countries with no prior ESW had satisfactory outcomes, while two-thirds of the countries with at least one ESW activity before project approval had a satisfactory outcome (Mathieu 1998).

Portfolio Management
The quality of Bank portfolio management is critical to portfolio performance, particularly in weak institutional settings. Bank sector and thematic networks share responsibility with regional departments for monitoring and strengthening project quality. OED’s review of the water sector, where portfolio performance has been relatively weak, concludes that in subsectors that implemented portfolio improvement plans in the mid-1990s, project performance improved and projects at risk declined. The quality of Bank supervision also influences project performance, particularly in countries with limited government capacity or weak institutions. Recent reviews by QAG suggest that Bank sector managers are taking more direct responsibility for quality assurance, and that sector and thematic networks with proactive portfolio quality management programs have seen greater improvements in quality at entry and project supervision.

The quality of Bank supervision also influences project performance, particularly in countries with limited government capacity or weak institutions.

Rating Standards
Comparing Bank performance across sectors is complicated by several factors. First, sectors have different objectives and performance standards. For example, water projects financed through a social fund may not be subject to the financial sustainability standards that govern water sector projects (Pitman forthcoming). Second, more than half of the interventions in some sectors are subcomponents of multisectoral projects and are not separately rated. Telecommunications and forestry subcomponents of large, multisectoral projects receive less attention and may perform less well than stand-alone projects (Lele 2000). Third, project portfolio performance does not capture the quality or contribution of nonlending services. In such sectors as energy and telecommunications, where lending is declining but the importance of non-lending services has increased, the scarcity of quality measurements for nonlending services complicates assessments of Bank performance. This is a particular concern given the rapid growth in the Bank’s knowledge management activities. Finally, project performance does not effectively capture the Bank’s effectiveness in promoting thematic issues, such as gender or participation—although OED analyses suggest that higher levels of participation are associated with improved project outcomes (Evans 2000).
Challenges in Achieving Sectoral and Thematic Objectives

OED supplements its project evaluations with periodic reviews of Bank experience and performance in selected sectors and thematic areas. In the past three years, OED has completed studies of poverty reduction, forestry, health, finance, energy and the environment, rural development, telecommunications, and participation. Reviews are also being done for gender, environment, water, cultural heritage, social funds, and private sector development in energy. Collectively, these reviews identify tensions and challenges the Bank faces in promoting sectoral and thematic objectives at the country and global levels, and highlight the importance of balancing global strategies with local adaptation, balancing client and corporate priorities, establishing strategic partnerships, and promoting global public goods.

Adapting Global Strategies to Local Settings

The Bank's ability to articulate a broad strategic vision is one of its greatest strengths. It is the translation of its vision into reality that is a central challenge. The Bank has an obligation to provide policy advice that is coherent across countries and Regions. But the Bank is sometimes viewed as not adequately adapting its policies and projects to country settings (box 4.1). OED studies suggest that several factors influence adaptation of sector and thematic strategies.

Policy guidance. Strategies for most of the sectors and thematic areas reviewed recognized the importance of adapting policies and programs to country contexts, but few provided explicit guidance. The Bank's 1991 forestry strategy, for example, was too rigid and did not recognize the need for different strategies in forest-rich and forest-poor countries (Lele 2000). In contrast, the Bank's approach to participation encouraged adaptation to diverse community settings.

Country and regional analysis. Country-specific strategies and economic and sector work are needed to provide guidance on country-specific priorities and implementation. Preparation of regional strategies—in 1997, for the Bank's rural strategy, and later for health and education—is increasingly common. Regional sector strategies, which can leverage sector work resources across smaller, low-income countries, are currently underfunded and tend to be used to justify preordained lending programs. Moreover, country-specific work is essential. The rural study, as well as the CAS retrospective, found that the quality of the rural strategy in CASs is strongly associated with the existence and quality of rural sector work (Heath 2000). Just as for country work, OED sector and thematic reviews express concern about the decline in funding for economic and sector work.

Institutional design. Adapting strategies to country institutions and capacity is fundamental for development effectiveness. Good institutional design requires attention to public and private roles, stakeholder incentives, and the nature of the goods provided—public, private, club, or common pool (Picciotto and Weisner 1998). Institutions, both formal and informal, are country and even community-specific. Forest sector strategies must match forest interventions to specific geographic, biophysical, demographic, socio-cultural, institutional, and economic circumstances (Lele 2000). In communities with low levels of social capital, community water associations require intensive support if project interventions are to succeed (Parker and Skytta 2000).

The impact of World Bank support to agricultural extension in Kenya was limited—despite extensive investments in capacity building—in part because the training and visit system lacked incentives for responding to farmer needs (Gautam 2000). The Bank is beginning to develop tools for assessing organizational capacity (Orbach 1999) and for institutional analysis, both at the country and sector levels, but these need to be further mainstreamed.

Tapping local knowledge. Involvement of client country officials and technical specialists in the development of Bank strategies, country-based analytic work, and throughout the project cycle enhances adaptation and maximizes the synergies between global and local knowledge. Similarly, involvement of beneficiaries in design
### Box 4.1 Stakeholder Perceptions of Bank Strengths and Weaknesses

Results from five country focus groups (in Bangladesh, Côte d'Ivoire, Morocco, Uganda, and Ukraine) conducted for the OED poverty study reveal important perspectives on the strengths and weaknesses of the Bank's poverty strategy and its implementation. Stakeholders praised the Bank's broad strategic perspective on development issues but expressed concern that the Bank sometimes promoted a "one-size-fits-all" approach to policy advice and poverty programs (Evans 2000).

#### Strengths
- **Analytical 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 in its arguments.**
- **Sharing good 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.**

The strategy is too macro; it does not connect well enough with microeconomic issues and poverty. Divergence between the priorities of the Bank and the borrower—or other stakeholders—constrained implementation of several Bank strategies. For example, the overwhelming emphasis on conservation in the Bank's 1991...
Divergence between the priorities of the Bank and the borrower constrained implementation of several Bank strategies.

The forestry strategy improved compliance with the Bank’s Safeguard standards but failed to arrest deforestation in the very countries the policy was designed to affect. It inhibited experimentation with sustainable forest exploitation in cooperation with the private sector (Brazil).

Participation. Strategy development has tended to focus on participation from staff in Bank networks. The rural strategy achieved strong “buy-in” from staff in the rural sector but did not sufficiently involve Regional management and country teams (Heath 2000). Similarly, resistance by Bank Regional departments to the global prescriptions of the “Fuel for Thought” strategy paper delayed its processing and blurred its quantitative goals. By contrast, the inclusive approach used to develop the Bank’s participation guidelines helped to generate learning and commitment within the Bank, which partly compensated for the lack of a formal strategy or policy.

Building consensus. In the water, gender, and forestry sectors, basic disagreements—both inside and outside the Bank—were “papered over” rather than explicitly resolved (Pitman forthcoming; Gopal 2000; Lele 2000). This hindered implementation of strategy and also affected the rigorous implementation of Safeguard Policies. If disagreements are acknowledged, appropriate strategies may be developed to address them. To address fundamental disagreements regarding development policies and strategies, Bank networks could identify priorities for “knowledge creation”—as well as knowledge management—through research and analytic activities, as well as pilot projects and cross-national learning. The Bank can use its convening role to help build consensus among stakeholders. Insufficient consultation contributes to a lack of broad-based support for the Bank’s strategies and policies. Thus, international NGOs were consulted extensively during the formulation of forestry and water strategies, but borrowing countries and the private sector were not. Lack of standards for public consultation and partnerships has also led to long, drawn-out, expensive, and inconclusive policy consultation exercises (for example, on resettlement and indigenous peoples) and a plethora of poorly coordinated initiatives and partnerships (Lele 2000).

Are Bank Global Partnerships Strategic?

By some estimates, Bank networks have entered into more than 200 partnerships with international agencies and NGOs. OED evaluations suggest that strategic consensus facilitates partnerships, and partnerships can facilitate consensus. Partnerships are increasingly important to the water sector, for example, where a broad consensus has emerged, as documented recently in the report of the World Water Commission at The Hague. This evolving consensus was supported by the relatively successful UNDP-World Bank Water Supply and Sanitation partnership and guided by the 1992 Dublin Accord on international water management. The Global Water Partnership and World Water Commission are expected to contribute to the development community’s ability to meet major water challenges (Pitman forthcoming).

While acknowledging the importance of selectivity in global partnerships, Bank strategies have not provided sufficient guidance regarding priorities or in defining the Bank’s comparative advantage vis-à-vis partners. The rural strategy discussed types of partnership but not the issue of comparative advantage. Under the Bank’s current management structure, network partnership agreements for staff do not ensure country programs’ commitment or resource allocation to partnership goals. The networks need to clarify the Bank’s core competencies and comparative advantage relative to its partners and to establish more businesslike alliances to allow the Bank to relinquish activities that partners are better equipped to handle. In policy matters however, “letting go” is not the full answer. For example, the Bank turned over the design of internationally accepted standards for the design, construction, and operation of large dams to a World Commission on Dams following a workshop jointly sponsored by OED and the World Conservation Union (IUCN 1997; WCD 2000). The final report of the commission is a major con-
The benefits of global public goods are widely shared, but developed and developing countries alike are often reluctant to finance—or borrow—for their production and delivery. International institutions, such as the World Bank, can facilitate collective action—through their convening role, knowledge creation and dissemination, and provision of financing for piloting and implementation (World Bank 2001). Global initiatives supported by the Bank encompass issues ranging from environmental protection and financial stability to disease control and research and development. Because global public goods require collective action, international partnerships are essential. The Bank’s status as convener and catalyst for the financing of global public goods is exemplified by its role in fostering the Consultative Group on International Agricultural Research (Anderson and Dalrymple 1999). Grants funded by the Development Grant Facility and the Global Environment Facility have helped fill the gap, but resources fall short of needs and have been spread thin. For example, while the Bank’s 1991 forestry strategy diagnosed the problem of externalities, the Bank and international community did not provide adequate financing to bridge the costs and benefits of conservation at the global and local levels (Lele 2000).

The Bank helps articulate global public policy through global policy studies—such as the recent World Development Report: Attacking Poverty—and sector and regional studies or strategies. It has also begun to jointly develop policy studies with partners. For example, Bank staff were seconded to the World Health Organization to help with the 2000 World Health Report (WHO 2000). Financial stability is another global public good. As discussed in Chapter 3, while the IMF plays the lead role in financial crises (Fischer 1999), the Bank can play an important supportive role (World Bank 2000b). At a regional level, the Bank contributed to establishing standards and strengthening the banking systems in the CFA countries of West Africa after the CFA devaluation of 1994 (OED 2000k). But good examples of strategy and policy review contributing to the development of authoritative international standards and agreements are rare. In principle, this area of comparative advantage deserves to be nurtured as a component of the knowledge Bank, but only for activities closely aligned with the Bank’s core development mission and in close collaboration with other multilateral agencies. The Bank has made substantial investments in knowledge management in recent years, but the decline in funding for ESW highlights the importance of balancing knowledge management with knowledge creation.

The Bank is being called on to take an increased role in promoting global public goods, which has highlighted issues of selectivity, the Bank’s comparative advantage, and the appropriate balance between country-based programs and global or regional initiatives, particularly in the allocation of staff time and Bank resources. In response, Bank management—through both internal discussion papers and external consultations—is seeking to clarify its priorities and role. These discussions have highlighted the importance of maintaining an appropriate balance between global or regional partnerships and programs that promote “pure” public goods, and country-based programs that have important international spillover effects (such as effective disease control programs). The Bank also needs to ensure that developing countries are able to make effective use of global knowledge and public goods. OED recently launched an evaluation of the Bank’s experience in global public goods, which seeks to inform these debates (World Bank and UNDP 2000).

**Design and Implementation of Sector Strategies**

OED’s sector and thematic studies increasingly evaluate the Bank’s experience implementing specific strategies and policies. To organize and build on evaluation findings, OED evaluators assessed eight recently evaluated sector and thematic strategies along 13 dimensions. Most
of the strategies were developed in the early to mid-1990s, and with the exception of the 1997 rural development strategy, predate the introduction of Sector Strategy Papers (SSPs) (see Annex B). The quality and relevance of the strategic framework receive the highest average rating, and the quality (and existence) of plans for implementation the lowest. Revealing differences among the sectors are presented below.

One weakness in many sector strategies was the paucity of guidance to Bank staff or clients about how to make choices and trade-offs at the country level.

Strategy Design
With notable exceptions, the strategies articulated sound policy frameworks relevant to international and Bank objectives (figure 4.2). OED gave high ratings to the policy frameworks underlying Bank strategies for water, energy, participation, and the financial sector. The OED water study concluded that the Bank’s 1993 water strategy remains highly relevant, despite challenges in implementation that require greater selectivity and sensitivity to different country and subsectoral circumstances. The analytic frameworks for poverty, rural, health, and telecommunications strategies, however, were mixed or lagged behind evolving circumstances. The poverty strategy was relevant, but a more comprehensive approach was needed to achieve broad-based, equitable growth. Gender and forestry were flawed (Gopal 2000; Lele 2000), while the design of private sector strategies has lagged.

Selectivity
One weakness in many sector strategies was the paucity of guidance to Bank staff or clients about how to make choices and tradeoffs at the country level. Strategy papers did not provide adequate tools to help sort competing needs and opportunities. Illustrating the problems that arise when there is policy without strategy, OED’s environment study concludes that the Bank has tried to do many things without establishing clear priorities and focusing its efforts on the areas most relevant to its overarching mission and to country needs (Liebenthal 2000). The gender study concludes that the Bank’s strategy and policy are unclear about whether the objective is to “mainstream” gender concerns into all Bank activities or to selectively integrate them into priority sectors or country programs (Gopal 2000). As the first official Sector Strategy Paper (SSP), the 1997 rural strategy identified 15 countries and 4 cross-country programs for special attention—although the selection criteria were not entirely transparent (Heath 2000).

Implementation of Strategies
Sector policies and strategies are not, as a rule, implemented directly, but rather through country programs—including lending and nonlending services—and related instruments such as the PRSI. None of the strategies OED evaluated included explicit plans for implementation—making this the weakest dimension of the strategies reviewed. In some, additional resources were identified to upgrade staff skills (rural, poverty), or to assist country teams (poverty). But generally, lack of planning and resources contributed to a gap between strategic intentions and implementation. Resource problems are symptomatic of a mismatch between the Bank’s commitments—including increased requirements for Safeguards and fiduciary accountability—and available staff and resources. Few of the strategies OED reviewed included explicit indicators or monitoring arrangements to assess progress in implementation or results.

Operational Guidance
The clarity and consistency of operational policies and guidelines were rated modest on average. Policy guidance for the poverty strategy was generally strong and accompanied by best practice guidelines and a poverty reduction handbook. The guidelines were regularly strengthened and updated during the 1990s. But the majority of OED studies (participation, forestry, gender, environment, telecommunications, water) concluded that ambiguities or gaps in the policy framework have made Bank staff, management, clients, and partners uncertain about expectations and requirements. Unclear guidance also has contributed to risk aversion, with many Bank staff and...
country managers avoiding involvement with controversial issues, such as forestry, large dams, or extractive industries projects. Finally, enforcement of Safeguard Policies has been inconsistent, largely because of highly decentralized and diffuse accountability combined with weak central coordination and oversight (box 4.2).

**An Unbalanced Matrix**

The Bank's current management structure makes it difficult for sectors and networks to explicitly plan for implementation, because country departments have full authority over budgeting and decisionmaking regarding country programs. This proved to be an obstacle to implementation of the rural strategy (Heath 2000). Accountability for implementation is a particular challenge for cross-cutting thematic issues (gender, environment). Some strategies (poverty, participation) addressed this challenge by providing good practice guidance and support and training for operational staff. Others, such as telecommunications and gender, were less effective. The Bank's efforts in telecommunications and private sector development (PSD) generally have been hindered by fragmentation of responsibility for PSD across various units within the Bank Group, including the International Finance Corporation (IFC), and by the lack of a PSD strategy. The Bank recently established the Private Sector Development Board, however, and is developing a private sector strategy jointly with the IFC. Bank Management is aware of concerns with matrix management, and has taken some steps toward "rebalancing the matrix." Further changes are needed to fulfill the promise of the Bank as a global institution.

**Implications for Sector Strategy Papers**

With the introduction of Sector Strategy Papers (SSPs) in 1996, the Bank began to address the weaknesses in sector strategy development. The Bank has produced 12 SSPs so far. SSP guidelines have tried to address some shortcomings in the earlier approach, including lack of selectivity, implementation guidance, and monitoring frameworks.

In a preliminary stock-taking, Bank management found improvements over earlier strategies, but many problems remain. In general, SSPs have been stronger on conceptual and analyti-
Box 4.2  Safeguard Policies

OED reviews of Bank activities in forestry, environment, water, and resettlement concluded that during the 1990s the Bank made significant progress developing and implementing “do no harm” Safeguard Policies, which helped reduce the negative impact of Bank lending on the environment, indigenous peoples, and displaced communities. But further progress is needed. Each of these studies found that inconsistencies persist in Safeguard compliance during project design and supervision, as well as in project completion reporting on resettlement performance and outcomes (OED 1998g; Lele 2000; Liebenthal 2000). Reviews by the Bank’s Quality Assurance Group (QAG) confirm that, despite progress on compliance, the Bank falls short of its target of 100 percent compliance. Safeguard Policy treatment was less than satisfactory in 9 percent of FY99 project design documents reviewed by QAG. A rapid supervision assessment found that only 84 percent of the projects involving the Bank’s resettlement and non-Bank indigenous peoples safeguard policies had satisfactory supervision.

In response to recent well-publicized incidents of non-compliance, Bank management affirmed its commitment to the diligent execution of the Bank’s Safeguard Policies, and has taken partial action to strengthen incentives and enhance budget support for compliance. Additional steps are needed to:

- Eliminate conflicts of interest for quality assurance.
- Further strengthen accountability for and enforcement of Safeguards.
- Conduct country level reviews and policy dialogues to ensure consistency between Bank Safeguards standards and country regulatory frameworks.
- Help build domestic capacity for resettlement, environmental protection, and independent verification upstream of project processing.
- Reduce transaction costs to the Bank and to borrowers.
- Explore ways to reduce risk aversion by improving risk management in areas with necessarily strong Safeguard standards (such as large dams and forestry).

Before initiating a project, the Bank should carefully examine the borrower’s legal and regulatory frameworks and, where appropriate, operate within them. An increased emphasis on upstream capacity building could help countries tackle issues before they become problems.

OED’s analysis of Bank experience designing and implementing policies and sector strategies suggests four factors—the four ‘Ps’—that are essential to successful sector strategies, and could help to strengthen the Bank’s sector and thematic strategies:

- A clear policy framework, taking account of global experience and best practice in the sector. Clarifying operational (including Safeguard) policies is a priority.
- An assessment of past performance and an action plan to improve on the past record to balance portfolio risk and rewards—especially for controversial or institutionally difficult development challenges. While OED studies and QAG portfolio analyses are increasingly being used to develop SSPs and to improve the links between strategies and evaluation and past experience, rigorous self-evaluation remains the exception rather than the rule.
A specific program of assistance, specifying monitorable global goals, focus countries, proposed deployment of instruments, skills requirements, and budgets. This has improved in some of the more recent SSPs, but the continued imbalance in the matrix structure renders the planning and implementation processes of sector strategies difficult to manage. Even within the constraints of the current matrix, networks need to do a better job achieving “buy-in” from Regions and country departments and keeping track of progress.

An assessment of the comparative advantage of the Bank and its partners, of the partners’ current and planned activities, and of the need for new alliances. It should be a priority to establish more businesslike partnership arrangements, streamline the number of partnership arrangements, and back any agreements with corporate commitments, with full recognition of their resource implications.

The four ‘Ps’—policy, performance, program, partners—are essential to successful sector strategies.
CORPORATE AND POLICY IMPLICATIONS

This year's ARDE reviews the Bank's development effectiveness in the context of an increasingly integrated but unequal and volatile world economy, a natural environment under stress, a fragmented political order, failed and failing states undermined by civil strife, and a global institutional framework riddled with tensions among weakened public sectors, an ascending transnational private sector, and a network of vocal organizations from civil society. In the early 1990s, the Bank was slow to respond to this more complex operating environment. By the mid-1990s, under new leadership, the Bank had adopted a more comprehensive development agenda, committed itself to implementing more demanding social and environmental policies, shifted its focus toward the higher plane of country and global programs, decentralized its operations, and launched new lending and knowledge management initiatives to meet the diverse demands of its borrowers, shareholders, and other stakeholders.

As a result, the Bank's financial and human resources have been spread thin and expectations have risen farther than the Bank's capacity to deliver. Enormous stress resulted from organizational transformation, leading to widespread calls for the Bank to be more selective, to manage resources more effectively, and to be more disciplined in implementing corporate policies and in making new commitments.

OED's independent assessment of operational performance trends shows that, despite these daunting challenges, portfolio performance has improved in the past year. The Strategic Compact target of 75 percent satisfactory performance is likely to be met for FY00, even though project complexity, demandingness, and risk are high—and have increased the most for Africa and low-capacity countries. At the same time, progress toward the International Development Goals has been slow. Over the past decade, the percentage of the population in developing countries living in poverty has declined, but the absolute num-
Managers have increased, reflecting continued population growth and declining per capita GDP in many transition economies and poor countries—especially those affected by civil conflict, political instability, and, increasingly, HIV/AIDS. Partly for these reasons, project performance in Africa remains disappointing, although QAG data could signal future improvements. Adjustment lending performance has improved steadily over the past five years, due to lessons from experience and a shift toward countries with better performance ratings. But findings from project audits and country evaluations suggest that the achievement of immediate policy objectives that trigger a favorable outcome rating does not necessarily translate into long-term impact, unless the country commitment to reform is sustained and exogenous factors do not undermine the impact of reforms. Investment lending performance has progressed at a more modest pace, while IBRD lending volumes have declined, reflecting rising resistance to the high cost of doing business with the Bank.

The Bank knows, through hard-won experience, much about what to do and how to do it better: choose good projects, support the right policies, be selective about which countries and sectors to address through diverse instruments, and continue to modernize business practices. But doing this is difficult, especially when resource allocation systems are not aligned with the Bank's thematic priorities, staff and senior managers continually face new initiatives, and internal incentives are poorly adapted to the effective implementation of corporate policies and strategies.

Addressing Tensions and Challenges
The Bank could improve its development effectiveness by directly confronting the tensions highlighted in this review and adapting its organizational structure, business practices, and operational instruments to the emerging demands of an integrated, volatile, and highly differentiated global economy.

Reconciling Corporate Priorities and Client Ownership
Managing tensions when the Bank, its partners, and borrowing countries disagree about priorities ("what to do"), or specific policies and interventions ("how to do it") is a difficult balancing act. Strategies that are fully developed and owned by client countries may contain different policies or interventions than the Bank or its international partners might propose.

- Bank strategies should explicitly acknowledge such differences in priorities. Fuller stakeholder analysis, which can help identify sources of disagreement and make strategies more relevant, will be especially important as the PRSI process moves forward. Moreover, sector and country strategies can identify ways to move toward greater consensus—for example, through specifying priorities for knowledge creation and dissemination.
- Bank instruments need to be modernized to reduce transaction costs and focus on results. They also need to be mobilized more strategically to build consensus at the country and global levels. This requires an increased focus on local involvement and dissemination of findings from Bank analytic work, enhanced use of pilots, strengthened monitoring and evaluation, and greater use of the Bank's convening role. Consensus building is resource-intensive, so it should be focused on priority issues—especially global public policy issues—where the Bank has a distinct comparative advantage.
- Conditions are most effective for reforms that can be easily specified, monitored, and implemented by a few decisionmakers. Conditions should be used judiciously and aligned with policy changes that command sufficient support to avoid policy reversals. Thus, adjustment lending could be made more effective through continued progress toward more consultative approaches, fewer conditions, better analysis of institutional constraints to reform, and careful sequencing of nonlending and lending instruments.
Adapting Global Prescriptions to Local Conditions

The Bank has usually been effective in providing strategic advice and in designing relevant country and sector strategies. But Bank policies and programs could be better matched to borrowers' institutional, social, and political environments.

- Improving the quality and coverage of country-based and regional analytic work is essential for adapting Bank strategies and policies to local contexts. Equally important, government officials, technical experts, and stakeholder organizations need to be engaged to ensure both the relevance and ownership of analytic work and resulting recommendations. Engagement with local experts is increasingly common in middle-income countries and other large borrowers. In small, low-income countries, economic and sector work needs to be closely managed to ensure a proper balance between strong local involvement and high technical standards.

- For social, environmental, and fiduciary policies, the Bank should seek to harmonize its Safeguard Policies with legal and regulatory frameworks in client countries, and place greater emphasis on strengthening country policies and enforcement rather than establishing project enclaves.

- In low-income countries, priorities include: (1) adapting project complexity to domestic capacities and enhancing aid coordination; (2) supporting governments in the development of strategic frameworks for country and donor programs, and encouraging selectivity among donors; (3) adopting comprehensive, long-term strategies to improve governance, public sector management, and the enabling environment for private investment.

- To make lending and nonlending services in middle-income countries more selective and catalytic, the Bank should apply more stringent selection criteria so projects have “spin-off” effects on government programs and policies and on the institutional framework. The Bank should consider streamlining its presence in middle-income countries with weak performance, limited commitment to poverty reduction, or low demand for Bank services, and reserving a capacity to intervene to mitigate the effects of volatility in international capital markets.

Balancing the Bank's Pro-Poor Operational Emphasis with Country Performance Constraints

Bank lending is more effective in countries with better policies, governance, and commitment to poverty reduction, but many poor people live in countries that do not have these attributes.

- The rationale for performance-based lending should be made transparent to borrowers and partners. Discussion of CPIA ratings with client governments in FY01 is an important step. But greater transparency would encourage more rigor in performance measurement and stimulate debate regarding reform within member countries. Public disclosure could increase the costs of the exercise, however, and require changes in indicators to improve their credibility and acceptance.

- The Bank needs to clarify and strengthen its approach to poor-performing countries. A selective, targeted program of policy dialogue, nonlending services, grants, and learning and innovation lending can help lay the groundwork for improved performance. Targeted analysis and advice—and dissemination of good practice lessons in concert with other partners—deserve more emphasis.

- Adjustment lending can support “turnaround” countries, but should follow concrete actions toward reform. Expanding the Bank’s adjustment portfolio would be more effective in countries with moderate to good policy performance to support reforms on which there is mature consensus. Conditionality should be streamlined to reflect absorptive capacity constraints.

Achieving Selectivity Through Partnerships

Being selective means identifying the Bank’s comparative advantage and “letting go” of activities that other agencies can handle.
• Networks need to clarify the Bank's and partners' core competencies and comparative advantages and establish businesslike alliances so that the Bank can relinquish activities and enhance the impact of its work. Trust fund activities and global collaborative programs should be closely aligned with corporate priorities.
• Administrative budget processes should be transparent and ensure consistency between the costs of approved CASs and Regional budgets. Similarly, approved SSPs should be fully funded and give greater attention to the programmatic, business, and partnership implications of strategy implementation.
• The Bank should continue working with international partners to harmonize procedures and make internal processes and requirements more compatible with those of client countries.

Corporate Management Implications

The findings in this review have overarching implications for corporate management as the Bank seeks to reposition its strategic directions to adjust to a complex and rapidly changing environment:

Bank strategies, programs, and budgeting processes should become strongly linked to the achievement of results.

• Bank strategies, programs, and budgeting processes should become strongly linked to the achievement of results consistent with the Bank's mission and comparative advantage. Priorities include: budget reform to align corporate strategies with resource allocations; full costing of approved country assistance strategies, sector strategies, and global partnerships; modernizing Bank instruments to shift staff incentives from a focus on inputs and processes toward results and performance.
• While knowledge, connectivity, and dissemination are important, maintaining the Bank's knowledge base is even more critical. Hence, the Bank should strike an appropriate balance between knowledge management and knowledge creation—at both the country and global levels—and establish quality monitoring and tracking processes, similar to those developed for projects, to strengthen the quality and coherence of all Bank knowledge activities.
• Achieving selectivity will require the Bank to seriously and continuously assess its comparative advantage—relative to international and client country partners—to improve the development effectiveness of partnerships through businesslike processes and to "let go" of activities which other development actors can carry out.
OED evaluators rated the relevance of Bank strategy and the development effectiveness of its program for a dozen major issues and sectors, based on 15 recently completed country assistance evaluations. Because the sample is small and the rating methodology not yet mature, the results are only indicative. Moreover, CAEs typically cover 5–10 year periods, so the ratings may not fully capture recent improvements in performance. But they display revealing patterns and supplement Chapter 3 findings (figure A.1).

For every category, the relevance of the Bank's strategy was rated higher than the programs' development effectiveness. For macroeconomic stability, development effectiveness averaged only slightly below fully satisfactory, and only slightly lower than strategy ratings. Effectiveness ratings for promoting growth, financial sector development, infrastructure, and human development averaged partially satisfactory, while poverty reduction, private sector development, environmental sustainability, rural development, and public sector management were rated less than partially satisfactory, on average. For objectives that constitute the core social and structural agenda in client countries, the gap between the relevance ratings and outcome rating was significantly larger than for macroeconomic stabilization.

Why are relevance ratings the highest for macroeconomic stabilization, promoting growth, and financial sectors? First, stabilization, growth, and financial sectors are areas in which the Bank typically works in close partnership with the IMF. This symbiosis may help strengthen the Bank's impact. Second, the Bank's partners in the client country macroeconomic dialogue are usually a small team of highly trained individuals who share a common language and understanding with Bank staff. Third, the quality and consistency of the Bank's analytic and advisory work varies among sectors. Recent reviews by OED and Bank management of economic and sector work (ESW) have found that the quality and timeliness of macroeconomic ESW was generally good, but quality and coverage of analytic work for poverty assessments and sectoral analysis varies widely across countries and sectors. As noted in Chapter 3, recent OED sector and thematic studies have also raised concerns about the quality and coverage of ESW. Although the low rating for poverty is disappointing, the OED poverty study noted an improvement in the quality of recent poverty assessments, and in the coverage of poverty issues in CASs (Evans 2000). The Bank is also piloting social and structural reviews, which may help strengthen the relevance of Bank strategies in these areas.

What explains the significant gap between relevance and development effectiveness across categories and the disappointing outcome ratings for poverty and other social and structural objectives? First, while stabilization can be achieved by a limited number of actors, growth and structural reform require a broader number of players confronting difficult and contentious institutional issues. Second, macroeconomic stability is necessary but not sufficient to achieve sustained growth, poverty reduction, and aid effectiveness. Achieving sustained economic growth depends on private sector development, improved infrastructure, rural and urban development, financial sector reform, and the like. Similarly, translating growth into poverty reduction requires action on additional fronts—including access to social services, empowerment, and security (World Bank 2000a).

Two critical areas—private sector development and public sector management—received low
ratings, on average, for development outcomes. A number of CAEs—from low-income countries in particular—expressed concern regarding the lack of a coherent strategy for private sector development and public sector management (including governance and corruption issues). But the “outcome gap” also may reflect the political and institutional difficulties inherent in privatization and public sector reform, as well as inadequate attention to implementation and institutional issues in the Bank’s approach. Improved project outcome ratings for public sector management are encouraging (see Chapter 2), but the CAE findings warn against complacency in terms of achieving sustained improvements in public and private sector performance.
This annex summarizes eight sector and thematic strategies recently evaluated by OED. Prior to 1996, sector and thematic strategies were articulated in the form of Policy Papers, which provided a broad framework for Bank activities and policy advice, but gave limited attention to implementation issues. Sector Strategy Papers (SSPs) were launched in 1996, in part to give a more transparent accountability framework for Bank network activities. Of the strategies below, only the rural "Vision to Action" strategy was a formal SSP.

- **Environment.** There is no comprehensive strategy that describes the Bank's environmental objectives. Instead, a set of policies, guidelines, and practices have emerged since the late 1980s to integrate environmental concerns into Bank work. The Bank's ESSD Network is currently developing an environmental strategy.

- **Forestry.** In 1991, the World Bank published *The Forest Sector: A World Bank Policy Paper*, following an extensive consultation process with nongovernmental organizations. The policy called for a ban on World Bank financing for forest production and advocated a multisectoral approach to conserve tropical moist forests and expand forest cover. Parts of the strategy became the basis for Operational Policy 4.36 and Good Practice 4.36, which were issued in 1993.


- **Participation.** In the early 1990s, the Bank established a Participatory Development Learning Group that engaged in a four-year process of consultation and learning, which resulted in the publication of the final report, including a Participation Action Plan endorsed by the Board in 1994. The Bank has not issued formal Operational Policies or Good Practice guidelines for participation.


- **Rural Development.** The 1997 "Rural Vision to Action" Sector Strategy Paper is organized around four goals and five strategic principles. The goals of the strategy are to promote poverty alleviation, widely shared growth, food security, and sustainable natural resource management. The five strategic principles proposed to achieve these goals are a coherent policy framework, private sector development, restructuring government, participation, and decentralization.

- **Telecommunications.** The Bank's policy is embodied in OP 4.50 (1995). It advocates private provision of telecommunications services, competition and independent regulation. It makes lending to state enterprises contingent on sector reform and encourages increased coopera-
tion among the Bank, IFC, and MIGA. No similar policy statement or operational strategy exists for the information technology or information infrastructure sector. A World Bank Group SSP for the information and communication technology sector is scheduled to be issued in FY2001.

- Water: The Bank’s water strategy is articulated in “Water Resources Management: A World Bank Policy Paper,” issued in 1993, which accompanied the water resources management policy statement (Operational Policy 4.7). The strategy calls for a comprehensive, multisectoral approach to water resources that integrates water provision, sanitation, and irrigation. The strategy also emphasizes the importance of charging economic rates for water. A Sector Strategy Paper is under preparation for FY02.
### Table C.1 Outcome, Sustainability, Institutional Development (ID) Impact, and Aggregate by Sector, Network, Lending Type/Source, Region, and WDI Income Group for Exit Fiscal Year Groups 1990-94, 1995-98, 1999-00 (by projects)

<table>
<thead>
<tr>
<th>Exit FY90-94</th>
<th>Exit FY95-98</th>
<th>Exit FY99-00*</th>
<th>Active Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector Group</strong></td>
<td><strong>Sector Group</strong></td>
<td><strong>Sector Group</strong></td>
<td><strong>Sector Group</strong></td>
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<tr>
<td>Agriculture</td>
<td>Education</td>
<td>Electric Power &amp; Other Energy</td>
<td>Environment</td>
</tr>
<tr>
<td>Extractive Industries</td>
<td>Finance</td>
<td>Industry</td>
<td>Multisector</td>
</tr>
<tr>
<td>Health, Nutrition and Population</td>
<td>Public Sector Management</td>
<td>Social Sector</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Transportation</td>
<td>Urban Development</td>
<td>Water Supply &amp; Sanitation</td>
<td>Network</td>
</tr>
<tr>
<td></td>
<td>Lending Source</td>
<td>Lending Type</td>
<td>Region</td>
</tr>
<tr>
<td>WDI 1999 Income Group</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Lower</td>
<td>Lower</td>
<td>Lower</td>
<td>Lower</td>
</tr>
<tr>
<td>Lower middle</td>
<td>Lower middle</td>
<td>Lower middle</td>
<td>Lower middle</td>
</tr>
<tr>
<td>Upper middle</td>
<td>Upper middle</td>
<td>Upper middle</td>
<td>Upper middle</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

**Note:** Percentages exclude projects not rated. Sectors represent Bank groupings as of the end of FY00, with the exception of the oil & gas and mining sectors which were combined into the extrative industries sector.

*The data for FY00 exits represents a partial sample (120 out of 268) and reflects the processing of all IDRs received through August 2002. The processing of the remaining of the FY00 sample is ongoing, expected to be completed by spring 2001. Active Portfolio data reflects projects active as of July 1, 2000 and it is taken from Annual Report on Portfolio Performance (ARPP) for the FY00 done by the Quality Assurance Group (QAG).
<table>
<thead>
<tr>
<th>Sector Group</th>
<th>Exit FY90-94</th>
<th>Exit FY95-98</th>
<th>Exit FY99-00*</th>
<th>Active Portfolio</th>
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<tbody>
<tr>
<td>Agriculture</td>
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<td>27</td>
<td>0,11</td>
<td>44,814</td>
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<tr>
<td>Education</td>
<td>3,633</td>
<td>5,558</td>
<td>2,758</td>
<td>11,232</td>
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<tr>
<td>Electric Power &amp; Other Energy</td>
<td>13,144</td>
<td>14,442</td>
<td>13,696</td>
<td>19,150</td>
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<tr>
<td>Environment</td>
<td>3,341</td>
<td>5,761</td>
<td>5,756</td>
<td>11,516</td>
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<tr>
<td>Extractive Industries</td>
<td>8,446</td>
<td>6,961</td>
<td>8,468</td>
<td>26,566</td>
</tr>
<tr>
<td>Finance</td>
<td>8,061</td>
<td>7,625</td>
<td>6,616</td>
<td>17,526</td>
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<tr>
<td>Industry</td>
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<td>18,132</td>
<td>13,696</td>
<td>19,947</td>
</tr>
<tr>
<td>Multisector</td>
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<td>2,602</td>
<td>2,083</td>
<td>24,454</td>
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<tr>
<td>Health, Nutrition and Population</td>
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<td>1,074</td>
<td>20,388</td>
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<tr>
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<tr>
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<tr>
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<tr>
<td>Water Supply &amp; Sanitation</td>
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<td>2,813</td>
<td>2,493</td>
<td>5,976</td>
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<tr>
<td>Network</td>
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<td>27,126</td>
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<td>30,453</td>
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<tr>
<td>Sustainable Development</td>
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<td>56,965</td>
<td>55,325</td>
<td>75,525</td>
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<td>12,151</td>
<td>9,012</td>
<td>17,158</td>
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<td>Human Development</td>
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</tr>
<tr>
<td>Lending type</td>
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<td>53,750</td>
<td>7,150</td>
<td>75,525</td>
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<tr>
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<td>53,750</td>
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<td>Region</td>
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<td>13,765</td>
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<td>Africa</td>
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<td>18,356</td>
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<td>Europe and Central Asia</td>
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<td>Latin America and Caribbean</td>
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<td>18,356</td>
<td>13,765</td>
<td>19,947</td>
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<tr>
<td>Middle East and North Africa</td>
<td>6,521</td>
<td>6,132</td>
<td>943</td>
<td>13,765</td>
</tr>
<tr>
<td>South Asia</td>
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<td>13,132</td>
<td>3,124</td>
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</tr>
<tr>
<td>WDI 1999 Income Group</td>
<td>30,508</td>
<td>26,566</td>
<td>2,463</td>
<td>11,516</td>
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</tbody>
</table>

Note: Percentages exclude projects not rated. Sectors represent Bank groupings as of the end of FY90, with the exception of the oil & gas and mining sectors which were combined into the extractive industries sector.

* The data for FY90 exits represents a partial sample (120 out of 268) and reflects the processing of all IBRD received through August 2000. The processing of the remainder of the FY90 sample is ongoing, expected to be completed by spring 2001. Active Portfolio data reflects projects active as of July 1, 2000 and is taken from Aerial Report on Portfolio Performance (APP) for the FY90 done by the Quality Assurance Group (QAG).
The Committee is pleased to report on its deliberations on January 29, 2001, on the Annual Review of Development Effectiveness: From Strategy to Results prepared by the Operations Evaluation Department (OED). This year’s Annual Review of Development Effectiveness (ARDE) assessed the development effectiveness of the implementation of the Bank’s operational strategies in three areas: projects (based on assessments of 269 completed projects); country assistance programs (based on CAEs of 36 borrowing countries); and sector and thematic activities (through a review of 12 sector and thematic areas).

The report brings welcome news. It confirms that significant progress has been made in the quality of the Bank’s portfolio in key aspects and in almost all regions and networks. The active AFR portfolio has improved significantly. The risk of the portfolio has been cut in half. The portfolio performance has exceeded the Strategic Compact target of 75 percent satisfactory outcomes. Sustainability and institutional development ratings are up. Management has made progress in addressing implementation issues related to matrix management. Decentralization appears to be benefiting Bank-client relations.

Management and Staff are to be commended for these achievements and for the overall continued trend in improvements in the quality of the Bank’s portfolio. These gains are all the more impressive having been achieved under increasingly complex external circumstances and within tighter budget constraints.

The Committee was in broad agreement with the conclusions and recommendations of the report—including the four areas of tension mentioned in the ARDE that the Bank needs to address in order to increase its effectiveness—balancing performance and poverty in resource allocation, reconciling client ownership and corporate goals, adapting global knowledge to local conditions, and selectivity through partnerships. The Committee also supported the recommendations made by OED that the Bank: use its instruments more strategically to generate consensus at the global and country levels and to build client ownership and effective partnerships; maintain its flexibility in adapting policies and strategies to diverse country institutional, social, and political environments; strengthen the link between programmatic lending instruments and country strategies; and tailor its approaches to poor and to middle income countries, while broadening its quality measures to track the poverty orientation of the Bank’s portfolio.

As the ARDE points out—the gains are still fragile. The Bank must continue to improve the development effectiveness of its activities in an increasingly complex, risky, and demanding environment. The tradeoffs will not be easy for Management or for staff. CODE will refer to the evaluation reports throughout the year to ensure that these outstanding issues continue to be addressed. Despite the overall improvements in quality ratings, a number of areas remain problematic. I would like to highlight five issues that emerged out of our Committee discussion that we can build on in today’s discussion.

**Adjustment/Programmatic Lending**

The Committee welcomed the improvements in adjustment lending, noting that the quality ratings for adjustment operations have increased in recent years to quite high levels. The Committee recognized the methodological difficulties in assessing the impact of adjustment lending and noted the need to improve instruments and methods of evaluation so as to enhance the
poverty focus in the evaluation of both adjustment and investment lending. Some Directors called for a closer look at the underlying drivers of adjustment lending, including how lending volumes are determined and the links between lending volumes and past and ongoing country dialogue. The Committee looks forward to discussing the Adjustment Lending Retrospective being prepared by Management and to hearing from OED on improvements in assessment methods for programmatic lending.

Quality Trends and Prospects
The Committee expressed several viewpoints in regard to the budget constraints and the ability of the Bank to sustain the broad recovery in portfolio quality while maintaining and expanding its knowledge base. Some members felt that the rigidity of the budget had a negative impact on the Bank's work (for example, the decline in the quality of ESW and increase in staff stress) and they suggested revisiting budget issues. Other members believed that quality gains and the knowledge base could be maintained and improved through the more efficient utilization of current resources and through applying greater selectivity. While endorsing 100 percent quality targets for appraisal and supervision, the Committee noted that 100 percent success rate for project outcomes could not be realistically expected. It was in broad agreement with the recommendation to create headroom for calculated risk-taking and innovation. The Committee noted the reputational risks associated with setting targets at too low a level and also urged a cautious approach to setting different targets for different regions.

Realigning Resources to Strategic Priorities and to Quality Improvements
The Committee agreed with OED that strategic selectivity and how to realign resources to strategic priorities would be the key challenges in moving forward. The Committee was concerned about the significant shifts in the portfolio away from the AFR and SAR regions and from agriculture/rural development, infrastructure, and education sectors. The Committee was especially concerned that, despite the improvements in the Africa region portfolio, the region still lagged behind other regions, and asked that a serious effort be made to bring the size of the portfolio back up to the pre-cancellation restructuring level. The Committee could not judge whether the sectoral shirts were intended, the result of the differential costs of doing business or of other donors stepping into these sectors. The Committee noted that the two Regions and three sectors were critical to the Bank's realizing its mission of poverty alleviation and that these downward trends could raise questions about the effectiveness of the Bank's Poverty Reduction Strategy. In this respect the Committee also noted that it would be critical to reverse the trend of decreasing resources devoted to ESW. The Committee noted the persistent lack of progress in developing an instrument to gauge Bank performance in assisting client countries in reducing poverty and asked Management for renewed efforts in this area, including progress on the Corporate Scorecard.

Finally, the Committee noted the progress that had been made with regard to rebalancing the matrix towards the networks but noted that much more still remains to be done to achieve a balance among corporate priorities, sector strategies, and country programming. The Committee highlighted the key role that the Country Director could play in assisting the Bank and countries in aligning sector priorities with country priorities and asked Management how it planned to further improve the matrix. The Committee also asked Management how it planned to operationalize the results of the report to improve performance in the poorer performing regions and sectors, as well as with regard to the matrix and to continued weaknesses in areas such as sustainability and institutional development ratings.

Country Performance
The Committee supported the emphasis placed on helping the poor performers but underlined that it would be important to differentiate between poor performance as a result of weak capacity versus a lack of commitment and poor policy environment. The Committee also underlined the importance of the quality of dialogue and capacity building in these countries, and the importance of country ownership and the quality of Bank-country dialogue for reconciling country and corporate
priorities but cautioned that country ownership and harmonization should not result in sub-optimum standards. The Committee supported the wider use of stakeholder analysis to conduct broader-based dialogue within countries in order to build consensus, especially for difficult reforms.

**Partnerships**

The Committee emphasized that partnerships should decrease and not increase the Bank’s cost of doing business and that the Bank had yet to reap the benefits of partnerships. The Committee noted that sector strategies and networks had a key role to play in helping the Bank be more selective in partnerships and in developing more businesslike approaches.

Accountability for results remains a challenge. Our discussions of the Strategic Framework paper and our deliberations most recently at the Strategic Forum demonstrate that Management is committed to making the Bank more selective in both its country and global work; in setting corporate priorities and aligning its resources with those priorities. The Strategic Framework provides the principles to guide the Banks towards greater selectivity and prioritization. The Committee urges Management to address the severe pressures faced by staff, without whom the gains in quality are unsustainable. CODE will continue to promote the adoption of lessons learned and best practice through evaluation and looks forward to working with Management to further improve the development effectiveness of the Bank Group policies, programs, instruments, and corporate processes.

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*Pieter Stok, Chairman*
**Chapter 1**

1. In the past three years, OED has completed studies of energy and the environment (Mason 1998), finance (Mathieu 1998), forestry (Lele 2000), health (Johnston and Stout 1999), participation, poverty reduction (Evans 2000), resettlement (OED 1998g), rural development (Heath 2000), telecommunications, and water (Pitman forthcoming). Mid-term reports have been issued for gender (Gopal 2000) and environment (Liebenthal 2000). Studies are under way for cultural heritage, social funds, and private sector development in energy. ARDE 2000 also draws on OED working papers in rural water supply (Parker and Skytta 2000) and an impact evaluation of agricultural extension in Kenya (Gautam 2000).

**Chapter 2**

1. **Demandingness** refers to the extent to which the project is expected to strain the economic, institutional, and human resources of the government/implementing agency. **Complexity** refers to factors such as the range of policy and institutional improvements contemplated, the number of institutions involved, the number of project components and their geographic dispersion, and the number of cofinancers. **Riskiness** refers to the likelihood that the project, as designed, might fail to meet relevant objectives efficiently. In determining project riskiness, evaluators consider the extent to which the project could reasonably have been expected—at the time of preparation and appraisal—to face known risk factors, such as lack of borrower commitment, inadequate counterpart funding, and war or civil disorder.

2. The figures in the chapter show portfolio performance by project rather than by disbursement unless otherwise noted. FY00 data represent a partial sample (120 out of 269) and reflect the processing of all ICRs received through August 2000.

3. For information regarding APPI methodology, please refer to Annex 1, 1998 ARDE (Buckley 1999).

4. In Kenya OED outcomes for FY96-00 exits were 19 percent satisfactory, for Senegal 69 percent, and for Uganda 58 percent. QAG data reports 64 percent for Kenya, 100 percent for Senegal, and 92 percent for Uganda of projects not at risk in the active portfolio.

5. There are two dominant adjustment lending instruments—structural and sectoral adjustment loans. While initially quite distinct, the two have become increasingly alike given the need for specificity in economywide interventions and the recognized synergies across sectors. There is surprisingly little difference in either the number or subject area of loan conditions between SALs and SECALs. The two other types of adjustment lending—debt reduction loans and rehabilitation import loans—make up less than 10 percent of disbursements of FY95–00 adjustment exits.

6. Bank and borrower performance are measured at key stages in the project cycle. The exogenous environment includes measures of both the macroeconomic policy outcomes (such as inflation, fiscal balance, debt servicing, and trade openness) and the quality of the country's institutional framework. See Battaille and Mini (forthcoming) for a more detailed discussion of the model, estimation method, and results.

7. Growth is measured by real GDP per capita, when available for at least one-third of the project’s implementation period. Institutional quality is measured by the average score on the public sector management and institutions section of the 1998–00 Country Policy and Institutional Assessment exercise. The data for 1998–00 are used to proxy for the broader implementation period of recently exiting projects, given that institutional change occurs slowly over time.

8. The adjustment operation model was developed in last year’s ARDE, and the findings showed similar results after controlling for political economy considerations.

**Chapter 3**

1. In the past 4 years, OED has completed 38 CAEs, covering a wide range of Bank client countries. Various criteria were used to select CAE countries (the Bank’s CAS schedule, development learning potential, regional balance, and the like). The CAEs therefore do not represent a random sample. Hence, country outcome ratings cannot be used to assess the evolution of Bank performance.

2. CAEs for Cameroon and Tanzania gave separate ratings for different periods covered by the evaluation. Performance of the Cameroon country program improved following devaluation of the CFA franc in 1994, although corruption remains endemic. Bank projects and programs performed poorly in Tanzania until the government began implementing macroeconomic and sector reform in the mid-1990s.
3. The Costa Rica CAE concluded that the Bank’s 1993 Country Assistance Strategy was based on a correct diagnosis and included relevant objectives. The outcome, however, was unsatisfactory because the strategy included poorly designed structural adjustment lending instruments, overlooked lessons of experience, and ignored political conditions determining ownership of the program. The Bank made some limited but useful contributions through nonlending services. Recently, the strategy has regained relevance, and dialogue has improved.

4. For this Review, OED applied a standard questionnaire to the 15 Country Assistance Evaluations listed in table 3.1. Based on the CAEs, country strategies and programs were rated according to the quality of diagnosis, the relevance of the country program, the effectiveness of program implementation (including for lending and nonlending services), as well as Bank, borrower, and exogenous factors influencing program outcomes. To improve consistency, the questionnaires were completed by an experienced evaluator and the ratings cross-checked with the CAE task managers.

5. For example, macroeconomic issues usually are well covered in CASs, but only 20 percent of those sampled—from the mid- to late-1990s—explicitly addressed equity issues or microeconomic constraints to poverty reduction (Evans 2000). More recent CASs show signs of improvement.

6. The CAE for Burkina Faso concluded that progress in governance has been mixed, reflecting “the absence of a unifying vision of the improvements required to realize good governance in a restructured economy.”

7. In Kazakhstan, “the IBRD (along with other donors) was overly optimistic in its expectation that the transition from a planned to a market economy in the former Soviet Union countries could be shed in a short time and at low social costs.” (OED 2000c)

8. The OED poverty study’s CAS review found that more than 90 percent of CASs recommend a strategy of macrostability, liberalization, and trade and tariff reform to support broad-based growth. “The linkages or transmission mechanisms between this policy agenda and expected changes in the conditions facing the poor are 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. In reality, the non-poor are likely to benefit earlier from growth than the poor. A mix of policies must be identified 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” (Evans 2000).

9. According to data from the Development Assistance Committee (DAC), during 1994–98 an average of 12 donor agencies were active in the agriculture, education, and health sectors in low-income countries, with a dozen low-income countries having more than 20 donors in education and agriculture. During the same period the Bank provided support to education, health, and agriculture for two-thirds of all low-income countries.

10. Lending instruments include investment, adjustment, and new instruments, including Learning and Innovation Loans, Adaptable Program Loans (APLs), and Emergency Recovery Loans. Nonlending services include economic and sector work, advisory services, donor coordination, and consultative activities.

11. The Country Policy and Institutional Assessment (CPIA) rating system currently consists of 20 criteria grouped into four categories: economic management, structural policies, policies for social inclusion, and public sector management. The CPIA reflects policies and institutional arrangements that are subject to government control—as opposed to such performance outcome indicators as GDP growth or poverty reduction. The ratings are updated annually.

12. The Burkina Faso CAE found that in the early 1990s relatively open public discussion of proposed policy reforms resulted in somewhat higher acceptance of structural adjustment than in other African countries undertaking reform.

13. The Tanzania CAE notes that the Bank’s strategy for agriculture, and for private sector development in general, “appears to be based on the assumption that once prices were liberalized and parastatals dismantled, the private sector would step in and automatically fill the vacuum. This has not occurred.” The CAE further notes that parallel reviews by OED in other countries are arriving at similar conclusions, and the Bank needs to grapple with this problem.

14. CASs are now required to be costed, but this budget information is not included in the CAS document that is presented to the Bank’s Board.
Chapter 4

1. These same patterns do not necessarily apply when examining projects at risk in the ongoing portfolio. For example, only 15 percent of HNP projects in low-income countries are at risk, compared with the Bankwide average of 17 percent. And for water supply and sanitation, projects at risk are close to Bank averages for low- and lower-middle-income countries, but slightly above average for upper-middle-income countries (18 percent at risk compared with 13 percent Bankwide).

2. OED is currently conducting an evaluation of social funds, which will be completed later in 2001.

3. The forestry study concluded that “strengthening the Bank’s analytic base on forests requires much more explicit integration of forest sector issues into the Bank’s ESW and more resources need to be devoted to analytically sound forest sector work” (Lele 2000).

4. Although the Bank’s Quality Assurance Group (QAG) has begun rating the quality of economic and sector work, conclusions at the sectoral and country levels are limited by sample size constraints. Other knowledge management activities have largely eluded systematic and objective evaluations, despite their rapid expansion.

5. Prior to the introduction of Sector Strategy Papers (SSPs) in 1996, policy papers articulated broad strategies for sectors and themes, but were not expected to address implementation issues. Today, SSPs provide strategic guidance to staff and management, while Operational Policies (OPs) provide formal guidance to staff regarding official Bank policies. In the text, “strategy paper” refers both to SSPs and the earlier policy papers.

6. The questions were based on the current one-page outline for Sector Strategy Papers, and were grouped under three broad headings: relevance, implementation, and outcome. The strategies were assessed against current SSP standards, although only the 1997 rural strategy was an SSP. The criteria for relevance included the soundness of the analytic or conceptual framework, the adequacy and clarity of operational policies, guidance on selectivity, adaptability of the strategy to differing country settings, attention to cross-sectoral issues, and degree of participation in strategy development. Criteria for rating implementation included the existence and quality of an implementation plan, the degree of mainstreaming of the strategy within the Bank, and progress in incorporating the strategy into country strategies and programs. Task managers completed the questionnaire for the following studies: environment, forestry, gender, participation, poverty, rural development, telecommunications, and water. The Bank’s 1997 health SSP was not assessed because it was prepared concurrently with the OED health study.

7. The current SSP guidelines call for an explicit discussion of the business implications of the strategy.

8. For example, in 1997 the Poverty Sector Board issued a note that called for a shift away from describing poverty and counting the number of poverty-focus programs in Country Assistance Strategies and poverty assessments, toward formulating explicit strategies for poverty reduction and assessing the impact on the poor.

9. These gaps took several forms. Some OPs are too brief—only one page in the case of gender, telecommunications, and water—and discuss only general principles, with no accompanying good practice guidelines. For gender, this generality has meant that staff were unclear whether and how to take action (Gopal 2000). In telecommunications, it meant that Bank operations and policy advice lacked consistency and strategic coherence.

10. SSP are expected to ground the strategy the Bank’s corporate priorities, current development knowledge, and Bank experience; actively involve Regional departments and other relevant stakeholders; develop an explicit plan for implementation (including implications for resources and staffing); and establish indicators to monitor strategy implementation and results.
This report has drawn on a wide range of World Bank documents and outside sources. World Bank sources include OED's major studies, Country Assistance Evaluations, project audits, and ongoing research.


———. 2000k. *World Bank Assistance to CFA Countries: An Evaluation of Selected Social,
Economic and Regional Aspects of the Bank's Performance. Washington D.C.


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