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The World Bank's Contributions to Poverty Reduction

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Foreword

The central mandate and corporate mission of the World Bank is to fight poverty. Toward this end, the Bank provides finance, knowledge, and advice to borrowing member countries, while attempting to tailor the particular mix of these instruments to the challenges facing each country. The Bank has evolved a multidimensional approach to poverty reduction that goes beyond income to include human development, security, voice, and participation.

The 2004 ARDE looks at the growth and poverty reduction experience of client countries and assesses the contributions that Bank interventions have made, taking as its framework the Bank's 2001 poverty reduction strategy. The ARDE examines how well the elements of the strategy respond to the needs of the poor, how effectively the Bank is implementing the strategy, and the extent to which its efforts are having an impact. Like previous ARDEs, it draws primarily upon OED's evaluation findings regarding Bank projects, country programs, global programs, and sectoral and corporate initiatives.

Worldwide, the number of people living on less than US$1 a day has declined since the 1980s. But there have been stark differences in outcomes among regions. Extreme poverty has declined dramatically in East Asia, especially in China. Outside of China, the proportion of people living on less than US$1 a day declined from 32 to 23 percent between 1980 and 2001, but the absolute number rose from 850 to 880 million people. Growth is the critical driver of poverty reduction. Regrettably, only about one-third of developing and transition countries have grown at more than 2 percent per capita for the past decade.

The Bank's Strategy and Business Models

The Bank's 2001 poverty reduction strategy appropriately highlights both the growth and social aspects of poverty reduction. The strategy's two pillars provide a workable operational framework for identifying and categorizing the Bank's interventions, but the two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction, which can have important effects on poverty outcomes, and has, in practice, paid insufficient attention to issues of growth. Without growth, no sustainable poverty reduction is likely.

The Bank has tried to align its country business models with the goal of poverty reduction, but these models have not yet realized their full potential. The Poverty Reduction Strategy Initiative, for instance, which is designed to support the low-income countries, embraces a multidimensional view of poverty reduction. But most of the national strategies produced so far have not considered the full range of policy actions needed for poverty reduction. With improvement, the Poverty Reduction Strategy Initiative has the potential to allow more effective Bank support for poverty reduction.

At the two ends of the development spectrum—in the low-income countries under stress (LICUS) and middle-income countries—the Bank's business models need further work. How best to support LICUS countries remains a formidable challenge. Many middle-income countries—even though they have pockets of poverty and many "near-poor" citizens—have development goals that do not center on poverty reduction. The Bank should further elaborate its business models to make them more fully consistent with poverty reduction in varying country settings.

In participating in global programs, the Bank needs to focus on global policy issues that hinder poverty-reducing growth in its client countries. It should strengthen the links between county operations and global programs to ensure that global programs add value to poverty reduction at the country level.

Bank Interventions in Support of the Poverty Reduction Strategy

Many of the Bank's country assistance strategies focus on the right issues for poverty reduction, but the links between specific interventions and poverty outcomes are not well articulated or measurable. This incomplete articulation of how country-level assistance helps countries meet specific poverty objectives hampers an assessment of the impact of the Bank's assistance supporting poverty reduction. Weak country capacity for monitoring results on reducing poverty adds to the challenge in selecting activities with the highest poverty payoff.

Recognizing the importance of good governance in fostering growth and investment, as well as improved service delivery, the Bank has developed a variety of tools to put governance issues into the spotlight at both the global and country levels. But it is difficult to attribute changes in governance to the Bank's interventions. This makes it essential for the Bank to establish what it hopes to achieve from its interventions in this area, and to begin to assess the impact of its work so far.

As a key element of its poverty reduction strategy, the Bank supports a range of reforms to improve the legal and regulatory environment for private investment and job creation. These reforms are organized under the overlapping agendas—with their own organizational arrangements—of private sector development and public sector reform. The Bank could do more to harness the synergies between these two closely related areas.

The Bank has encouraged its client countries to increase their levels of social expenditures as a key poverty-reduction measure. But increasing the levels of expenditures has not always ensured that services will reach the poor or will be responsive to their needs. Outcomes have been better when interventions have been linked to institutional reforms and support for capacity development, and when anchored in high-quality analytic work.

The Bank has promoted empowerment of the poor by supporting social development activities. The Bank has been more successful where it has supported home-grown initiatives, and less successful where it has tried to start new initiatives. The sustainability of such approaches remains weak. Project objectives need to be more realistic about the potential to affect the social relationships that underpin poverty.

Implications

The ARDE demonstrates that in the fight against poverty, the Bank already has, as key assets, a well-founded strategy and a range of instruments that are targeted toward the strategy's main elements. To fully realize the potential of these assets, the Bank should focus more sharply on demonstrating the results of its interventions, so as to ensure that all dimensions of its work—at the global, country, and project levels—are directed at specific, well-defined, and monitorable poverty reduction goals.

A Chhibber

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Acting Director-General, Operations Evaluation

Executive Summary

The central mandate and corporate mission of the World Bank is to fight poverty. Toward this end, the Bank provides finance, knowledge, and advice to borrowing member countries, while attempting to tailor the particular mix of these instruments to the challenges facing each country. The Bank also helps to address global and regional issues, such as environmental threats and communicable diseases, but its primary focus remains at the country level—helping people to lift themselves out of poverty.

The Bank's understanding of poverty has broadened from a narrow focus on income poverty in the 1980s to the multidimensional concept used today, which also includes human development, security, voice, and participation.

This year's *Annual Review of Development Effectiveness* (ARDE): *The World Bank's Contributions to Poverty Reduction*, looks at the growth and poverty reduction experience of client countries. It assesses the extent to which Bank interventions have contributed to growth and poverty reduction and the effectiveness of different types of interventions. The review uses the key elements of the Bank's 2001 poverty reduction strategy to examine the extent to which these elements respond to the needs of the poor, are actually being carried out, and are having an impact. Like previous ARDEs, this review draws primarily on OED's recent evaluation studies, synthesizing and highlighting the findings of these studies around a common theme—in this case, poverty reduction.

The Bank's 2001 poverty reduction strategy appropriately highlights both the growth and social aspects of poverty reduction

The Bank's 2001 poverty strategy built on the three themes of the *2000/2001 World Development Report: Attacking Poverty*—promoting opportunity, facilitating empowerment, and enhancing security. The strategy comprises two pillars:

1. Building the climate for investment, jobs, and sustainable growth
2. Empowering poor people to participate in development and investing in them.

Like the 1991 strategy, the current (2001) strategy regards sustainable and equitable growth as vital to generating both jobs and resources for public services, and views private sector investment as the primary engine of poverty-reducing growth. In addition, the current strategy broad-

Main Messages

- **The Bank's 2001 poverty reduction strategy appropriately highlights both the growth and social aspects of poverty reduction.**
- **The two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction.**
- **The Bank faces challenges in effectively customizing its poverty reduction strategy to individual countries.**
- **Bank country business models and global programs are not yet fully aligned with poverty reduction.**
- **Linking the Bank's country-level interventions to poverty reduction will require a sharper results focus.**
- **There is an urgent need to assess the impact of the Bank's work on governance.**
- **The Bank could do more to harness the synergies between private sector development and public sector reform.**
- **The Bank needs to demonstrate the poverty impact of its interventions on behalf of empowerment and human development.**
- **The Bank's monitoring and evaluation framework is not sufficiently poverty focused.**

ens the view of poverty to include not just income but also human development, security, voice, and participation. It advocates an increased focus on public sector governance and institutional reforms that support a positive climate for private sector investment, and that empower and foster the participation of the poor in the conduct of public institutions and in the delivery of public services.

Since 2001, the Bank has changed some of its business processes to help implement the strategy. It has explicitly aligned the Bank Group's efforts with the Millennium Development Goals, developed a results-oriented corporate culture, and promoted country-owned development strategies in low-income countries through the Poverty Reduction Strategy Paper (PRSP) approach. The Bank has also sought to improve its instrument mix and to tailor development approaches to different country circumstances by relying on knowledge products and analytical services.

The two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction

The two pillars of the Bank's 2001 poverty reduction strategy have generally provided a workable operational framework for identifying and categorizing the Bank's actual and potential country-level interventions. But the two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction that can have important effects on poverty outcomes. The strategy may be inadvertently downplaying the role of certain sectors—such as infrastructure, rural and urban development, and environment—whose activities cut across and complement economic growth, empowerment, and service delivery.

The Bank faces challenges in effectively customizing its 2001 poverty reduction strategy to individual countries

The Bank needs to apply its strategy based on detailed country knowledge and an appreciation of the willingness and ability of each country to implement reforms. In countries that have institutionalized good macroeconomic management, the Bank is supporting governance and institutional reforms to enhance the investment climate and improve service delivery. The Bank's efforts have been more successful in countries that are politically stable; where there is strong ownership of reform; where the executive, the legislature, and the bureaucracy are working for common purposes; and where the country has the administrative capacity to implement reforms. The Bank's efforts have been less successful where one or all of these elements have been lacking.

In countries where macroeconomic stability and growth remain elusive, the Bank should support both reforms to foster growth as well as longer-term institutional and social development interventions. To achieve the right balance between these two kinds of involvement is difficult—it requires a realistic assessment of the political environment and the implementation capacity for reform. The Bank can use economic and sector work (ESW), knowledge transfers (including peer-to-peer learning), and support to nongovernmental actors to foster greater ownership and build capacity. The Bank should be particularly prudent in turn-around situations in which countries with a poor track record sign onto the reform agenda.

Bank country business models and global programs are not yet fully aligned with poverty reduction

The Bank has crafted business models for different groups of client countries that reflect their varying levels of development. The newer business models are grounded in the objective of poverty reduction, but have not yet realized their full potential. The Poverty Reduction Strategy Initiative, for instance, has emphasized multidimensional income and nonincome goals for poverty reduction. Yet most national strategies produced so far have not considered the full range of policy actions needed for poverty reduction. The Enhanced Highly Indebted Poor Countries Initiative added poverty reduction as an objective of debt relief, but debt relief alone, as implemented during the first few years of the Initiative, has not supported a comprehensive or sustainable approach to poverty reduction.

The corporate objective of poverty reduction may appear inconsistent with some clients' development needs and priorities. Most middle-income countries, even though they have pockets of poverty and large numbers of *near poor*, have development goals that do not center on poverty reduction. The Bank should further articulate its mission of poverty reduction and progress on the Millennium Development Goals (MDGs) in ways that align with these visions. There are also inconsistencies in the Bank's approach to post-conflict clients. Some of the Bank's less-poor post-conflict clients have received per capita allocations from the International Development Association (IDA) that are up to nine times the sums received by the poorest post-conflict clients. If these allocations are to be understood, the rationale for the Bank's lending decisions in post-conflict situations needs to be made more transparent.

Poverty reduction has not been an explicit criterion for selection and oversight of Bank involvement in global programs. Although some global programs, notably the Consultative Group on International Agricultural Research and the Special Programme for Research and Training in Tropical Diseases, have generated innovations that help the poor, the Bank's criteria for selection and oversight of global programs have not featured poverty reduction as an explicit criterion. In participating in global programs, the Bank needs to focus on global policy issues that hinder poverty-reducing growth in its client countries. It should strengthen the links between county operations and global programs to ensure that global programs add value to poverty reduction at the country level. And Country Assistance Strategies should identify how the Bank's global programs can help support development at the country level.

Linking the Bank's country-level interventions to poverty reduction will require a sharper results focus

The Bank has yet to specify an operational results chain that effectively links its country-level interventions with poverty outcomes and ensures that its assistance is based on measurable poverty results. This incomplete articulation of how country-level assistance helps countries meet specific poverty reduction objectives hampers assessment of the impact of the Bank's assistance on poverty.

There are gaps in the Bank's understanding of the poverty impact of programs and policies. Poverty assessments constitute the Bank's main analytic work on poverty, and they have been useful in generating poverty profiles in many countries. But they have tended to focus narrowly on the social sectors, while neglecting productive sectors and governance issues, and they seldom link analysis with conclusions regarding policy alternatives and proposals. The Bank's analytical work needs to pay more attention to the interaction between the growth and social aspects of poverty reduction.

There is an urgent need to assess the impact of the Bank's work on governance

Differences in the quality of economic institutions—broadly understood as the "rules of the game"—have been found to be the most significant source of sustained economic growth in both cross-country research and case studies. Within just a few years, the Bank has developed and mobilized a variety of tools—at the project, country, and global levels—that bring the quality of public sector institutions into the spotlight. So far, there is little evidence that governance is improving or that corruption is decreasing. It is essential for the Bank to establish what it hopes to achieve from its various interventions in the area of governance, to monitor and measure their accomplishments, and to assess their relative effectiveness in fostering economic growth and reducing poverty.

The Bank could do more to harness the synergies between private sector development and public sector reform

A healthy business environment for private sector investment requires an effective and accountable public sector in order to protect property rights and to ensure equitable and consistent treatment under the law. The 2001 strategy recognized the overlapping nature of private sector development and public sector reform by associating them in a single pillar. These kinds of reforms entail changes in power and influence within a country, and therefore require the Bank to understand the country's domestic political economy and to make realistic assessments of country ownership. The Bank's organizational arrangements—which place these related issues under the leadership of different vice presidencies—do not foster the pooling of effort and knowledge about reform. Combining or linking the Bank's knowledge about public and private sector issues could improve its understanding of what is likely to be effective.

The Bank needs to demonstrate the poverty impact of its interventions aimed at empowerment and human development

The Bank has carried through with its intention to promote empowerment through social development activities, but both the intended and actual poverty impact of this type of intervention remain to be demonstrated. Projects are typically implemented in the context of deeply rooted social and institutional relationships that affect poverty. Most Bank-financed interventions cannot be expected to—and do not—affect these relationships unless sustainable social structures are created. Even in programs that target the poorest households, a progressive distribution of benefits is difficult to achieve. Assessing whether beneficiaries will be able to sustain project benefits requires better tools than the Bank currently has at its disposal. Project objectives need to be realistic about the potential to affect the social relationships that underpin poverty at the community level. In participatory activities, the Bank has had the most success when it has supported existing homegrown initiatives.

In the social sectors, the Bank has conflated increased expenditures in education and health with reducing poverty, often without adequate consideration of the actual impact of those expenditures. Bank-supported interventions have been focused on inputs and outputs. Although these have frequently met or exceeded their physical and quantitative targets, they have often fallen short of bringing about qualitative and sustainable improvements in human development outcomes such as better learning achievement and improved health status. Increasing expenditures alone have not ensured that the poorest are being reached. There is considerable scope for the Bank to improve its interventions for better human development outcomes with appropriate and good-quality, sector-specific analytic work and with accurate diagnoses of service delivery and institutional reforms.

The Bank's monitoring and evaluation framework is not sufficiently poverty focused

Weak country capacity for monitoring results on poverty reduction adds to the challenges the Bank faces in selecting activities with the highest poverty payoff. The monitoring of results on poverty reduction remains weak in Poverty Reduction Strategy Papers (PRSPs); only a few mature PRSP countries have enough data to assess whether there has been widespread improvement. If poverty reduction strategy processes are to maintain momentum and the support of diverse stakeholders, they will need to rapidly improve their ability to demonstrate results in poverty reduction.

The poverty focus of the Bank's monitoring and evaluation has improved at the country level with the introduction of results-based Country Assistance Strategies and self-evaluation on a pilot basis. At the project level, development policy lending guidelines obligate staff to analyze the poverty and social consequences of policies supported by the operation on the poor and vulnerable. But guidelines on monitoring and evaluating projects are still a work in progress, and the degree to which monitoring and evaluation has a poverty focus depends on the objectives specified for the project.

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and advisory activities
AFR	Africa Region (World Bank)
AIDS	Acquired immunodeficiency syndrome
APL	Adaptable Program Lending
ARDE	Annual Review of Development Effectiveness
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CDD	Community-driven development
CDF	Comprehensive Development Framework
CGAP	Consultative Group to Assist the Poor
CGIAR	Consultative Group on International Agricultural Research
CFAA	Country Financial Accountability Assessment
CPIA	Country Policy and Institutional Assessment
ECA	Europe and Central Asia Region (World Bank)
EAP	East Asia and Pacific Region (World Bank)
EI	Extractive industries
E-HIPC	Enhanced Heavily Indebted Poor Country Initiative
ESW	Economic and sector work
EU	European Union
FIRST	Financial Sector Reform and Strengthening Initiative
FSAC	Financial Sector Adjustment Credit
GDP	Gross domestic product
GEF	Global Environment Facility
HIPC	Heavily Indebted Poor Country Initiative
HIV	Human immunodeficiency virus
HNP	Health, nutrition, and population (sector; World Bank department)
IBRD	International Bank for Reconstruction and Development (commonly known as the World Bank)
ICGR	Institutional and Governance Review
ICRG	International Country Risk Guide
IDA	International Development Association
IMF	International Monetary Fund
ITC	International Trade Center
LCR	Latin America and Caribbean Region (World Bank)
LICUS	Low-income countries under stress
LIL	Learning and Innovation Loan
MDGs	Millennium Development Goals
M&E	Monitoring and evaluation
MNA	Middle East and North Africa Region (World Bank)

MIC	Middle-income country
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
OPCS	Operations Policy and Country Services
PA	Poverty Assessment
PER	Public Expenditure Review
PPAR	Project Performance Assessment Report
PREM	Poverty Reduction and Economic Management Vice Presidency (World Bank)
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSL	Policy Reform Support Loan
PRSP	Poverty Reduction Strategy Paper
PSAL	Programmatic Structural Adjustment Loan
PSIA	Poverty and Social Impact Assessments
PSD	Private Sector Development (also a Bank vice presidency)
PSI	Private Sector Development and Infrastructure (a former Bank vice presidency)
QAG	Quality Assurance Group (World Bank)
SAR	South Asia Region (World Bank)
TDR	Special Programme for Research and Training in Tropical Diseases
WBI	World Bank Institute
WDR	World Development Report
WTO	World Trade Organization

Reducing Poverty

The World Bank's central mandate and corporate mission is to fight poverty. Toward this end, the Bank provides finance, knowledge, and advice to borrowing member countries, while attempting to tailor the particular mix of these instruments to the challenges facing each country. The Bank also helps to address global and regional issues, such as environmental threats and communicable diseases, but its primary focus remains at the country level—helping people to lift themselves out of poverty.

The Bank's understanding of poverty has broadened from a narrow focus on income poverty in the 1980s to today's multidimensional concept, which encompasses human development, security, voice, and participation. This *2004 Annual Review of Development Effectiveness* (ARDE) uses the Bank's current strategy for poverty reduction as a framework for examining its contributions to poverty reduction over the past 15 years.

Patchy and Uneven Progress in Reducing Poverty

The aggregate, worldwide picture with respect to income poverty shows steady improvement since the 1980s. The number of people living on less than US$1 a day declined from 1.5 billion (40 percent of the population) in 1981, to 1.2 billion (28 percent) in 1990, and 1.1 billion (21 percent) in 2001.

The aggregate picture masks stark differences among Regions (figure 1.1). The most dramatic decline in extreme poverty has occurred in East Asia as a whole, and China in particular. For the developing world outside China, the proportion of people in extreme poverty declined from 32 to 23 percent between 1980 and 2001, but the absolute number rose from 850 to 880 million. Countries in Eastern Europe and the former Soviet Union experienced a significant increase in extreme poverty during the 1990s (associated with the initial stages of their transitions to market economies), from less than 3 million in 1990 to more than 30 million in 1999, before declining to 17 million in 2001. Many countries in East Asia, the former Soviet Union, and Latin America suffered reversals in both economic growth and poverty levels in the wake of the crises in Mexico (1994), Asia (1997), Russia (1998), and Brazil (1999). Meanwhile, development in Sub-Saharan Africa languished in the 1990s. In addition to bearing the

Income poverty has declined steadily since the 1980s. There are stark differences in poverty outcomes among Regions.

Evaluation Essentials 1

- **Progress in reducing poverty has been patchy and uneven.**
- **Rapid economic growth is the major force for reducing poverty, but remains elusive for the majority of developing countries.**
- **The Bank takes a broad, multidimensional view of poverty, focusing not just on income poverty but also on human development, security, voice, and participation.**
- **Its approach to poverty reduction now emphasizes public sector governance, institutional reforms, and empowerment of the poor.**

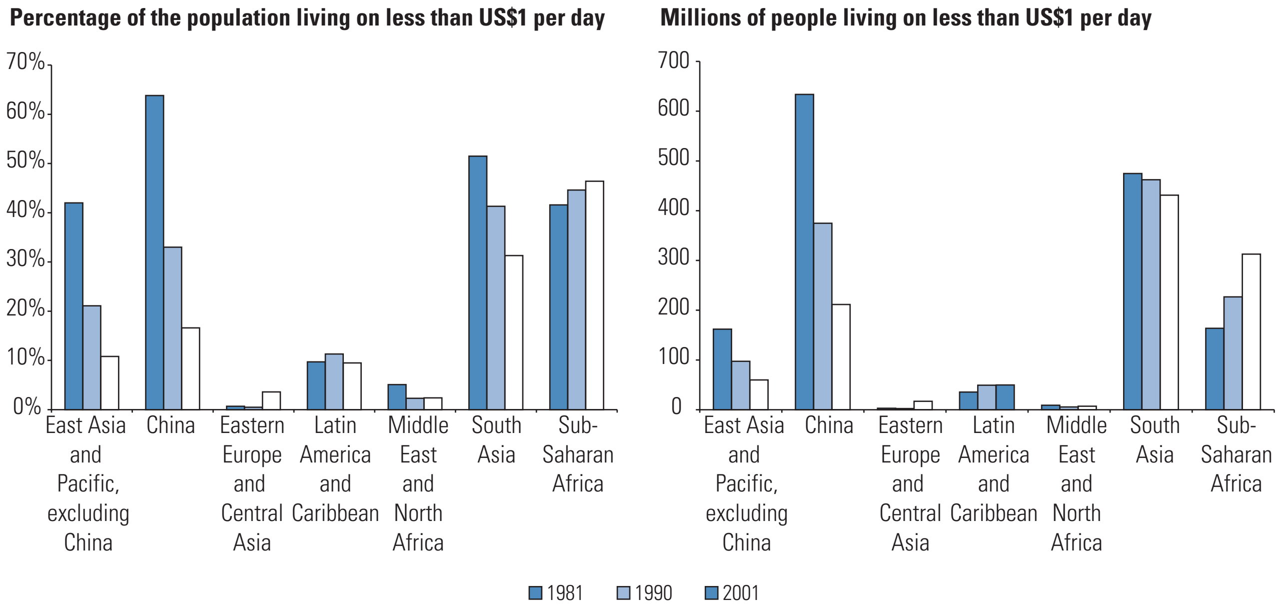
Rapid economic growth is the major force for reducing poverty.

brunt of the world HIV/AIDS crisis, the number of people living in extreme poverty in the Region increased between 1990 and 2001, both relatively (from 45 to 47 percent of the total population) and absolutely (from 227 to 313 million people). Overall, the proportion of people living in extreme poverty increased between 1990 and 2001 in more than 40 of 100 developing and transition countries for which there are data, and in which about 900 million people live.

A low degree of income inequality enhances the impact of economic growth on poverty.

The development community endorsed a multidimensional view of poverty with the adoption of the eight Millennium Development Goals (MDGs) in 2001, only the first of which relates to income poverty. The last 40 years have witnessed historic improvements in life expectancy, other health measures, educational achievement, and literacy rates. The countries of Eastern Europe and Central Asia have also achieved significant recoveries in both income and non-income poverty measures since 1998. But the challenge of the MDGs remains immense. The Bank, along with its partners, will need to increase the effectiveness of its assistance if it is to make a meaningful contribution to their achievement.

Figure 1.1 **Extreme Poverty Has Declined in Asia and Increased in Africa**



Source: Chen and Ravallion 2004.

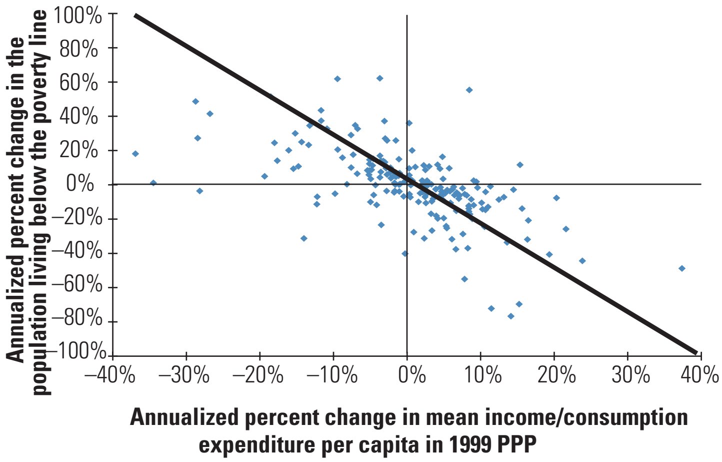
Economic Growth and Poverty Reduction

At the country level, economic growth in per capita income and poverty-reducing shifts in the distribution of income are the two major ways of reducing income poverty. That economic growth, and therefore the policies that promote economic growth, are generally associated with reductions in income poverty (as well as improvements in social indicators) is now well documented. Based on an analysis of household surveys conducted in 47 countries in the 1980s and 1990s, Ravallion (2001) found that a 1 percent increase in per capita income reduced the proportion of people living on less than US$1 a day by an average of 2 percent. Updating this analysis for 80 developing and transition economies for the period from 1990 to 2001 yields a similar result (figure 1.2).

Economic growth reduces poverty because economic growth per se does not—on average, across countries—systematically affect the distribution of income. Even in China and India, where inequality has been rising, the positive impact of economic growth on poverty has outweighed the negative impact of increasing inequality (Ravallion 2004). Nonetheless, there is considerable variability around the general growth/poverty reduction relationship (depicted by the regression line in figure 1.2). A major factor contributing to the diverse impacts of a given rate of economic growth on poverty appears to be the initial level of inequality. Some cross-country work and a larger body of subnational and micro research point to important interaction effects among various dimensions of inequality, including physical and human assets and urban-rural dualism (Ravallion and Datt 2002; Bourguignon 2004, 2005). This highlights the need to combine efforts to accelerate economic growth with work to ensure that poor people are able to take advantage of the opportunities being created in a growing economy.

Of the 120 developing and transition countries with a population of more than one million, only 42 countries (35 percent) have achieved average annual rates of economic growth of more than 2.0 percent per capita since 1990 (figure 1.3). Another two-fifths of the countries achieved positive growth, but of less than 2.0 percent per capita. The remaining one-quarter experienced a decline in their GDP per capita between 1990 and 2003.

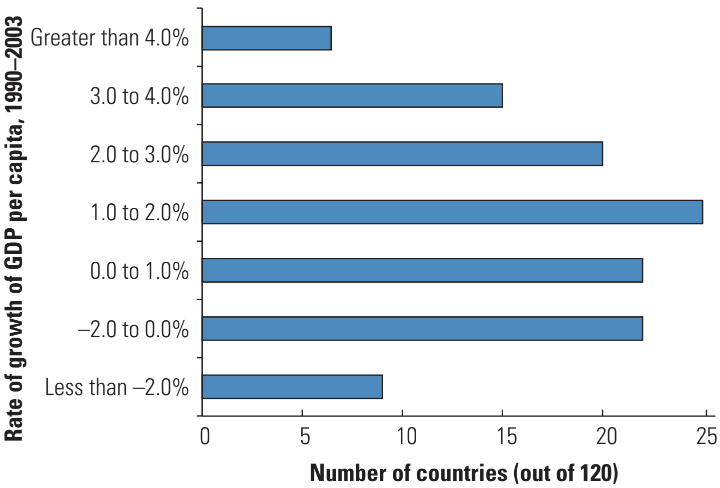
Figure 1.2 Economic Growth Has a Strong but Variable Impact on Poverty



Note: The regression analysis is based on 205 spells in 80 countries for which at least 2 household surveys have been conducted since 1990, inclusive. A "spell" is a time period of at least one year between sequential household surveys in one country.

Source: Appendix B.

Figure 1.3 Rapid Economic Growth Remains Elusive for the Majority of the Bank's Client Countries



Source: World Bank database.

The Bank's Strategy for Assisting with Poverty Reduction

The Bank's approach to assisting with poverty reduction efforts has evolved over the past quarter-century. Drawing on the analysis of the *1990 World Development Report* (WDR): *Poverty*, and influenced by the successful experience of East Asian countries in promoting broad-based growth and reducing poverty in the 1970s and 1980s, the Bank articulated a two-part strategy for reducing poverty in December 1991:

1. Efficient, labor-intensive growth based on appropriate market incentives, physical infrastructure, institutions, and technological innovation that promote the productive use of labor, the most important asset of the poor.
2. Improved provision of education, health care, nutrition, and other social services—both to improve welfare directly and to enhance the ability of the poor to take advantage of the opportunities arising from economic growth.

In addition, the 1991 strategy called for well-targeted transfers to the sick, the aged, and others who continue to experience severe deprivation, as well as safety nets for those who are most vulnerable to income-reducing shocks.[1]

One decade later, the *2000/2001 World Development Report: Attacking Poverty*, an OED evaluation of the Bank's performance in reducing poverty in the 1990s (box 1.1), and other research and evaluation studies of the experience of the 1990s affirmed the importance of broad-based growth and the equitable provision of social services for reducing poverty. The 2000/2001 WDR also advocated an increased focus on public sector governance and institutional reforms that would empower and foster the participation of the poor in the conduct of public institutions and the delivery of public services. It articulated a conceptual framework for attacking poverty based on three themes: promoting opportunity, facilitating empowerment, and enhancing security.

Using these findings, the 2001 *Strategic Framework* and *Strategic Directions* papers, which guide the Bank's strategic and operational work, translated the WDR's three themes of opportunity, empowerment, and security into two action-oriented pillars:

1. Building the climate for investment, jobs, and sustainable growth
2. Empowering poor people to participate in development and investing in them.

Box 1.1 The 1991 Poverty Strategy Improved the Bank's Operational Work

An OED evaluation of the Bank's performance in reducing poverty in the 1990s—part of the Bank's overall effort to revise its approach to poverty reduction—found that the 1991 strategy had a significant and positive impact on the Bank's operational work on poverty. The strategy highlighted the importance of broad-based growth for poverty reduction and focused operational priorities on the equitable provision of social services. It helped to reshape the composition of Bank assistance and spurred a significant improvement in the poverty knowledge base.

But the Bank also found it difficult to move from the policy generalities of the 1991 strategy toward Country Assistance Strategies that address specific social and structural constraints to broad-based growth. Insufficient attention was paid to ensuring that social services actually benefited the poor, and to the role of social safety nets in managing risk and vulnerability to shocks. The Bank's implementation of the strategy was also insufficiently focused on measuring and monitoring results linked to Bank assistance.

The evaluation concluded that the two major challenges in implementing the Bank's 2001 poverty reduction strategy would be (1) to design and implement tailor-made country and sector assistance strategies deliberately aimed at poverty reduction, and (2) to develop a strategic framework for measuring results that would allow ongoing review of the new poverty reduction framework and country poverty strategies.

***Source:* OED 2000a.**

The 2001 *Strategic Directions* paper also articulated five corporate advocacy priorities and specific business lines under these two pillars (table 1.1), and characterized the corporate advocacy priorities as the "critical enablers of poverty reduction that the Bank is particularly well-qualified to champion by sharing knowledge (both research and experience) and building awareness with clients, development partners, and other stakeholders."[2]

The 2001 strategy summarized in table 1.1 continues to regard sustainable and equitable growth as vital to generating both jobs and the resources for the public services that are crucial for poverty reduction. The private sector is viewed as the primary engine of poverty-reducing growth. The first pillar of the 2001 strategy gives greater prominence than did the 1991 strategy to public sector governance and institutional reforms, including the institutionalization of macroeconomic stability, based on the experience and research of the 1990s. The second pillar aims not so much to shift the distribution of income in a poverty-reducing manner, as to help poor people participate in the growth process. Civic engagement and participation are seen as goods in themselves that lead, among other things, to better and more responsive public sector institutions that will lift incomes economy-wide. Social risk management is incorporated directly in the second pillar, instead of being supplementary, as in the 1991 strategy.

Since 2001, the Bank has changed some of its business processes to help implement the strategy. It has explicitly aligned the Bank Group's efforts with the Millennium Development Goals (MDGs) and provided an overall framework to focus Bank assistance to client countries on achieving them. The Bank intends to scale up its impact by developing a results-oriented corporate culture, by forging strong global and local partnerships, and by enhancing country knowledge and institutional capacity. The Bank also aims to inform the implementation of the 2001 poverty reduction strategy with country-specific assessments of poverty and the investment climate in individual countries and to link the strategy to measuring, monitoring, and managing results, based on country-owned development strategies (through the Poverty Reduction Strategy Paper [PRSP] approach in low-income countries, knowledge transfer in low-income countries under stress [LICUS], and increased emphasis on country ownership in middle-income countries). The Bank seeks to improve its instrument mix and to tailor development approaches to individual country circumstances, with

The 2001 poverty reduction strategy gives prominence to both the growth and social aspects of poverty reduction.

Table 1.1 Sustainable Growth and Empowerment: The Two Pillars of the Bank's 2001 Poverty Reduction Strategy

Building the climate for investment, jobs, and sustainable growth	Empowering poor people to participate in development and investing in them
1. Investment climate	**3. Empowerment, security, and social inclusion**
• Support for urban and rural development	• Gender mainstreaming
• Infrastructure services to support private sector development	• Civic engagement and participation
• Regulatory reform and competition policy	• Social risk management (including risk mitigation)
• Financial sector reform	**4. Education**
2. Public sector governance	• Education for all—with emphasis on girls' education
• Rule of law (including anti-corruption)	• Building human capacity for the knowledge economy
• Public administration and civil service reform (including public expenditure accountability)	**5. Health**
	• Access to clean water, clean air, and sanitation for poor people
• Access to and administration of justice (judicial reform)	• Maternal and child health care

Source: World Bank 2001b.

increased emphasis on knowledge-based products and analytical services.

The Focus of this Review

The *2002 Annual Review of Development Effectiveness: Achieving Development Outcomes—The Millennium Challenge*, noted that the MDGs build substantially on the Bank's corporate priorities and capabilities, emphasizing areas of priority that the Bank had adopted long before it officially endorsed the MDGs. The Bank's work, especially the design of its country programs, would be helped by the push for the quantified and time-bound objectives and targets associated with the MDGs. The *2003 Annual Review of Development Effectiveness: The Effectiveness of Bank Support for Policy Reform*, noted that the Bank considers reform not as an end in itself, but as a means of creating an environment conducive to growth and poverty reduction. The 2003 ARDE found that two-thirds of developing countries had improved their policies (as rated by several indicators), and that policy reform paid off in higher growth. This year's ARDE, *The World Bank's Contributions to Poverty Reduction*, by contrast, looks directly at the growth and poverty reduction experience of client countries. It assesses the extent to which Bank interventions have contributed to growth and poverty reduction, and the effectiveness of different types of interventions.

The 2004 ARDE examines the extent to which key elements of the Bank's 2001 poverty reduction strategy respond to the needs of the poor, are actually being carried out, and are having an impact.

Since the Bank's overall mission is to fight poverty, assessing the Bank's contributions to poverty reduction could be tantamount to assessing the development effectiveness of the Bank as a whole. In order to keep the task manageable, this review uses the key elements of the Bank's 2001 poverty reduction strategy, set out in table 1.1, to examine the extent to which these respond to the needs of the poor, are actually being carried out, and are having an impact. In common with previous ARDEs, it also draws primarily on OED's recent evaluation studies, synthesizing and highlighting the findings of these studies around a common theme—in this case, poverty reduction. Reviewing progress at the corporate, country, and thematic levels, the 2004 ARDE address the following questions:

- What has the Bank done to enhance its poverty focus in its country business models, Country Assistance Strategies, and instruments (both lending and nonlending)?
- What has been the Bank's contribution to sustainable growth and poverty reduction in selected countries since 1990,[3] based on the findings of OED's most recent Country Assistance Evaluations?
- How effective has the Bank's assistance been in relation to the first pillar of the 2001 strategy—building the climate for investment, jobs, and sustainable growth?
- How effective has the Bank's assistance been in relation to the second pillar of the 2001 strategy—empowering poor people to participate in development and investing in them?

Assessing the Bank's Poverty Focus at the Corporate Level

This chapter assesses the degree to which the Bank has adopted a poverty focus in its country business models, Country Assistance Strategies, and lending and analytical instruments. The Bank has made a serious effort at the corporate level to place poverty reduction at the forefront of its corporate business models, assistance strategies, and projects. But there is scope for further alignment with the Bank's poverty reduction goals, and its monitoring and evaluation framework remains a work in progress.

Country Business Models and Global Programs

The Bank has established different categories for its client countries to help guide its business model or approach to financing in each category. The Poverty Reduction Strategy (PRS) Initiative is the centerpiece of Bank relations with low-income countries. Other strategic initiatives govern the Bank's assistance to post-conflict and fragile countries, at one end of the development spectrum, and to middle-income countries, at the other, as well as its involvement in global programs. Global programs are a comparatively new and growing activity for the Bank Group.

Low-Income Countries

The Bank and the International Monetary Fund (IMF) introduced both the *Poverty Reduction Strategy (PRS)* and the *Enhanced Heavily Indebted Poor Country (HIPC) Initiatives* in 1999. The Poverty Reduction Strategy Initiative has the objective of "enhancing the poverty impact of the Bank's work in IDA countries" (World Bank and IMF 1999b), and the Enhanced HIPC Initiative (for a subset of IDA countries) adds the explicit objective of "freeing up resources for higher social spending for poverty reduction" to the original HIPC objective of bringing debt levels to sustainable levels (World Bank and IMF 1999a).[1] Poverty reduction strategy processes have improved the poverty focus of national development strategies by highlighting the need for sound data on poverty and emphasizing multidimensional income and nonincome poverty indicators.

The Bank has made poverty reduction an objective of its programs in low-income countries, but there remains scope for improving how they are implemented.

But these approaches have not yet realized their full potential for poverty reduction. OED's 2004 evaluation of the Poverty Reduction Strategy Initiative (box

Evaluation Essentials 2

- **The Bank has made a serious effort at the corporate level to put poverty reduction at the forefront of its corporate business models, assistance strategies, and projects.**
- **The Bank's country business models and global programs are not yet fully aligned with poverty reduction.**
- **Linking the Bank's interventions at the country level to poverty reduction will require a sharper results focus.**

2.1) found that national strategies focused largely on allocating public expenditures to reduce poverty, but did not consider the full range of policy actions envisaged in the 2001 poverty reduction strategy.[2] Within the domain of public expenditures, the majority of funds were allocated to expanding service delivery in the social sectors, and much less to investments to remove bottlenecks in economic or productive sectors. Similarly, the Enhanced HIPC's requirement that countries allocate "savings" from debt relief to public expenditures in the social sectors did not contribute to a comprehensive or sustainable approach to poverty reduction, according to OED's 2003 evaluation of the initiative.[3] Absorptive capacity constraints in the social sectors in many debtor countries have constrained the efficiency of the additional spending. And reducing poverty in a holistic and sustainable way requires a focus on other growth-enhancing and poverty-reducing actions—such as trade access, investment climate, agriculture, and infrastructure development—that have received insufficient attention (OED 2003b). Finally, for the poverty reduction strategy process to maintain momentum and support from diverse stakeholders, it will need to rapidly improve the data to demonstrate results on poverty reduction in low-income countries.

The HIPC and PRSP initiatives are overly focused on increasing public expenditures rather than a more comprehensive approach to poverty reduction.

In 2002, the Bank created a special category of *low-income countries under stress* (LICUS). These countries have particularly weak policies, institutions, and governance—the legacies of conflict or prolonged crisis. OED's ongoing evaluation of World Bank support to LICUS, planned for fiscal year 2006, will evaluate the extent to which LICUS is aligned with the Bank's poverty reduction objectives (OED 2004i). The Bank's Post-Conflict Fund, which preceded

Box 2.1 The Poverty Reduction Strategy Initiative Has Added Value to the Poverty Agenda . . . But Remains a Work in Progress

Achievements

- **Improved poverty focus of national development strategies**
- **Consultations undertaken opened up space for policy dialogue**
- **Provided a constructive framework for donors' dialogues with governments**

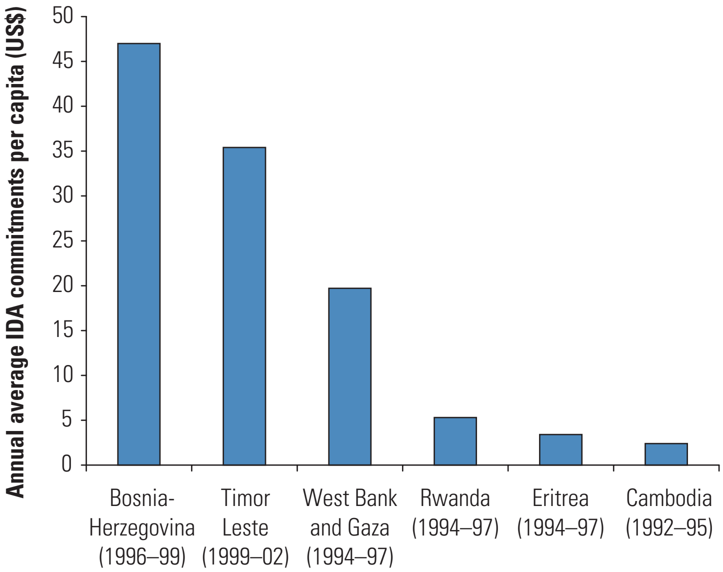
Areas that need attention

- **Strategies are overly focused on public expenditures, and neglect the wider range of policy actions required for growth and poverty reduction**
- **Monitoring of poverty-reduction results remains weak**
- **External partners, including the Bank, have not yet defined how the content of their programs will change**
- **Conditionality of the initiative inhibits country ownership, resulting in a focus on completing documents to access resources rather than on improving processes**

Source: OED 2004s.

LICUS, was designed to provide a fast and flexible instrument the Bank could use to assist conflict-affected regions.[4] OED's review of the Post-Conflict Fund found it has not quickly or effectively filled gaps during the transition from relief to reconstruction and development assistance, except in East Timor and Afghanistan (OED 2004r). There is also no consensus within the Bank or among its potential partners on what kind of action would be most effective or on what the most appropriate role for the Bank would be in conflict-affected countries. The Bank's lending allocations reveal tensions between poverty and the special needs of conflict-affected clients. Some of the less-poor post-conflict clients, such as Bosnia-Herzegovina and the West Bank and Gaza, have received per capita IDA commitments more than three times the average for all IDA borrowers, and up to nine times as much as Rwanda, the poorest post-conflict client (figure 2.1).[5] While differences in policy performance and absorptive capacities account for some of these discrepancies, the rationale for the Bank's lending decisions in post-conflict situations needs to be made more transparent.

Figure 2.1 Post-Conflict Countries Received Very Different Levels of Bank Support



Source: OED 2004e and World Development Indicators.

Middle-Income Countries

The World Bank's strategy in *middle-income countries* (MICs) adopts the organization's overarching objective of poverty reduction. The 2001 *Strategic Framework* paper asserted that continued engagement in middle-income countries is central to the Bank's mission of fighting poverty, since "IBRD-eligible countries are home to the majority of the world's people living on less than $2 a day" (World Bank 2001a). The Bank's strategy in the MICs was restated in 2004 to include International Bank for Reconstruction and Development (IBRD) support for "sustainable, equitable and job-creating economic growth . . . rais[ing] living standards," and an emphasis on select global public goods[6] under the umbrella of poverty reduction (World Bank 2004c).

The MIC group, as defined by the Bank, includes countries with per capita incomes that ranged from $765 to $9,385 in 2003, with different poverty profiles. About 11 percent of the population in the MICs lives in extreme poverty (under $1 a day). The additional 16 percent who live on between $1 and $2 a day are vulnerable to falling into extreme poverty in crisis situations or during economic shocks. Nonincome poverty can also be significant in the MICs. Poverty in the richer MICs tends to be regionally or ethnically concentrated. In spite of the significant number of poor and near poor in many of these countries, many of the MIC clients envision development in terms of joining the ranks of developed countries (World Bank 2004e). While the two pillars of the Bank's poverty reduction strategy are still appropriate for the MICs, the Bank faces a challenge in aligning its corporate focus on poverty with the varying aspirations of its heterogeneous MIC clients.

Assistance to post-conflict countries is not highly correlated with their poverty levels.

The Bank needs to formulate its emphasis on poverty in a way that the MICs will find attractive and that will

The Bank needs to align its corporate focus on poverty with the aspirations of its middle-income clients.

prompt them to seek the Bank's assistance in achieving their goals.

Global Programs

The World Bank's involvement in *global partnership programs* has accelerated since 1998, and broadened from global public goods programs to multicountry corporate advocacy programs (OED 2004b). The largest of these, the Consultative Group on International Agricultural Research, has helped reduce poverty through an increased and more secure food supply, a rise in employment, and lower food prices. The Special Programme for Research and Training in Tropical Diseases has supported the development of new treatments for diseases of the poor such as onchocerciasis, leprosy, and malaria and helped to strengthen health research capacity in developing countries. But poverty reduction has not been an explicit criterion for selection and oversight of Bank involvement in global programs—it has only been implicit in other criteria. Even though most global programs have now aligned their objectives to the MDGs, their strategies have lacked both strong analytical foundations and well-thought-out results chains. In participating in global programs, the Bank needs to focus on global policy issues that hinder poverty-reducing growth in its client countries. It should also strengthen the links between country operations and global programs to ensure that global programs add value to poverty reduction at the country level. Country Assistance Strategies very rarely show how the Bank's global programs can help support development at the country level.

The Bank's involvement in global programs has not been driven by poverty-reducing goals, even though some global programs have helped reduce poverty.

It has so far proven difficult to measure the impact of assistance on poverty, even in results-based CASs.

Country Assistance Strategies

The Bank's corporate objectives are embodied at the country level in Country Assistance Strategies (CASs). The poverty focus of CASs has improved, according to the 2003 CAS Retrospective.[7] The share of CASs rated satisfactory or better for poverty focus increased from 61 percent in the second half of fiscal year 1998 and all of 1999, to 71 percent in fiscal year 2000 and first half of the 2001 period, and the share of CASs with marginally satisfactory treatment declined from 28 to 18 percent (World Bank 2003a).

Notwithstanding the improved poverty focus, the 2003 CAS Retrospective suggested the need for greater cohesion between CAS objectives and poverty reduction goals (World Bank 2003a). Accordingly, the latest staff guidance on CASs specifies that the CAS take as its vision the PRSP in low-income countries, or other national development strategy in middle-income countries (World Bank 2004d). CASs are also expected to take into account the links between the country's objectives and the targets of the MDGs. The guidelines are thus aligned with the Bank's overall mandate of poverty reduction.[8]

As part of the Bank's move to a results focus at the country level, the traditional CAS is being replaced by a results-based CAS, and the CAS Completion Report has been introduced on a pilot basis. The monitoring and evaluation of poverty impact in CASs will require additional effort to overcome the dearth of data on poverty at the country level. A clearer assessment of the impact of the Bank's assistance in poverty reduction, even in the pilot results-based CASs, has also been hampered by the inadequate delineation of the links between Bank interventions, actions to achieve intermediate outcomes, and intermediate outcome indicators (OED 2004a). OED's initial reviews of CAS Completion Reports suggest ways to improve the links (box 2.2).

Instruments

Lending

Guidelines for Bank lending put poverty focus at the forefront. Bank investment lending is required to support poverty reduction, and development policy lending to take into account the impact on poverty. The Bank's 1994 Operational Policy on investment policy lending includes a criterion that it must "contribute to poverty reduction." The development policy lending guidelines, issued in a revised OP 8.60, *Development Policy Lending,* enable a greater poverty focus than did previous adjustment operations by requiring staff to determine whether policies supported by the operation are likely to have significant poverty and social consequences, especially on poor and vulnerable groups (World Bank 2004g).[9] The Poverty Reduction Support Credit (PRSC) is a development policy lending instrument designed specifically to support poverty reduction, anchored in the PRSP. The poverty impacts of the 31 PRSCs completed so far have not yet been assessed. To what extent do the Bank's monitoring and evaluation systems support a poverty focus in its lending? Guidelines on monitoring and evaluation of Bank lending are still a work in progress, and the degree to which monitoring and evaluation has a poverty focus depends on the objectives specified for the project.

About half of Bank lending between 2000 and 2004 was directed toward the five themes that correspond to the first pillar of the Bank's 2001 strategy, and an additional one-fourth toward the second pillar (figure 2.2). The remaining quarter consisted of lending to urban and rural development and environment, areas with activities that cut across both pillars: economic growth and empowerment.[10] Within the first pillar, Bank lending has shifted from assistance for first-generation reforms such as economic management (which declined by an average of 14 percent a year) to public sector governance (which increased by 11 percent a year). Within the second pillar, Bank lending for human development has grown by almost 30 percent a year, and for social development by almost 10 percent a year. The increased lending to the second pillar is supported by a higher overall performance of these investment projects relative to other themes (figure 2.3).[11]

Box 2.2 Bank Country Programs Could Strengthen Their Results Focus

Bank Country Assistance Strategies should:

- **Further elaborate how Bank assistance contributed to CAS objectives.**
- **Provide more specific recommendations on how to collect data for use in decision-making.**
- **Emphasize development impact rather than resource transfer.**
- **Define monitorable indicators for measuring progress in key areas.**
- **Lend beyond a minimal program only if agreed reforms have been implemented.**

Source: **OED reviews of FY03 and FY04 CAS Completion Reports.**

Analytical Work

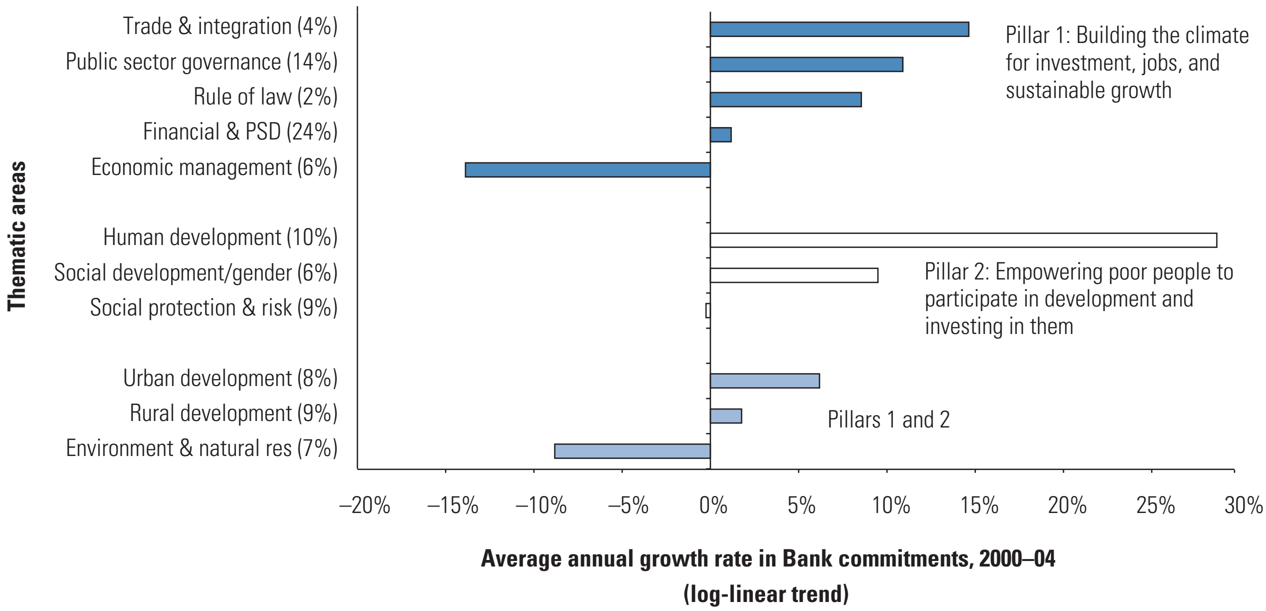
The Bank's Operational Policy 1.00 on Poverty Reduction sets up an expectation that the Bank will conduct periodic poverty assessments that will include three activities: an assessment of the poverty situation, an analysis of the impact of growth and public actions on poverty, and an appraisal of poverty monitoring and evaluation systems (World Bank 2004j). Poverty assessments have been useful in analyzing poverty profiles in many countries (OED 2004s). They have a high quality of analysis, and now make better use of qualitative data on the poor, according to a review of eight fiscal year 2002 Poverty Assessments by the Bank's Quality Assurance Group (QAG) (World Bank 2003b). However, QAG found that the Assessments tend to focus on the social sectors, while neglecting the productive sectors, and could do a better job of linking analysis with conclusions on policy alternatives and proposals (box 2.3).

Poverty assessments should focus more on the links to economic growth.

In 2003, the Bank introduced poverty and social impact analysis (PSIA)—an analysis of the distributional impact of policy reforms on the well-being of different stakeholder groups—to inform PRSP design and Bank interventions in all client countries. In the last two years, the World Bank has financed about 70 PSIA-

Limited progress has been made in analyzing the poverty and social impact of reforms.

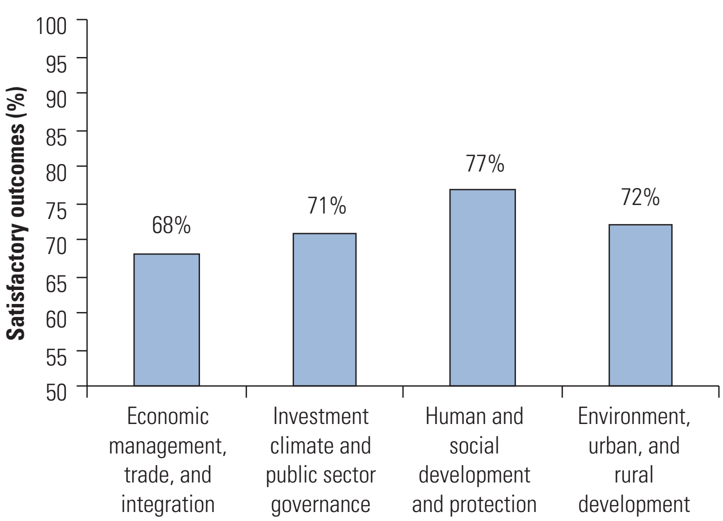
Figure 2.2 **Bank Lending for Human Development Has Grown the Most Rapidly Since 2000**



Note: Numbers in brackets on left vertical axis represent share of total commitments by thematic area from 2000 to 2004. Themes are allocated to the respective pillars of the 2001 poverty reduction strategy in line with similar allocations in Bank budget documents (World Bank 2004j).

Source: World Bank data.

Figure 2.3 **Investment Projects Emphasizing Human and Social Development and Protection Themes Have Had the Highest Outcome Ratings**



Note: Percent satisfactory outcomes of investment projects approved since 1990 and exiting the portfolio by 2004; 1990 is the first year for which Bank projects are coded by theme.

Source: World Bank data.

type activities, mainly on reforms in utilities, public sector, agriculture, trade, and macroeconomic policy.[12] But the Bank has conducted fewer PSIAs than planned (OED 2004s). Data constraints, analytical barriers such as estimating the impact of reforms over time, and limited government demand for distributional analysis have posed challenges, according to the 2003 and 2004 PRSP *Progress in Implementation* reports (World Bank 2003b and 2004l).

There remains a knowledge gap in the linkages among policies, programs, and individual sector strategies on the one hand, and poverty-related outcomes on the other, particularly the social impact of macroeconomic policies (OED 2004u). The Bank's analytical work tends to focus on one or the other pillars of the poverty reduction strategy, but to overlook potential interactions between the two. For instance, public investments in the education of the poor can lead to faster growth. And improved public sector institutions can empower the poor to improve the delivery of education and health services. The poverty dimension of the Bank's analytical work tends to be concentrated in work surrounding PRSPs and in

Box 2.3 **Poverty Assessments Are a Useful Tool, but Can Be Improved**

QAG's review of eight Poverty Assessments found that they performed well overall, and particularly well on some dimensions:

- **Poverty Assessments are selected strategically to fit governments' programming cycle and the Bank's Country Assistance Strategies.**
- **The quality of analysis is high, particularly the effective generation and use of empirical evidence.**
- **There has been a vigorous effort to develop qualitative information, such as self-perception of poverty and insecurity, as well as user feedback on public services geared to the poor.**
- **Some Poverty Assessments have introduced historical context as a way to explain initial conditions – which, in turn, explain the distribution of assets and opportunities – and the political economy of change.**
- **Task teams have engaged counterparts, which has enabled them to probe more sensitive aspects – such as geographic and ethnic differences in the incidence of poverty – than would have been possible otherwise.**

The review identifies three areas that need improvement:

- **Poverty Assessments tend to focus on the social sectors, where presumably information is available, at the cost of attention to infrastructure sectors, the rural sector, and other economic aspects such as labor market participation and performance.**
- **The treatment of public sector management is too often naïve in Poverty Assessments. Little attention is given to governance and transparency issues.**
- **Poverty Assessments are weak in synthesizing findings and conclusions from their analysis. Many fail to identify relative priorities and the appropriate phasing of actions and their likely cost and fiscal implications.**

Source: **World Bank 2003b.**

poverty assessments, and is only partially linked to the analytical work done to support the growth and investment agenda. Somewhere in the Bank's ESW program—such as its Country Economic Memoranda—analytical work should focus on the interactions between the two pillars, such as the impact of growth and investment policies on poverty.

There remains a knowledge gap between development interventions and poverty-related outcomes.

Development Effectiveness at the Country Level

This chapter reviews the effectiveness of the Bank in using its various instruments at the country level—assistance strategies, lending, and analytical work—based largely on 21 of OED's most recent country assistance evaluations (CAEs).[1]

Overall Growth, Poverty, and Bank Assistance Outcomes

The 21 countries fall into three groups based on their economic growth and poverty reduction experience between 1990 and 2003 (figure 3.1). This validates the strong relationship illustrated in figure 1.2 between economic growth and poverty reduction at the country level.

The first group of six, classified as good performing countries (Chile, China, Dominican Republic, India, Tunisia, and Vietnam), experienced growth in gross domestic product (GDP) per capita of more than 3 percent between 1990 and 2003—from 3.1 percent per annum in Tunisia to 8.1 percent in China. This growth led to a substantial decline in income poverty, from an average of 35 percent of these countries' populations in 1990 to 16 percent in 2001, as well as to improvements in social indicators such as health and education outcomes.

The second group of seven counties experienced significant declines in GDP in the early 1990s, associated with the initial stages of their transitions to market economies.[2] Each then began a slow recovery, starting in 1993 in Armenia, Croatia, and Mongolia; 1994 in Lithuania; 1997 in Bulgaria; 1998 in Russia; and 1999 in Moldova. All experienced substantial increases in poverty during their transition recessions, increases in inequality from the generally low levels of the 1980s, and deteriorations in social conditions. Income poverty has declined and social indicators have improved during the past few years as a result of robust economic growth in many of these countries.

The third group of eight modest- and poor-performing countries (Brazil, Guatemala, Jordan, Lesotho, Morocco, Peru, Zambia, and Zimbabwe) experienced either negative or low rates of growth in GDP per capita between 1990 and 2003—ranging from –0.9 percent in Zambia and Zimbabwe to 2.1 percent in Peru. About 20 percent of the populations of the middle-income countries in the group remained poor throughout the decade, and 50 percent of the low-income countries.

How effectively did the World Bank work in these three very different environments? In all six good-performing countries, OED rated the outcome of Bank assistance as fully or

Evaluation Essentials 3

- **The Bank's 2001 poverty reduction strategy is well grounded in the development experience of the 1990s.**
- **Economic growth is vital for reducing poverty, and macroeconomic stability is necessary to underpin economic growth.**
- **The Bank's country strategies have become more poverty focused and consistent with the needs of client countries.**
- **The lack of country ownership of reforms has constrained the Bank's effectiveness in a number of countries.**
- **The Bank needs to expand its assistance for monitoring poverty in order to help design more effective country-level interventions.**

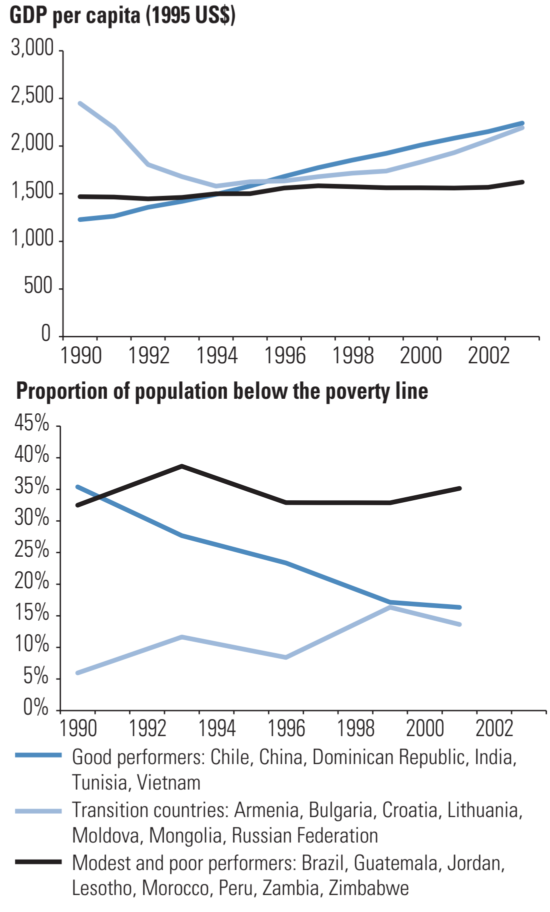
moderately satisfactory (figure 3.2).[3] And even in some of the less-successful countries, the Bank's assistance has had fully satisfactory outcomes.

Even in some of the less-successful countries, the Bank's assistance had fully satisfactory outcomes.

Among the seven transition countries, Armenia and Lithuania had the best outcomes. The Bank's assistance made major contributions to the achievement and maintenance of macroeconomic stability in both countries, which facilitated both an earlier economic recovery than in other countries and sustained economic growth thereafter. In Armenia, the Bank also contributed to important reforms in the energy, transport, and agriculture sectors. The Bank had more success in promoting private sector development than public sector reform, and in the area of privatization than in improving the business environment for small and medium-size job-creating enterprises (OED 2004c, p. 22). In Lithuania, the Bank contributed successfully to important reforms in the fiscal, financial, energy, and transportation sectors. Economic and sector work (ESW) in the energy sector—the focus of early analytic work—provided clear guidelines on converting the state from owner to regulator with step-by-step reforms, such as unbundling the generation and distribution of energy and improving the quality of supervisory boards (OED 2004m, pp. 14-15, 20-21).

Brazil entered the 1990s plagued with economic instability, slow growth, and high rates of inflation. In 1994, the government introduced the *Real* Plan, which had an immediate and positive effect of reducing inflation rates from an average over 1,600 percent over 1990–94 to 16.6 percent over 1995–99. The stabilization had a

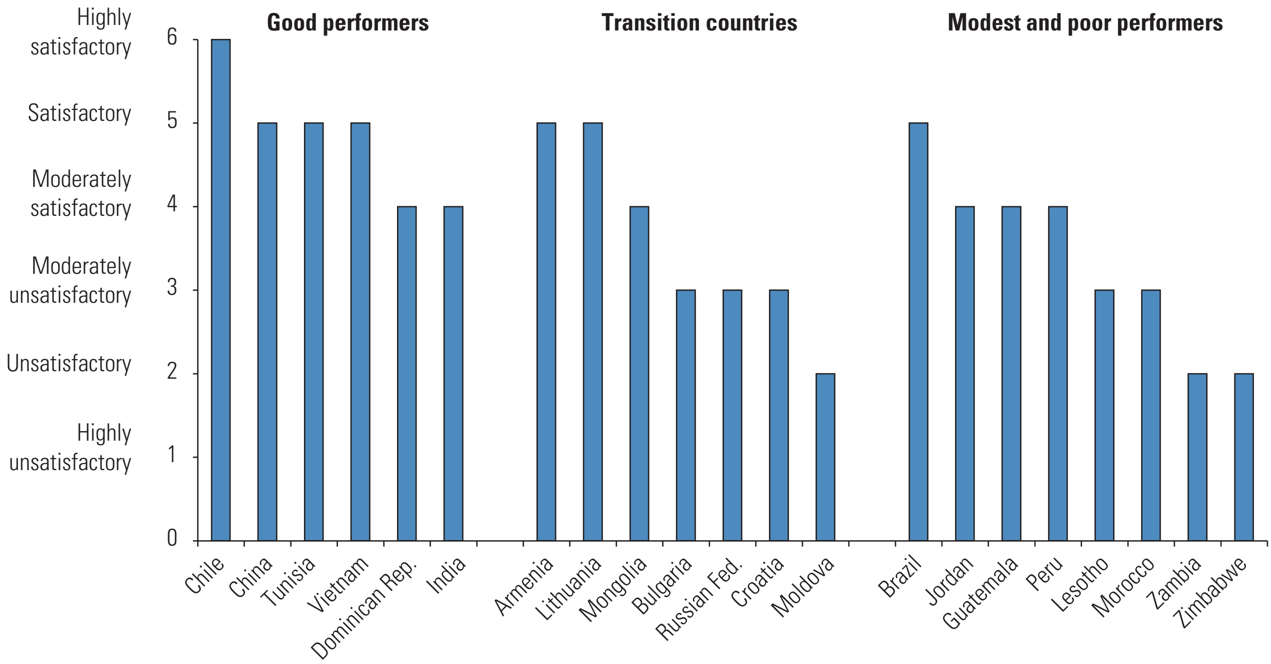
Figure 3.1 Poverty Reduction Is Strongly Associated with Economic Growth



Note: The proportions of the population below the poverty line are the simple averages of the countries in each group, so that the large countries do not swamp the other countries in each group. The poverty line is a relative measure of poverty in which people are deemed poor if they do not attain either the $1 a day consumption level or one-third of the mean consumption in each country, since this better facilitates comparisons across both low- and middle-income countries.

Source: Table C.1 and Appendix B.

Figure 3.2 **Even Some of the Modest and Poor Performers Had Satisfactory Outcomes Measured against Relevant CAS Objectives**



Note: The time periods for these outcomes correspond to the review periods for the 21 CAEs, and range from 1985–99 for Chile to 1993–03 for Croatia and Moldova. See table C.1 for more details.

Source: Table C.1.

strong positive impact on poverty because the high rates of inflation had disproportionately affected the poor. While the Bank did not play a significant role in initiating Brazil's *Real* Plan, it contributed to the consolidation of stabilization during the 1995–98 period with fiscal reform and privatization loans. Timely ESW examined the serious fiscal imbalances in the Brazilian states, which were jeopardizing the success of the *Real* Plan. Then, after the 1999 crisis, the Bank supported the government's fiscal austerity program with five adjustment loans amounting to US$2.8 billion and several complementary assistance loans. The adjustment loans included two fiscal reform loans, one social protection loan, and two social security reform loans. Timely ESW also helped the Bank direct its lending to regions and sectors that could have the greatest impact on poverty. Bank lending was increased to education, health, and rural poverty projects in the poorer Northeastern region of Brazil with successful outcomes. ESW also helped to design projects such as the national school improvement program (Fudescola) initiated in 1996 and supported by three Bank loans (OED 2005b, p. 8).

Major Determinants of Satisfactory Outcomes

Better outcomes of Bank assistance across the three groups of countries were associated with three key factors: (1) achieving and sustaining macroeconomic stability, (2) the relevance of Bank country strategies, and (3) country ownership of the reform agenda.

Macroeconomic Stability

The Bank has supported macroeconomic stabilization in all 21 countries in 3 general ways: ongoing diagnostics and advice, adjustment lending to provide balance of payments and budgetary support (often, but not always, following an economic crisis), and technical assistance and investment loans to institutionalize macroeconomic stability. Assistance outcomes have been more satisfactory where stability has been achieved and maintained, as in the group of six good-performing countries. Conversely, a lack of macroeconomic stability has greatly constrained the effectiveness of Bank assistance. The macroeconomic crises that occurred in the transition economies in the early 1990s, and that were associated with the 1997 Asian crisis, the 1998 Russian crisis, and the 1999 Brazilian crisis, led to reversals in economic growth and increases in poverty levels in the affected countries.

The Bank provided timely and effective advice (without any adjustment lending) to China during two tests of growth and stability during the 1990s. In 1993, when inflation rose to about 20 percent annually, the Bank's argument that macroeconomic instability was the result of incomplete reform rather than an inherent part of reform helped influence subsequent efforts to reform the central bank and monetary management and to undertake fiscal reforms to restore and partially re-centralize revenue collection. The 1994 fiscal reforms in intergovernmental fiscal relations, strongly advocated by the Bank, helped China avoid a precipitous decline in revenue collection and fiscal collapse. Then, during the 1997 Asian crisis, the Bank influenced China's decision to forgo a competitive devaluation, which helped China limit the crisis and maintain its growth rate, and neighboring countries recover more quickly.

Adjustment lending has generally been successful when combined with a strong government commitment to macroeconomic stabilization. In the absence of such a commitment, such lending has saddled the countries with additional unproductive debt and has weakened incentives for future reforms. In Bulgaria and Brazil, the Bank appropriately delayed planned adjustment lending when reforms stalled. But in five other countries—Morocco, Peru, Russia, Zambia, and Zimbabwe—the Bank was under pressure to lend and went ahead with adjustment loans even though little progress was being made with stabilization and reform (OED 2005b, pp. 9–10).

The Bank's adjustment lending was generally successful when the government was also committed to stabilization.

The appropriate sequencing of macroeconomic reforms with trade and financial sector liberalization is important for successful stabilization (box 3.1). So is the institutionalization of monetary and fiscal reforms, including hard budget constraints on banks and enterprises, reform of the tax system, and restructuring of public expenditures. In Russia, the widespread use of arrears and noncash payments to circumvent hard budget constraints led to government borrowing on an unsustainable scale, especially in the wake of the 1997 Asian crisis. The subsequent default on a large part of its sovereign debt had repercussions throughout the former Soviet Union (World Bank 2002c, p. 54).

In Peru, the Bank played a constructive and important role in stabilizing the economy in the early 1990s by supporting the government's macroeconomic stabilization and structural reform and participating in the international effort to reintegrate Peru into the world financial economy. Progress in the area of institutional reform was substantial in the early 1990s—the most significant and longest-lasting achievement was the dismantling of myriad government agencies such as development banks, the foreign commerce institute, and state-owned enterprises. The government revamped and created technically efficient and autonomous agencies responsible for monetary and fiscal policy. But in 1997, the government's declining interest for reform led to the weakening of macroeconomic management and backtracking on reforms. Although the Bank had been instrumental in helping Peru revive its economy in the early 1990s, it was unable to prevent the government's retrogression in economic policymaking in the late 1990s until the election of a new government in 2001.

In low-income countries, where macroeconomic programs are usually supported by an IMF Poverty Reduction and Growth Facility (PRGF) and are expected to be anchored in PRSPs, these national strategies have not uniformly explored macro-related areas such as

Box 3.1 Appropriate Sequencing of Macroeconomic Reforms Is Important for Success

Countries should implement fiscal and trade reforms before opening their capital markets. In India, both an appropriate macroeconomic framework and the proper sequencing of trade reforms contributed to the country's impressive export and growth performance during the 1990s. A significant depreciation of the real exchange rate, which increased export incentives and cushioned the impact of lower import barriers on domestic industry, preceded the first trade liberalization measures in 1991. Trade liberalization also preceded the opening of the capital account.

In Zambia and Zimbabwe, in contrast, inappropriate sequencing led to unsatisfactory results. In Zambia, opening the capital account before the needed public expenditure reductions were made led to capital flight and prolonged the country's high inflation. The delayed stabilization contributed to the need for more stringent fiscal tightening, undermined necessary public investments, and extended the period of stagnant growth in the early 1990s. In Zimbabwe, the government, in the context of the Bank's Structural Adjustment Credit, implemented a wide range of liberalizing economic reforms in domestic labor and financial markets, international trade, and foreign currency markets that were intended to encourage private sector development. But liberalizing financial markets and lowering taxes before government expenditures were reduced led to larger government deficits and high real interest rates, which undermined the positive effects of economic liberalization on private sector investment.

***Source:* Tang and Harrison 2005, p. 160; OED 2002i, p. 22, 2003j, p. 22.**

tax/revenue policies and exchange rate management (OED 2004s, p. 15). Most PRSPs fall short of providing a strategic road map for macroeconomic and related structural policymaking (IEO 2004, p. 4). In Vietnam, the PRSP framework alone was unable to overcome policy differences between the Bank and the Fund on the scope and sequencing of reform of state-owned enterprises, even though the process was considered highly country-driven with clear indications of the government's views on reform (OED 2004s, p. 20).

Relevance of Bank Country Strategies

The Bank's Country Assistance Strategy documents were increasingly informed by poverty assessments or other ESW during the 1990s, and strategies and priorities were increasingly framed in terms of poverty goals (Tables C.2 and C.3). The Bank's 1991 poverty reduction strategy provided a workable operational framework for identifying priority programs and projects that was increasingly followed throughout the 1990s. The Bank's strategies in the transition economies were somewhat slower in adopting an explicit poverty focus (figure 3.3).[4] And arrangements for monitoring the achievement of poverty-focused goals, including monitorable indicators, have been lacking or weak in all groups of countries.

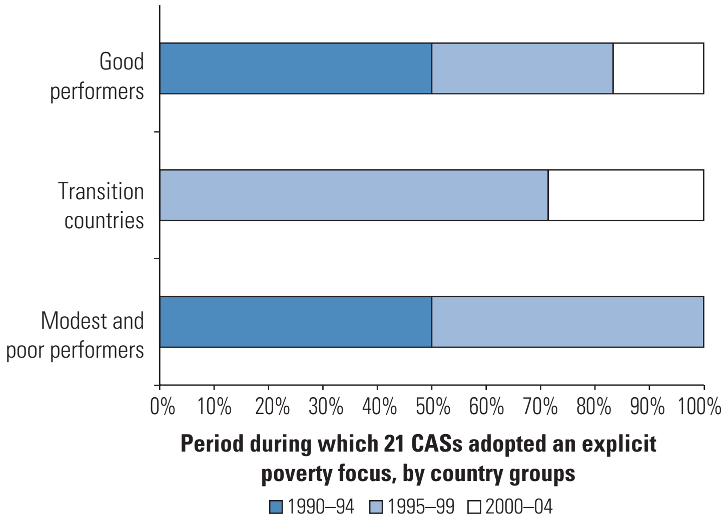
Most PRSPs do not provide a road map for macroeconomic reforms in low-income countries.

OED has rated the Bank's Country Assistance Strategies as substantially or highly relevant in 17 of 21 countries in terms of their goals and objectives, analytical foundations, and proposed instruments for achieving sustainable growth and poverty reduction (figure 3.4). That the Bank's strategies were less relevant in Moldova, Lesotho, Zambia, and Zimbabwe largely explains the unsatisfactory overall outcomes in these countries (figure 3.2).

A lower degree of relevance also explains why assistance outcomes for two of the good performers—the Dominican Republic and India—were rated only moderately satisfactory. Relevance was impaired in the Dominican Republic by a lack of continuity in the policy dialogue and by the absence of the Bank during critical times and in the key areas of structural reform and privatization (OED 2003c, p. 19). In India, while the Bank provided timely assistance for economic growth and structural adjustment

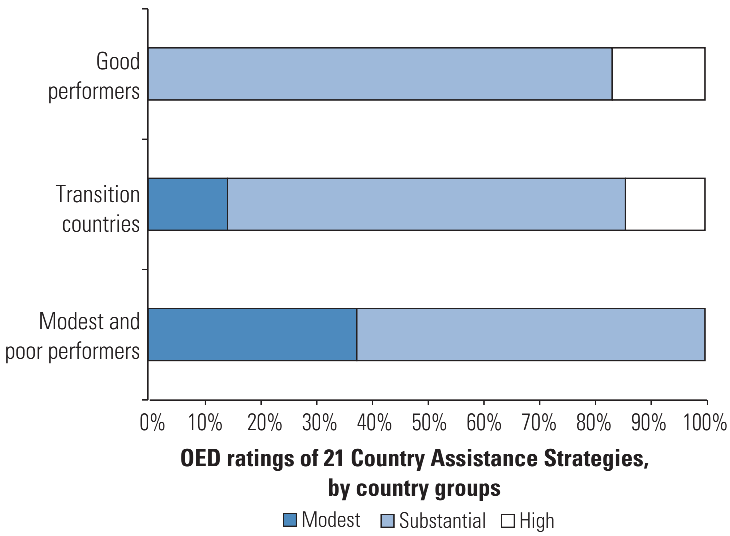
The Bank's country strategies have become more poverty-focused and reflect the needs of client countries.

Figure 3.3 **CASs in Transition Countries Were Later in Adopting an Explicit Poverty Focus**



Source: Table C.2.

Figure 3.4 **OED Found Most Country Assistance Strategies Substantially or Highly Relevant**



Source: Table C.3.

in the early 1990s, with increasing emphasis on the social sectors, rural development represented a gap in the Bank's strategy. Poverty reduction in rural areas was limited by inadequate infrastructure services (OED 2001a, p. 36).

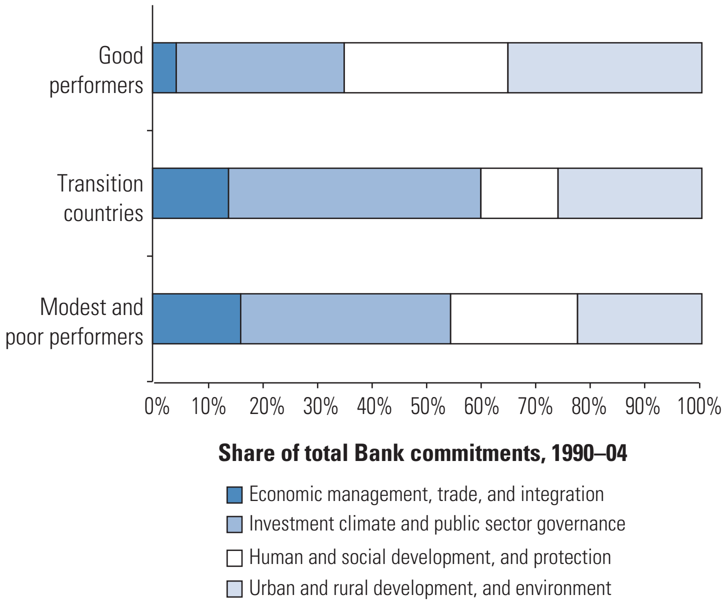
Lending for the transition economies and for the modest- and poor-performing countries, most of which were still trying to stabilize their economies in the mid-1990s and thereafter, focused more on economic management, trade liberalization, and private sector development (figure 3.5). Lending for the good performers, all of which achieved macroeconomic stability in the 1980s or early 1990s, focused relatively more on human development, urban and rural development, and the environment. Between 1990 and 2004, adjustment lending constituted 42 percent of total commitments for the seven transition economies and 37 percent for the modest- and poor-performing countries, compared with only 13 percent for the six good-performing countries.

The Bank has had difficulty initiating a substantive dialogue and lending program on some key issues in both good and poor performing countries, such as the banking sector in China (box 3.2). In Zimbabwe, the CASs did not contain strategies to address land reform – clearly the largest social issue in the country – despite significant expertise on the subject in the Bank. Even when the fiscal year 1997 CAS finally acknowledged the skewed ownership of land in favor of the white minority, it gave no signal that the Bank was ready to work with the government on meaningful land reform. The Bank's strategies also placed too little emphasis on infrastructure in communal lands, where rural poverty was concentrated (OED 2004v, p. 8).

Selectivity among priorities in line with the Bank's comparative advantage has been difficult to achieve in both good- and poor-performing countries. Bank strategies tend to be so broadly defined that a wide range of activities can find justification in the general objectives. In Vietnam—a good performer with a highly relevant strategy—OED found that the main weakness in the Bank's assistance program was its wide-ranging character: it covered many sectors and subsectors. The lack of selectivity arose from the internal and external pressures on the Bank to be present in most sectors (OED 2001f, p. 23). In Lesotho—a modest performer with a modestly relevant strategy—the CASs pursued so many goals and recommended so many measures that government authorities, NGOs, and civil society found them difficult to gauge and implement. The 1995 poverty reduction action plan suggested between 3 and 7 demanding, but unprioritized, interventions in each of 9 sectors, and the 1998 CAS identified 11 of 14 areas as high development priorities. The CASs were not sufficiently realistic and misjudged Lesotho's political stability, limited resources, and weak institutions (OED 2001b, p. 11).

In some cases, even when the Bank's assistance strategy has been relevant at the broadest level, specific interventions have been less relevant. In China, relevance has long been constrained by the government's insistence that projects generate revenue to repay the Bank's loans, sometimes at the expense of higher-return public goods components. And since the Bank ended China's eligibility for International Development Association (IDA) lending in fiscal year 2000, lending for social sectors and poorer regions has become increasingly constrained.[5] In the transition

Figure 3.5 Bank Lending Has Generally Reflected Country Circumstances



Source: World Bank data.

Box 3.2 The Bank Has Had Difficulty Addressing Banking Reform in China

Carrying out a substantive dialogue on China's banking sector has proved challenging for the Bank. The magnitudes involved are staggering. Banking deposits are now 150 percent of GDP, up from 30 percent in 1978. Most are in the former state-owned banks that lend with little regard for borrowers' ability to service the loans, and the large proportion of nonperforming loans creates worries about their fiscal implications.

In the past 10 years, although several loans have been prepared for the sector, the only Bank loan approved and disbursed was a Financial Sector Technical Assistance Project for US$60 million in fiscal year 1993. The preparation and supervision of the project enabled the Bank to engage government officials on policy issues. This led to a reorganization of the central bank and a diagnostic audit of several branches, which revealed worrisome operational procedures, but the larger purpose of beginning a substantive dialogue on reforming the banking system was not accomplished. Although the project's outcome was considered satisfactory, the Bank, for a variety of reasons related both to reluctance on the side of the Chinese authorities and disagreement within the Bank on the approach, has made no other loans in the financial sector since 1993 and had no effective dialogue for about five years, between 1995 and 2000. Starting in 2000, the Bank has ramped up its nonlending activities, producing four (informal) policy notes (on interest rate liberalization, deposit insurance, bank supervision, and reforms of state banks), but their impact on the pace and direction of reforms is unclear.

***Source:* OED 2005e, p. 20, 2005a, pp. 73–75.**

Selectivity among and within broad priorities remains a challenge.

economies, the initial emphasis in the early and mid-1990s on rapid privatization of medium-size and large enterprises to promote private sector development did not always achieve the intended impacts, because a supporting legal and institutional framework was not present (OED 2004l, p. 18; World Bank 2002c, p. 79).

In two cases where the Bank's strategy was rated as substantially relevant, the actual lending program was less so. In Croatia, prior to fiscal year 2002, the government rejected proposals for adjustment and sector reforms in public administration, the judiciary, health, and other sectors. The resulting lending program focused much more on infrastructure than the CAS proposals, and less on the reforms needed in public expenditure, debt, growth, and governance (OED 2004g, pp. 21–22). In Morocco, the shifting of a substantial portion of the proposed lending program in the 1997 CAS from investment to adjustment operations, along with the loose focus of the largest adjustment loan, the Policy Reform Support Loan (PRSL), reduced the potential for the program to make a measureable contribution to increasing the productive capacity of the economy and reducing poverty.[6] Morocco's performance in growth and poverty reduction has been disappointing compared with both the CAS projections and with other countries in the Middle East and North Africa Region.

The subsequent lending program sometimes turns out to be less relevant than the initial assistance strategy.

Country Ownership of the Reform Agenda

The six good-performing countries presented the Bank with a favorable working environment. Generally committed to reform, the countries had a clear idea of their priorities, well-established reform processes, and the administrative capacity to implement reforms. Although they were generally willing to enter into a dialogue with the Bank to work together, they remained very much in the driver's seat, determining both the priorities and the pace of reforms. The Bank can neither take credit for the major achievements, nor be held responsible for the major shortcomings of large, dynamic economies such as China and India.

Good-performing countries have provided a more favorable working environment for the Bank.

The transition economies presented both the Bank and the countries themselves with unprecedented challenges arising from the collapse of an entire regional system, the breaking apart of nations, and associated internal conflict and civil war. It was understandably difficult to reach consensus on the reform agenda, especially in the early and mid-1990s, and there was little capacity to implement reforms. Conflicts between the executive and the legislative branches or between the executive branch and the bureaucracy slowed progress. In Mongolia, the commitment to reform among the political leadership did not spread to other branches of the government. The politicians responded by replacing civil servants, which improved political cohesion, but seriously undermined government capacity. In Moldova, there was a façade of ownership of Bank-suggested reforms, and only partial or deferred reform actions (OED 2004p, p. 21). In Russia, macroeconomic stability was difficult to achieve because the authorities lacked instruments for indirect control of the economy and there was no consensus on how to spread the costs of adjustments (OED 2002e, p. x).

Among the seven modest- and poor-performing countries in the areas of growth and poverty reduction, Brazil was committed to reforms after the introduction of the *Real* Plan in 1994. Jordan and Morocco were less committed to reforms once macroeconomic stabilization was achieved. Guatemala, Lesotho, Peru, Zambia, and Zimbabwe have been politically unstable at times. In Lesotho, the Bank was too optimistic in the 1998 country strategy in stating that the May 1998 elections would lead to greater democratization and stability (despite the negative 1993 election experience) and failed to include contingency plans in the event that the democratization process fell apart, which it did (OED 2001b, p. 13). The Bank overestimated the government's willingness to undertake civil service and parastatal reform in Zimbabwe (OED 2004v, p. 8).

The Bank needs to be more careful in assessing the political environment in which reforms will be implemented, as well as borrower receptiveness to Bank advice, willingness to undertake difficult reforms, and capacity to implement agreed-upon measures. When faced with questionable ownership for reform or policy slippages, the Bank should be more prepared to reduce the level of planned assistance. It should be particularly prudent in turnaround situations (box 3.3).

At the same time, the Bank can utilize ESW, knowledge transfers (including peer-to-peer learning), and support to nongovernmental actors to foster greater ownership and build capacity. ESW can help build increased understanding of why and how to improve a country's public sector performance and help build internal analytic capacity. But experience shows that the full potential of ESW to facilitate greater ownership and capacity building is not being utilized. This is in part because there has been an incomplete diagnosis of capacity building constraints and inadequate participation of clients in the actual analysis and subsequent dialogue on the findings of the work. Self-evaluations of country knowledge-sharing activities and World Bank Institute (WBI) learning programs also show the potential of peer-to-peer exchanges and learning activities focused on country-specific problems, development of action plans, and follow-up measures to enhance the use of knowledge gained—but these kinds of activities account for only a small proportion of Bank-supported knowledge-sharing efforts (OED 2003h, 2005f). Also, in settings where research and training capacities are weak, building cross-country professional networks to meet knowledge needs has shown considerable potential and may be a promising area for greater Bank support in the context of weak ownership and capacity.

The Bank sometimes overestimated country ownership and capacity for reform.

Economic and Sector Work

High quality and timely ESW has led to more suitable assistance strategies, better development outcomes, and reduced risks. In Vietnam, analytical work demonstrating that rural poverty was associated with a lack

The Bank can use ESW, knowledge transfers, and support to NGOs to foster greater ownership and capacity for reform.

Box 3.3 The Bank Needs to Be Prudent in Turnaround Situations

In the early stages of its assistance to Bulgaria's transition, the Bank overestimated client ownership and capacity to implement a heavy volume of projects. It also did not invest sufficiently in reaching broad segments of the population with lessons of development to promote common understanding of the need for reforms. When the government reneged on its commitments for financial and enterprise reforms in 1996, the Bank learned its lesson and prudently delayed the processing of the Financial and Enterprise Structural Adjustment Loan. After the adoption of the currency board in 1997, the Bank maintained a cautious stance, delaying further adjustment lending until the new government exhibited commitment to sound macroeconomic and structural policies.

In Mongolia, the Bank played an important role in stabilizing the initial crisis associated with transition. After the stabilization in 1993, the Bank was slow to shift toward a longer-term strategy. The interventions adopted between 1993 and 1996 were short-term rather than systemic, sustainable approaches focused on long-term development goals. In retrospect, greater policy and institution-building content in the lending program from the mid-1990s onward would have lent greater relevance to the Bank's program as the emergency receded.

***Source:* OED 2005b, p.18, 2002a, p. 21, OED 2004p, p. 18.**

of economic infrastructure was instrumental in steering the lending program toward infrastructure (OED 2005a, p. 8). In Armenia, a fiscal 2002 growth study, which analyzed the phenomenon of limited income benefits from growth, had a significant impact on subsequent adjustment lending. The findings that a poor business climate and weak private sector capabilities were hindering private sector activity were incorporated into the Structural Adjustment Credit IV and two subsequent Learning and Innovation Loans (OED 2004c, p. 13). In Jordan, a 1994 economic report that emphasized opening the country to trade assisted with the establishment of a partnership agreement with European Union in 1999 and its accession to the World Trade Organization in 2000 (OED 2004l, p. 14).

In certain countries, even though the ESW was timely and of good quality, the findings were not incorporated into the Bank's strategy. In Mongolia, Bank operations before fiscal year 2000 did not include policy conditions, despite a range of analyses and recommendations in Country Economic Reports and Policy Notes. In Jordan, Bank lending during the 1990s did not address reducing the level of government expenditures, despite sufficient analytical work identifying how these expenditures could be reduced and better targeted. Jordan's government expenditures continued to hover around 40 percent of GDP during the 1980s and 1990s—higher than in comparable countries, even allowing for Jordan's greater military expenditures. In Peru, the Financial Sector Reform Loan in fiscal 1999 did not address fundamental problems in the sector, which an ongoing financial sector assessment had correctly identified (OED 2005b, p. 9).

Assistance strategies in many countries were based on a much stronger projected growth performance than warranted by past country experience, or experience of other countries facing similar constraints and prospects. In Jordan, the Bank projected growth rates of over 6 percent annually in the 1990s, when the low level of investment (both government and private nonhousing) since 1985 should have indicated much more modest projections. In Zambia, the Bank's economic projections for its fiscal 1996–2001 strategy failed to reflect the initial contraction associated with adjustment, the impact of the failing copper mines, and the negative impact of HIV/AIDS, and failed to fully incorporate the findings of analytical work on external debt management (OED 2002i, p. 13, 2005b, pp. 14-15). Unrealistic growth estimates entail real costs for the countries concerned, including exacerbated debt situations. The Bank should have conducted more analytical work on the sources and constraints to growth and on debt sustainability issues based on more realistic growth projections. It then could have made greater efforts to persuade countries to undertake deeper reforms to accelerate economic growth, and to seek debt relief or other forms of concessional assistance, and thus avoid overly high external debt burdens.

Box 3.4 Good Country Knowledge Is Especially Important for First-Time or Renewed Borrowers and for Stop-Go Reformers

In Vietnam, while awaiting approval to resume lending, the Bank built up its knowledge of the economy and provided a range of nonlending services including ESW. This nonlending assistance was extremely useful in developing the Bank's relationship with Vietnam and for preparing subsequent credits. In Peru, the analytic work during the nonaccrual phase in the late 1980s was instrumental in building a knowledge base that could be utilized once lending began. Policy notes between 1990 and 1991 built on the existing database and provided timely advice on the most urgent structural reforms and stabilization measures, which were implemented by the newly elected government. In Bulgaria, however, ESW was cut back when new lending stopped after the 1994 financial crisis. ESW and other nonlending instruments should be viewed as a long-term investment, requiring regular maintenance.

Poverty Monitoring

Monitoring poverty is an integral part of fighting poverty, and essential for informed decision making and resource allocation. To achieve results, decisionmakers need information they can use to verify that they are on course and to improve performance (OED, 2004a). It is also critical for demonstrating results. The Bank has emphasized that improved country outcomes on sustainable growth and poverty reduction are its bottom-line measure of development effectiveness (World Bank 2002b). Better data on poverty would help the Bank delineate and assess results along the chain from interventions to outcomes and impacts. At the same time, poverty monitoring systems should be country-owned and sustainable, above and beyond donors' needs.

The Bank has supported clients in building their capacity for monitoring poverty outcomes. In China, the Bank's research on the determinants and measurement of poverty has influenced both scholarly and policy views (OED 2005a, p. 19). The Bank's Development Economics department has worked closely with China's Bureau of Statistics, providing training and advice on defining and measuring poverty and on the design of the household survey and other monitoring activities. In Vietnam, the Bank's support for poverty analysis was in the forefront of its strategy and is considered best practice. The Bank provided technical assistance to the Vietnamese statistical office to carry out a living standards survey and to analyze the results. The 1995 Poverty Assessment not only provided a good baseline for monitoring the impact of economic development on poverty, but also covered relevant policy issues in public finance, such as intergovernmental fiscal relations, and targeting infrastructure investments and the provision of social services. This was followed by another living standards survey and the 1999 *Attacking Poverty* report, which was highly praised in Vietnam (OED 2001f).

In the transition countries, Bank support for poverty monitoring came to the forefront too late to influence decisionmaking early in the transition (OED 2004l, p. 4). Although living standard surveys were initiated quite early in a few countries, they tended to focus on short-term labor market and social protection issues. The first comprehensive poverty assessments were carried out only in the mid- to late 1990s. The lack of analytical work and monitoring indicators was an impediment to developing anti-poverty programs in many of the transition countries.[7] In Armenia, analytical work on poverty was well linked to the Bank's lending program. This led to the establishment of a new social benefit system, well-targeted to the poor, which replaced a complex system of child allowances and other benefits that had been provided to poor and nonpoor alike (OED 2004c, p. 16).

Monitoring poverty is critical for borrowers to track and improve their performance, and for the Bank to measure its effectiveness.

The Bank was slow to realize the importance of poverty monitoring in the transition economies until the mid to late 1990s.

Among the poor-performing countries, the Bank did emphasize periodic poverty monitoring and analysis in Zambia, which has helped make the level and depth of poverty and the characteristics of the poor well known (OED 2002i, p. 11). But in Zimbabwe, a full Poverty Assessment has never been completed, which has left a gap in the Bank's policy dialogue (OED 2004v, p. 17). For instance, an agricultural sector memorandum, apart from mentioning food insecurity and the need for a more equitable distribution of assets, made no reference to widespread and deep poverty in rural areas.

The Bank relies on borrowers' monitoring systems to measure the impact of Bank interventions and whether CAS objectives are being attained, since client countries are responsible for monitoring the achievement of their poverty objectives. But countries often have weak capacity to measure poverty outcomes. Low-income countries, in particular, tend to have limited monitoring and evaluation capacity at the national and local levels. A large share of the existing data collection capacity is associated with donor-supported projects

Low-income countries have limited capacity for monitoring and evaluating poverty outcomes.

and is not connected to national or sectoral databases (OED 2004s). With poverty data systems at a nascent stage, most poverty reduction strategies are based on the best available poverty profiles, which in some cases are incomplete or outdated.

In low-income countries, the poverty reduction strategy process, under the principle of "results-orientation," aimed to stimulate the demand for including monitorable indicators in national poverty reduction strategies and improving in-country arrangements for monitoring and evaluation. In some countries, the poverty reduction strategy process has spurred sustained interest in enhancing institutional capacity. In Albania, the PRSP crystallized the government's decision to move ahead with monitoring activities in all ministries. In Tanzania, a broadly participatory mechanism for monitoring has been introduced, which has substantively enhanced national processes for poverty monitoring. In other countries, progress in improving monitoring has been slow—a common stumbling block has been the decision to track a large number of indicators, despite significant data challenges (in Mozambique, for instance). The monitoring of results on poverty reduction remains weak overall in poverty reduction strategies. Of 12 mature PRSP countries that had issued an annual progress report as of May 2004, only a few countries had enough data to assess whether there had been progress toward achieving the Millennium Development Goals.

The PRS Initiative has yet to markedly improve the capacity of low-income countries to monitor poverty outcomes.

Building the Climate for Investment, Jobs, and Sustainable Growth

The promotion of private sector investment has been at the core of the Bank's strategy for sustainable growth and poverty reduction since at least 1991. A healthy business environment is intended to increase investment, and in turn to create jobs and raise the incomes of the poor. Private sector investment also requires an effective and accountable public sector in order to protect property rights and ensure equitable and consistent treatment under the law.

The 2001 strategy recognizes the overlapping nature of the investment climate and public sector governance by associating them in a single pillar (figure 4.1), even though the responsibilities for their implementation are dispersed across four Bank vice presidencies.[1] It also recognizes more explicitly than the 1991 strategy did that institutions affect growth by shaping the incentives that private and public individuals face, and thereby influencing private investment decisions, the ways firms organize their production processes, and the quality of public regulation of business. The need for reforms in the rule of law and public administration to underpin the investment climate suggests that it may be most appropriate to pursue selective, step-by-step reforms based on in-depth, country-specific understanding and identification of the binding constraints on investment in each country.

Institutions and Economic Growth

The development research literature bears out the relevance of institutions for growth. Although cultural and geographical factors may also affect economic performance, differences in the quality of economic institutions—broadly understood as the "rules of the game"—have been found to be the most significant source of *sustained* economic growth in cross-country research (Acemoglu, Johnson, and Robinson 2004) as well as in case studies (Rodrik 2003). However, recent research suggests that an acceleration of economic growth in many countries is not always associated with major institutional reforms (Hausmann, Pritchett, and Rodrik 2004). Rather, growth accelerates when selective reforms or attitudinal changes occur

Higher-quality economic institutions are the most significant source of sustained economic growth across countries.

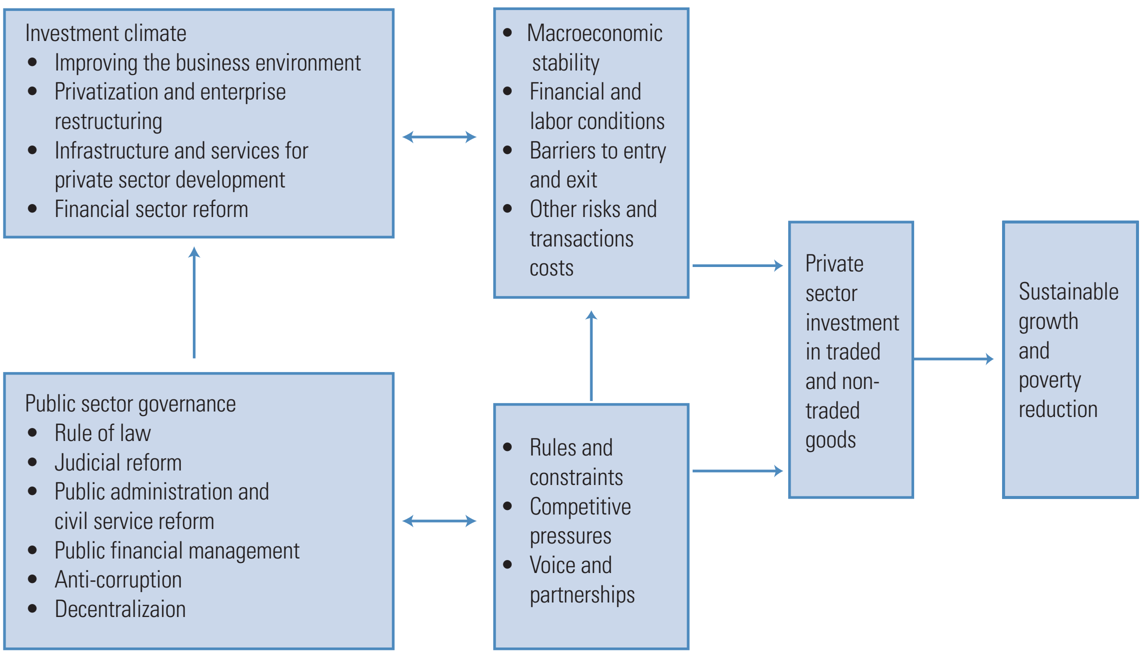
Evaluation Essentials 4

- **The Bank's work on investment climate has improved since the early 1990s.**
- **The Bank has increased its efforts to promote reforms in the rule of law and public administration.**
- **The Bank could do more to harness the synergies between private sector development and public sector reform.**
- **Designing appropriate reforms requires understanding the conditions that affect private sector activity in each country.**
- **There is an urgent need to assess the impact of the Bank's work on public sector governance.**

in the political elite that relieves the local binding constraints on economic activity. These constraints differ from country to country. For instance, Rodrik and Subramanian (2004) found that the acceleration of growth in India in the early 1980s resulted from government's adoption of a more pro-business attitude toward economic development (in response to the need for political support from business groups). Designing selective reforms therefore requires specific understanding of the local conditions that affect private sector activity.

Improvement in public sector institutions and the investment climate reduce poverty primarily through their effect on overall economic growth. Better-developed financial markets improve the allocation of capital by reducing informational and enforcement problems, which in turn increases the rate of economic growth (Levine, forthcoming). Removing imperfections in capital markets may also reduce poverty by improving poor entrepreneurs' access to credit. But there is little evidence that improving the investment

Figure 4.1 How a Positive Investment Climate and Quality Public Sector Institutions Contribute to Economic Growth and Poverty Reduction



climate induces a poverty-improving shift in the distribution of income in addition to its impact on economic growth. There is some evidence that countries with high-quality institutions have lower levels of income inequality and poverty (for a given level of income) than countries with low-quality institutions (Chong and Calderon 2000a, b). Corrupt bureaucracies and biased enforcement of contract and property rights inhibits the poor from making investments in physical and human capital that could raise their incomes. Low-quality institutions also limit the ability of the poor to hold public officials accountable.

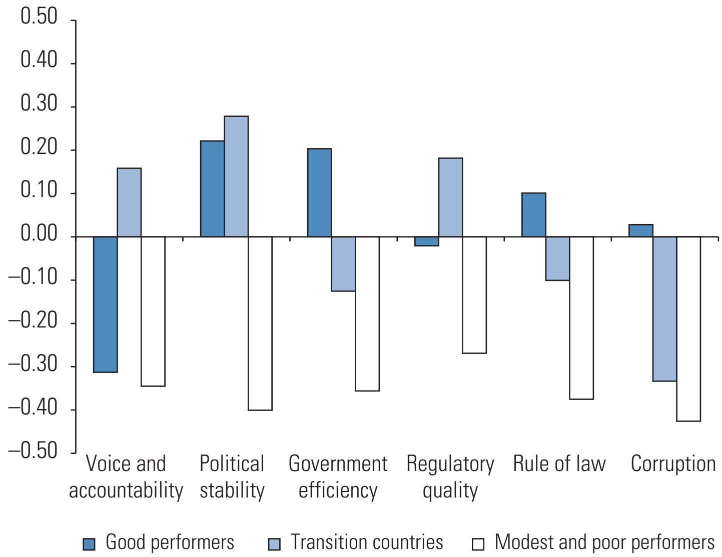
Evidence from the three groups of countries reviewed in Chapter 3 confirms the association between the average quality of public sector institutions and economic performance (figure 4.2). But the six good-performing countries also demonstrate that it is possible to *stimulate* rapid economic growth, at least for a period of time, without high-quality public sector institutions across the board. Among the six good performers, only Chile scores one standard deviation above the mean on all six indicators (table C.4). While the average score of the six good performers is above the mean on political stability and government efficiency, it is well below the mean on voice and accountability, because China, Vietnam, and Tunisia all score low on this measure. The greatest improvements in the quality of public sector institutions between 1996 and 2002—the first and latest years for which these indicators are available—occurred in the transition countries (figure 4.3).

Bank Strategies and Assistance

Sector Strategies

The Bank has shifted its private sector development strategy to a deeper focus on institutions as a result of its experiences in transition and in developing countries in the 1990s. In the transition economies, the limited benefits of the Bank's initial focus on privatization and enterprise restructuring suggested that more fundamental reforms were necessary for the full gains from privatization to be realized. In developing coun-

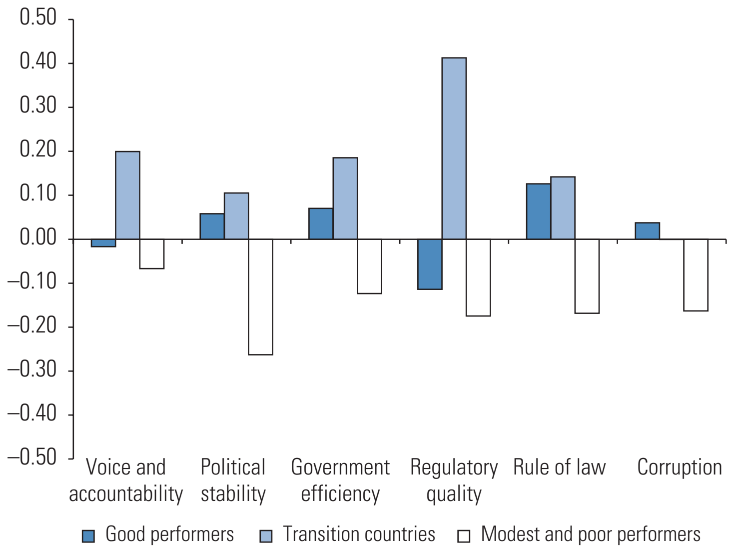
Figure 4.2 The Quality of Public Sector Institutions Is Higher in the Good Performers and the Transition Countries



Note: By design, these indicators have an average of zero and a standard deviation of unity among all 199 countries in the survey.

Source: Kaufmann, Kraay, and Mastruzzi 2003.

Figure 4.3 The Quality of Public Institutions Improved Markedly in the Transition Countries from 1996 to 2002



Source: Kaufmann, Kraay, and Mastruzzi 2003.

The Bank has shifted its private sector development strategy to a deeper focus on institutions as a result of its experiences in transition and developing countries in the 1990s.

tries, private investment in infrastructure did not deliver the expected economic gains. It was concentrated in only a few sectors (especially telecommunications), unevenly distributed among developing countries, and dropped sharply after the 1997 Asian crisis. Bank lending for infrastructure projects declined from US$10.3 billion in 1993 to US$5.1 billion in 2002. The largest declines occurred in the electric power and water sectors—two sectors in which private sector participation has proven to be less feasible than in other activities (OED 2003d, f). The critical challenges are now viewed to be the design and implementation of stable and effective regulation that takes into account which segments of each infrastructure sector are naturally competitive and which are naturally monopolistic, and the design of pricing policies and subsidy mechanisms to increase access to affordable services for previously unserved customers, generally the poorest (Kessides 2004, pp. 17 and 19). Whether infrastructure services are publicly, privately, nationally, or locally owned—or some combination of those—matters less than that they are provided in a businesslike manner in a stable, transparent, and effective regulatory environment.

It is noteworthy that, with the exception of Chile, the six good-performing countries have not implemented large-scale privatizations and have borrowed less than the other countries for privatization (figure 4.4). China, India, and Vietnam encouraged private sector investment, leading to economic growth, by means other than privatization.

The Bank's financial sector strategy now focuses on improving the legal and judicial environment, strengthening banking systems, promoting capital markets, and finding market-based solutions for access to credit.

The Bank's evolving approach to the financial sector has been influenced by its experience in the Europe and Central Asia Region , the 1997 Asian crisis, and emerging research. The Asian crisis revealed weaknesses in financial markets in affected countries and had major short-term impacts on poverty. The actions of governments to address the crisis were generally deemed inadequate by private investors, and the crisis spread beyond Asia to Russia, Brazil, and (ultimately) Turkey. The Asian crisis had one of the greatest fiscal impacts in history and adversely affected the distribution of income, not only through its fiscal impact, but also through implicit net transfers from poorer households to financial system participants, as governments rescued and recapitalized failed banks (Serven and Montiel 2004; Halac and Schmukler 2003). In Indonesia, the most adversely affected country, the incidence of poverty increased from 17.7 to 24.2 percent (Kiguel 2004, p. 10).

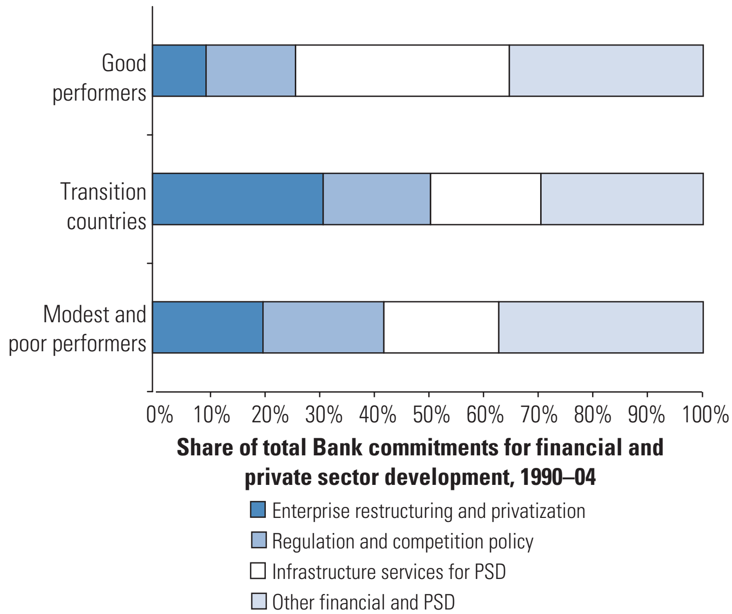
The Bank's 2001 Financial Sector Strategy focuses on (1) improving the legal and judicial environment, (2) strengthening banking systems, (3) promoting capital markets, and (4) finding market-based solutions to access to credit, in contrast to the Bank's 1992 Operational Directive 8.30 on Financial Sector Operations, which dealt mainly with the macroeconomic environment, interest rates, and subsidized credit. The 2001 strategy is largely consistent with the current literature on financial sector reform.

Analytical Work

The Bank uses a large and diverse set of diagnostic tools and indicators (generated both by the Bank and by other organizations) to guide its work on investment climate and public sector governance. Most of these tools have been developed over the past five years and address a wide range of issues that affect each country's investment climate (table C.5). The Bank operationalizes the findings and information available from these tools in the Country Policy and Institutional Assessment (CPIA), and thereby in Bank lending allocations, and through CASs and programmatic lending. In addition, some of these tools serve as global public goods, which can be used to motivate reforms through cross-country comparisons and benchmarking. Almost all provide specific country-level information to better analyze and design appropriate reforms. That these tools are currently managed by a variety of private sector development and public sector governance units in the Bank suggests the possible advantages of linking these tools in order to ensure a unified approach to investment climate issues in the Bank.

- Investment Climate Assessments (ICAs) survey managers and firms to systematically analyze conditions for private investment and enterprise growth and to monitor changes over time. Investment Climate Assessments have so far influenced the Bank's strategy in some counties, according to a work by Andrew Stone of the Bank's Middle East and North Africa Region (2004). In Algeria, for example, after an ICA revealed that firms lacked access to land, the most recent CAS incorporated reforms to increase the supply of public land and reform industrial land markets. Similarly, when the ICA for Cambodia identified weaknesses in the rule of law, widespread corruption, and high bureaucratic costs as significant deterrents to investment, the CAS included activities to increase transparency in the public sector.
- The "Doing Business" Project gathers quantitative indicators on business regulations and their enforcement that will allow comparisons across more than 145 countries and over time. The indicators are based on assessments of laws and regulations, with input from and verification by local experts (unlike ICAs, which are based on surveys of firms).
- Institutional and Governance Reviews (IGRs) trace the institutional roots of weak government performance and offer practical recommendations for improving government operations and development strategies. These are intended to inform the Bank's country strategies, identify institutional weaknesses that undermine government performance, help set operational priorities based on institutional and political feasibility, and contribute to better project designs. Two lessons have so far emerged, according to a study by the Poverty Reduction and Economic Management vice presidency (PREM) (PREM 2002a). First, ideas rather than Bank financing are having the largest impact in countries that have not yet made substantial institutional and policy reforms. Second, IGRs are helping the Bank better identify "good fit" approaches to institutional and policy reform. The IGR for Armenia has had several notable impacts, such as influencing the government's strategy for health sector reform, according to another PREM study (PREM 2002b).

Figure 4.4 **The Good-Performing Countries Borrowed Less from the Bank for Privatization**



Source: World Bank data.

The Bank's work on investment climate and public sector governance uses a large and diverse set of diagnostic tools and indicators.

Bank Lending

Total Bank lending for public sector governance, rule of law, and financial and private sector development combined has averaged around 40 percent of Bank commitments since 1990, with no significant trend up or down. Lending for in-

Bank lending for core investment climate projects and financial sector reform has had more satisfactory outcomes than Bankwide averages.

frastructure services has rebounded (in line with the new Infrastructure Action Plan), and that for privatization continues to decline (figure 4.5).[2] The most rapid growth among the public sector governance themes is occurring in public expenditure and financial management and administrative and civil service reform – the areas emphasized in the 2000 public sector strategy, and in which the Bank is perceived to have a comparative advantage. An OED review of a sample of 24 recently completed CASs from 2001 to 2004, representing all the Bank's Regions, also revealed an increasing focus on traditional public financial management issues. The most recent CASs, such as those for Armenia, Bolivia, Ghana, India, and Tunisia, focused more on this issue compared with CASs from the beginning of the period, which had also emphasized more fundamental reforms such as improving the legal system.

The outcomes of Bank lending for core investment climate projects and financial sector reform were more satisfactory than the Bankwide averages between 1993 and 2003 (figure 4.6).[3] The recent OED study on Bank assistance for financial sector reform also found that the outcomes of financial sector projects under the control of regional units that are members of the Financial Sector Board exceeded by a significantly different 20 percentage points—88 to 69 percent—the outcomes of financial components of multisector projects under the supervision of other Bank networks. This probably results, on the Bank side, from the preparation of projects by specialized staff, the review process within the network prior to loan approval, and the quality of Bank supervision, all of which focus more resources and more effort on achieving successful outcomes.[4] This strongly suggests that Regional units that are members of the Financial Sector Board should be closely involved in quality control (whichever sectoral unit has overall responsibility for the project), and financial sector specialists should be assigned to supervise the components (OED 2005e, pp. 31-32).

Countries that borrowed for financial sector reforms have made more progress than non-borrowers on reducing government ownership of banks.

The same OED study also found that countries that borrowed from the Bank for financial sector reforms made more progress than nonborrowers in reducing both government ownership of banks and the spread between lending and borrowing interest rates (a proxy for efficiency of the financial sector). But credit to the private sector (measured by claims on the private sector by the banking system) grew less rapidly in countries that borrowed from the Bank, and remains very low—at less than 30 percent of GDP in the 62 borrowing countries for which information was available, and less than 10 percent in 17 countries. The Bank has also had limited success promoting microfinance for the poor (box 4.1).

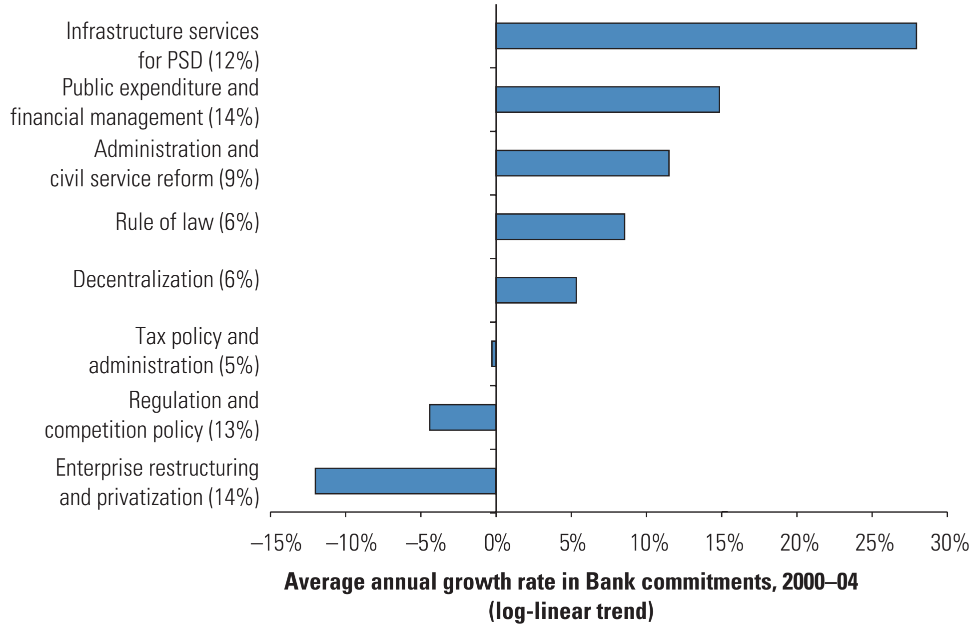
Key Constraints to Achieving Positive Results

The impact of Bank lending has been less satisfactory in certain sectors—such as private sector development, public sector governance, and rural development—than is suggested by the outcome ratings on individual projects in those sectors, according to a recent review of 25 CAEs (OED 2005ba, pp. 5-6). The political economy of the reform process tends to be more problematic in these sectors. Successful outcomes are more dependent on economy-wide factors such as macroeconomic stabilization and fiscal deficits, and also on institutional reforms and capacity building, which take time.

Domestic Political Economy

The Bank's contrasting experiences in Turkey and Romania illustrate the importance of political commitment for implementing investment climate reforms. In Turkey, the Privatization Implementation Assistance and Social Safety Net

Figure 4.5 **Lending for Infrastructure Services Has Rebounded in the Past Five Years**



Note: The numbers in brackets on the left vertical axis represent the share of total commitments to investment climate and public sector governance, by thematic area, from 2000 to 2004.
Source: World Bank data.

Project (approved in 1994) did not achieve its objectives of accelerating privatization and laying the foundation for further divestiture of state-owned enterprises, because broad-based political support for the project was absent and the legal system successfully nullified the proposed privatizations (OED 2001e). In Romania, the Private Sector Adjustment Loan (approved in 1999) supported the passage of a law on collateral and the establishment of a registry for

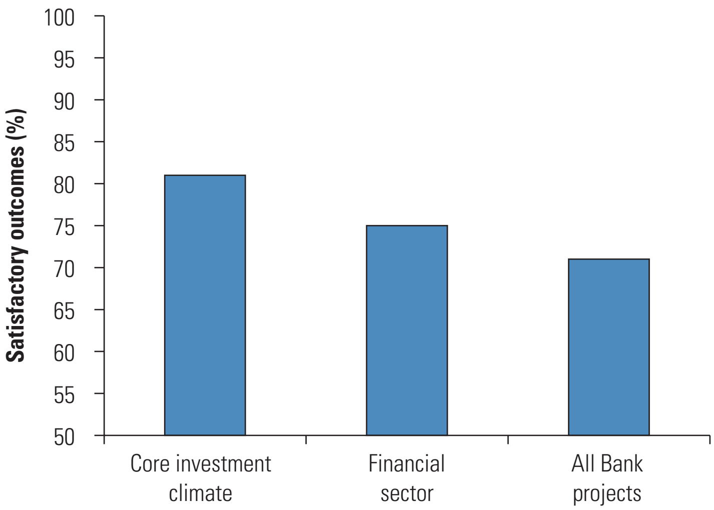
Box 4.1 **Microfinance Is a High-Potential Poverty-Reduction Tool That Is Difficult to Scale Up**

Individual microfinance institutions have demonstrated that they can both achieve financial sustainability and serve the poor. Impact assessments of the Bangladesh Rural Advancement Committee (BRAC) and the Grameen Bank have demonstrated their ability to help the poor increase their assets and their incomes.

Recognizing the potential of microfinance as a poverty reduction tool, the Bank has supported it, but with limited success. Although it has provided more than US$1.7 billion in microfinance and small and medium-size enterprise lines of credit since 1995, these projects have not received satisfactory scores on an index of performance indicators. The Bank has also provided over $70 million in grants to the Consultative Group to Assist the Poor (CGAP), a global partnership program that promotes microfinance for the poor. While CGAP has been successful in spurring innovation and learning it has been less successful in fostering national policy environments conducive to micro-finance. CGAP's linkages to the Bank's country operations have been minimal. Its current strategy observes that "it is becoming increasingly apparent that large-scale sustainable microfinance can only be achieved if financial services for the poor are integrated into the overall financial system."

Source: **OED 2004h.**

Figure 4.6 Investment Climate and Financial Sector Projects Have Been More Successful than Average



Note: Percent satisfactory outcomes of projects exiting the portfolio between 1993 and 2003, inclusive. Core investment climate projects comprise the following themes: corporate governance, judicial reform and other dispute resolution mechanisms, the legal institutions of a market economy, personal and property rights, and regulation and competition policy. Financial sector projects comprise financial sector adjustment loans, financial sector components in multisector loans, and financial sector technical assistance loans.

Source: OED 2005d, e.

secured transactions to facilitate private sector development. The project achieved positive results because of the government's commitment to reform, even though the economy experienced some economic turmoil at the time (OED 2003g). The Bank's experiences in Pakistan and Bangladesh also illustrate how government commitment made all the difference in relation to financial sector reforms (box 4.2).

In Zambia, little progress was made in the 1990s in recasting the role of the state; revising human resources and remuneration policies, promoting administrative and fiscal decentralization; and enhancing planning, budgeting, and expenditure management (OED 2002i). Although adjustment lending supported civil service reform and downsizing until late in the 1990s, the broad support required for such reform was absent. The Public Sector Reform and Export Promotion (PSREP) Credit was initially premised on securing civil service reform with the agreement of the president and Ministry of Finance. However, when serious opposition surfaced from affected civil service groups, the PRSEP had to be refocused. The Bank has now opted for a more gradual approach, extending Adaptable Program Loans for public service reform over the anticipated time frame of at least a decade (OED 2003j).

Economic and financial crises are often a catalyst for initiating reforms.

Economic and financial crises are often a catalyst for initiating reforms in both the investment climate and public sector governance (box 4.3). In Russia, the Bank found that the government was not interested in engaging in discussions with respect to good governance, fiscal management, or public financial accountability until the 1998 financial crisis. Since the crisis, the Bank has supported capacity building, especially in public administration, judicial reform, revenue and expenditure management, and financial accountability. The Bank has prepared position papers to assist the government's deliberations on modernizing public administration. Recent and ongoing ESW covers public investment, anti-corruption, and federal budget management, while other donors are funding reviews of public expenditures in specific sectors (OED 2002e, pp. 22–23).

Crises provide opportunities for reform both by revealing systemic problems in either the investment climate or public sector governance and by altering the incentives faced by powerful groups or individuals that were previously able to block the reforms (Alesina and Drazen 1991; Rodrik and Fernandez 1991).

Public Sector Capacity

To ensure high-quality public services, countries need to complement reforms with sustained capacity building. Capacity building has long been a goal of Bank interventions. Until the late 1990s, these interventions focused primarily on reorganizing government units and building individual skills. Influenced by the 1997 WDR, *The State in a Changing World*, the Bank has broadened its approach to include strengthening public institutions and

Box 4.2 Pakistan and Bangladesh: Government Commitment Makes All the Difference

Pakistan began to reform its financial sector in the late 1980s, but the limited measures taken (such as partial privatization of two state banks) failed to make significant improvements. Only after Pakistan experienced a banking crisis in 1996 did the government begin to tackle the serious issues facing the sector, including poor governance; rampant default by large, well-connected borrowers; over-staffing; and undue interference by labor unions in bank operations. The Bank has supported the reforms with a series of loans. Significant progress has been made in downsizing and restructuring the large state banks. Central bank supervision has improved and prudential regulations have been strengthened.

Bangladesh, too, borrowed from the Bank in the early 1990s for financial sector reforms, but with poor results because the government was insufficiently committed to addressing the corruption and governance problems plaguing the sector. By the late 1990s, half of the loans were nonperforming; the large state-owned banks practiced insider lending, fraud, and negligence; and the enforcement of prudential regulations by the central bank was lax. So, for 10 years, Bank lending to Bangladesh concentrated on microfinance, which was intermediated by specialized institutions outside the banking sector. Bank lending for financial reforms resumed in 2003, with a multisector credit to address prudential regulations and bank restructuring, with a view to eventual privatization. Although stronger prudential regulations have been passed, political opposition to bank privatization has been stronger than expected and the process of preparing banks for privatization has been slower than planned.

Source: **OED 2005e, p. 21.**

stimulating public demand for performance improvements. It has made a special effort to address public financial management, accountability, and public administration in support of the decentralization of service delivery. And it has added new diagnostic tools for assessing countries' capacities for managing their public financial resources.

The public sector in the Africa Region is generally weaker than in other Regions. More than one-quarter of the Bank's investment lending to the Region, as well as a significant share of adjustment lending, is directed to capacity building activities. Much of this work takes the form of training and technical assistance activities embedded in discrete operations. This fragmented approach makes it difficult to capture cross-sectoral issues and opportunities and to learn lessons across operations. Technical assistance and training have not generated sustainable improvements in public sector performance. Public agency

Box 4.3 What a Difference a (Near) Crisis (Sometimes) Makes . . .

A change in government, or at least a change in government's approach to its investment climate, has often followed a financial crisis, near crisis, or widespread insolvency. In Albania, for example, the Bank had supported reforms through two Financial Sector Adjustment Credits (FSAC) and one Technical Assistance Credit, neither of which addressed underlying governance issues. Only after the pyramid crisis in 1996–97 and the subsequent civil unrest was the new government ready to engage in real reforms. The Bank supported this effort with three Adjustment and two Technical Assistance Credits that aimed to resolve the pyramid scheme fallout, liquidate or privatize banks, and establish an asset management company to handle bad debts. By mid-2004, all banks had been privatized and the banking system was fairly healthy.

. . . But not always

Mongolia began its transition to a market-based economy in 1991 and experienced banking crises in 1992, 1994, 1996, and 1998. The fiscal year 1997 FSAC and Technical Assistance Credit supported liquidation of two banks, the establishment of two new public banks, debt recovery mechanisms, and the establishment of a credit information bureau, but no change in governance. Only in the FSAC and Technical Assistance Credit of fiscal 2000 did the government agree to divest one state bank and to put in place a clear exit policy for troubled banks.

Source: **OED 2005e, p. 34.**

The Bank has broadened capacity building to include strengthening public institutions and stimulating public demand for performance improvements.

staffs are often trained for specific tasks before they are in position to use the training, or without measures taken to retain them. Training and technical assistance generate sustained improvement only if applied within a broad human resource management framework linked to organizational and institutional change.

Public sectors are often weak, not just because of their lack of capacity, but also because their weakness benefits powerful interests that seek to avoid taxation, regulation, or other reforms. External assistance can help on both the supply and demand sides of the process—by providing inputs to enhance the functioning of the public sector and by strengthening structures of demand and accountability. But it cannot directly influence the cultural norms and political economy underpinning the demand for public sector performance. Therefore, capacity building efforts will only succeed where there is existing demand and interventions are country-owned rather than donor-driven.

Country strategies in Africa are gradually adopting a more integrated approach to capacity building. All recent CASs—unlike those of earlier years—include at least one sector or cross-sector operation with major capacity building aims. Country strategies have also shifted toward sectorwide programs and toward budget support through Poverty Reduction Support Credits (PRSCs), which set a broad strategy framework for the identification of long-term capacity building needs. These changes are relevant because they recognize that capacity building is a long-term process that requires a systemic approach and attention to demand as well as supply. A few recent projects make capacity building their primary objective. Like the example in Mozambique (box 4.4), these address the institutional, organizational, and human resource changes needed to improve sector and cross-sector public sector performance in an integrated way.

Country strategies in Africa are gradually adopting a more integrated approach to capacity building.

Public Sector Corruption

Corruption continues to hamper public sector performance and reduce private sector investment in many countries, resulting in slower growth (Mauro 1995). In the presence of corruption, businessmen must often pay upfront bribes before starting an enterprise and continue to pay corrupt officials part of the proceeds from the investment afterwards, thereby reducing their returns. If there is uncertainty about the number of necessary bribes, investment declines further (Shleifer and Vishny 1993). Corruption can also affect income inequality through biased tax systems and poor targeting of social programs, as well as through its impact on asset ownership, human capital formation, education inequalities, and uncertainty in factor accumulation (Gupta, Hamid, and Rosa 1998, p. 6).

An examination of the CPIA and the International Country Risk Guide (ICRG) indexes of corruption reveal that corruption remains a deeply rooted problem. The degree of corruption does not differ significantly among the three groups of countries reviewed in Chapter 3 (figure 4.7). The ICRG index of corruption suggests that the average degree of corruption has increased in all three groups in recent years, while the CPIA index implies that it has decreased somewhat in the good performers and the transition countries since 1999.

The persistence of high levels of corruption in good-performing countries provides additional evidence that countries can achieve rapid rates of economic growth for a period of time without high-quality public institutions across the board. In China, a 2002 World Bank Client Survey found that corruption was one of the two most frequently considered challenges facing the country (OED 2004g, p. 3). In Vietnam, a weak enforcement environment and an inadequate regulatory regime in its transition to a more market-oriented economy have increased the opportunities for corruption (OED 2001f, p. 4). In India, the variable enforcement of laws and

Box 4.4 Mozambique Takes an Integrated Approach to Reforming Its Public Sector

The Bank and other donors are supporting Mozambique's ambitious 10-year Public Sector Reform Program, which aims to give the rural poor better access to services by decentralizing the country's highly concentrated government functions. The reform program combines reorganization of individual ministries and units with systemwide reform of the salary structure to encourage the recruitment and retention of staff. It will also strengthen expenditure management and accountability. The Bank project features an innovative Performance Improvement Facility, a dedicated fund that ministries can tap to pay for restructuring and decentralizing the services they manage.

Source: **OED 2005f.**

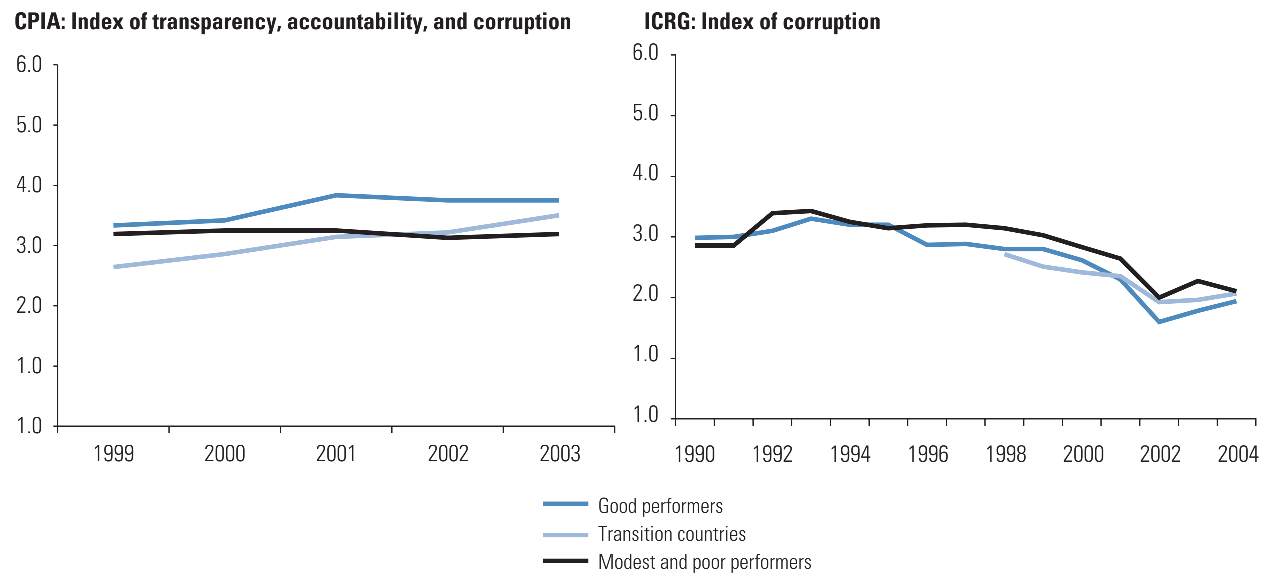
regulations, along with low civil servant salaries, has contributed to high levels of perceived corruption in the judicial systems and among the police (OED 2001a, p. 6).

The Bank has made a concerted effort, since the launch of its anti-corruption strategy in 1997, to raise the profile of corruption as a significant governance problem by raising international awareness, encouraging debate, engaging in research and analysis, and disseminating information about good practices for reducing corruption. But much work remains to be done. Rather than across-the-board reforms, it may be better to pursue more selective, step-by-step reforms that address the specific forms of corruption in each country, whether motivated primarily by rent extraction by public authorities or by rent-seeking by private interests.

The Bank could also work with its global development partners to address corruption through global part-

Corruption continues to hamper public sector performance and reduce private sector investment.

Figure 4.7 Public Sector Corruption Remains Deeply Rooted in All Three Groups of Countries



Source: Country Policies and Institutional Assessment (CPIA): index of transparency, accountability, and corruption in the public sector. International Country Risk Guide (ICRG): index of corruption. Both indices utilize a 6-point scale—the higher the index, the less the corruption.

The Bank could work with its global development partners to address corruption through global partnership programs.

nership programs. The Bank has been a founding partner in three related global programs—the Global Corporate Governance Forum (GCGF), the Financial Sector Assessment Program (FSAP), and the Financial Sector Reform and Strengthening Initiative (FIRST)—which were established following the 1997 Asian crisis. The GCGF has supported public-private dialogues in every Region to raise awareness of country-level institutional frameworks and practices of corporate governance and build consensus for improving them. FSAP and FIRST are working to strengthen country-level capacity for macroeconomic management, the banking system, and securities, insurance, and other financial markets—FSAP by diagnosing strengths and weaknesses in these financial systems, and FIRST by providing technical assistance to strengthen them. The GCGF also supports networks that exchange and disseminate information about effective reform strategies and techniques through toolkits and case studies. OED's recent review of the Bank's involvement in global programs found that there is definitely a role for global advocacy programs in advancing the reform agenda. But it is important for such programs to be well constituted and governed, with clearly established objectives that are agreed upon by both industrial and developing country partners at the outset (OED 2004b).

Economies that depend on revenues from extractive industries pose extra challenges for the governance agenda.

Extractive Industries

The Bank and the development community have long been aware that economies that depend on revenues from extractive industries—oil, gas, and mining—are at particular risk of corruption, rent-seeking, and government ineffectiveness. Collecting and managing revenues in the public interest, enforcing social and environmental regulations, and formulating policies to use the resource endowments for sustainable growth all require greater transparency and good governance (OED 2003e, p. 11). Almost half of Bank-supported extractive industries projects approved during 1993–2002 had at least one component that addressed transparency and governance issues such as property rights, accounting and auditing standards and practices, disclosure of information, and public consultation. These components were generally narrow in scope and not linked to the Bank's overall assistance strategies or analytical work on governance.

In Papua New Guinea, though, the Bank took a more thorough approach. Key ESW products (1995 Public Expenditure Review and 1999 Country Economic Memorandum) identified macro-level governance issues (such as the lack of transparency in government operations and high levels of corruption) and integrated these into the CAS and the lending program. Lending for the mining and gas industries addressed sectoral governance issues such as enhancing affected communities' knowledge of sector policies and laws, strengthening sector regulations, monitoring and supervision, and encouraging tax audits of mining and petroleum companies. But the policy dialogue on the governance issues came after private investments in the extractive industries had already been made, giving the Bank little leverage. This experience suggests that the Bank should sequence governance work in the extractive industry sectors ahead of promoting new investments and coordinate them with governance work in other sectors.

Empowering Poor People to Participate in Development and Investing in Them

Human capital development has been at the core of the Bank's strategy to reduce poverty for over two decades, both for the intrinsic value of health and education in improving income and other dimensions of well being and for their contribution to empowering the poor.

During the 1990s, Bank operations aimed mainly to expand service delivery by supplying physical facilities and staff training (OED 2000a).

This supply-side approach often neglected institutional and governance barriers, ingrained inequalities and gender biases, and the factors affecting demand for services. Systematic attention to monitoring and evaluation was lacking, which led to knowledge gaps about the impact of interventions on the poor. Drawing on experience, multidisciplinary research, and consultations with the poor themselves,[1] the Bank has revised its strategy to recognize that effective institutions and delivery systems are as important as economic growth for reducing poverty. This chapter is concerned with the second pillar of the Bank's 2001 strategy, empowering poor people to participate in development and investing in them, which has two components:

- *Increasing the capabilities of the poor*, which promotes human capital development through effective delivery of quality education and health services and access to well-designed safety nets
- *Empowering the poor*, which advocates creating opportunities for empowerment and building social capital for making the poor active participants, rather than just passive recipients of development, and for making state institutions more accountable and responsive to their interests.

Increasing the Capabilities of the Poor

The Bank has translated its interest in human capital into a focus on the provision of social services, supported by large volumes of financial assistance as well as analytic work that links investment in human capital with key correlates of income poverty. The changing composition of the Bank's aggregate portfolio reflects a pattern of lending that is increasingly favoring investments targeting the access of the poor to basic social services (figure 5.1).

Evaluation Essentials 5

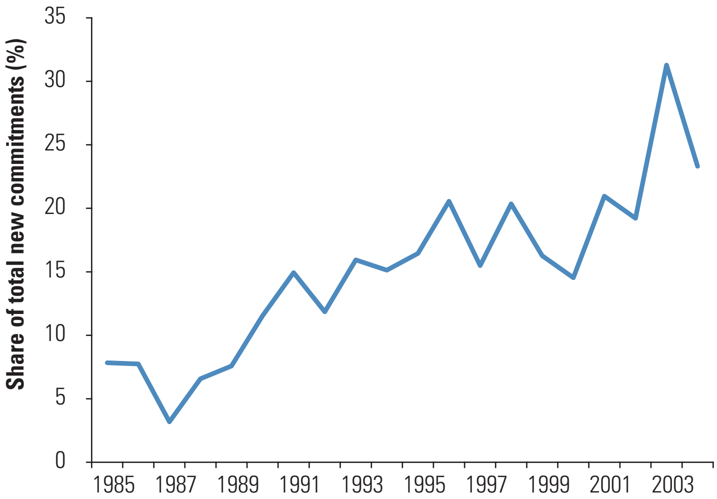
- **Substantial lending has been directed to the provision of social services and to social development activities.**
- **The Bank has conflated increased expenditures in education and health with reducing poverty, but their actual impact on poverty has been inadequate.**
- **The Bank has carried through with its intention to promote empowerment through social development activities, but both the intended and actual poverty impact of this type of intervention remain to be demonstrated.**

Social Sector Expenditures and Poverty Reduction

Increasing spending on the social sectors is intended to expand access to social services and achieve MDG human development targets. The Bank has tended to equate increased social sector expenditures with reducing poverty, and it has accordingly encouraged borrowing countries to increase and protect their levels of social expenditures. Four main factors underlie this focus on increasing expenditures in the social sectors. First, recent IDA donor replenishment agreements (IDA 10-12) have required IDA management to increase the share of investment lending allocated to projects in these sectors. The IDA 12 report of 1999, for instance, recommended that lending to social sectors represent about 40 percent of investment lending (OED 2002c). The IDA 13 replenishment recommendations further advocated the expansion of social services and outlined specific outcome targets (World Bank 2002a). Second, adjustment lending, while not governed by donor recommendations, has also increasingly focused on the social sectors. Adjustment lending for these sectors rose from 13 percent of total adjustment lending in fiscal year 1993 to 28 percent in fiscal 2003.[2] Third, the HIPC Initiative has required beneficiary countries to allocate the funds "freed up" from debt service to public expenditures in the social sectors. An OED review of the HIPC Initiative found, however, that these additional budgetary resources have often been superimposed on weak institutions and do not address the core constraints to improved sector performance (such as low efficiency of expenditures, poor service quality, and weak capacity) (OED 2003b). And, finally, the commitments to achieving major reductions in poverty and social inequality by 2015, as manifested in the MDGs, have further supported calls for increased public spending on the social sectors.[3]

Increased social sector expenditures are necessary but not sufficient for poverty reduction.

Figure 5.1 Bank Lending Has Increased Significantly for Education, Health, and Other Social Services



Source: World Bank data.

Reaching and Responding to the Poor

Increased spending must be combined with measures to ensure that expenditures on education and health will reach poor populations. Recent research findings from public expenditure incidence analysis show that spending typically is skewed to services disproportionately used by the rich and the middle class, or fails to reach frontline providers. The share going to the poorest 20 percent is almost always less than 20 percent (World Bank, 2004k). In the Dominican Republic, education and health expenditures benefit urban areas more than rural ones (OED 2003c). In China and Vietnam, although services are reaching the poor, the responsiveness of these services to local needs could be improved with more local input (OED 2005a, 2001f). An OED review of the Bank's health, nutrition, and population (HNP) portfolio pointed out that institutional analysis, including analysis of borrower ownership and client demand, had a strong influence on project outcomes. Yet assessments of state, political, and social institutions were not commonly used to inform either Bank strategy or project design.

Output Targets and Sustainability of Outcomes

Bank-supported projects in the social sectors are generally successful in meeting their goals, as measured by evaluation findings (figure 5.2). What impact do these operations have on poverty reduction? Country Assistance Evaluations (CAEs) for the 21 countries reviewed in Chapter 3 provide a country-level perspective on this question. In these 21 countries, 127 education and health projects have closed and been assessed. In 19 of the 21 countries, the projects met their physical objectives, resulting in such improvements as increased coverage of primary education and health care services; training of teachers and health workers; better facilities management; and improved supply of teaching materials, drugs, and medical equipment.

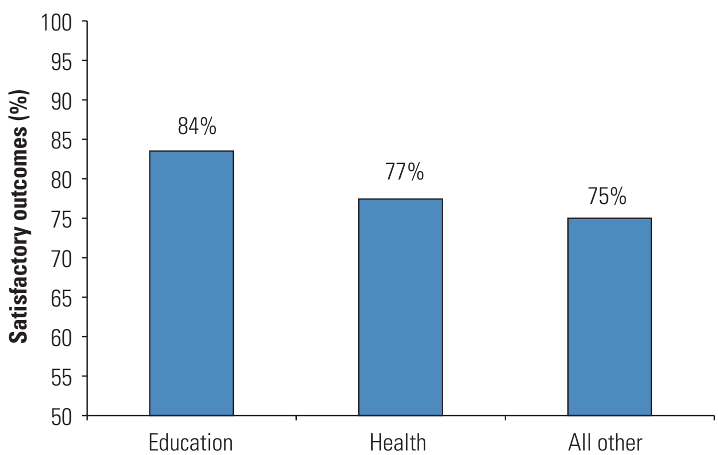
In 16 of these countries, however, projects were less successful in helping to improve education and health outcomes (such as better learning achievement and attainment and improved health status) and in fostering necessary sector and institutional reforms. The projects' impacts were limited by complex and ambitious project designs, lack of grounding in the countries' fiscal and institutional contexts, and an overcentralized approach to sector management. In Peru, for example, the Bank's primary education project focused on reconstructing the delivery of services and neglected needed institutional or sectoral reforms, thus putting at risk the sustainability of attained improvements in quality (OED 2002d). In Croatia and Russia, Bank assistance to the health sector was primarily focused on physical infrastructure, but neglected to address incentive issues and capacity problems, and gave insufficient attention to improving efficiency and retargeting expenditures (OED 2004g, 2002e).

Increasing expenditures does not ensure that services will reach the poor.

At the same time, a balance between "hardware" and "software" approaches (focusing on sector reforms, strengthening of information management systems, human resource development, and continuous results monitoring and assessment) has led to better outcomes. The Bank's experience with health reform in

Bank operations to the social sectors have usually met their physical and quantitative output targets but have been less successful in improving human development outcomes.

Figure 5.2 Social Sector Projects Generally Do As Well As or Better Than the Bank Average



Note: Percent satisfactory outcomes (weighted by disbursement) for projects exiting the portfolio during fiscal years 1995 to 2004, as assigned to sector boards.

Source: World Bank data.

Outcomes are better when interventions are linked to institutional reforms and support for capacity development.

five Eastern European countries shows that capital investments alone are only modestly successful in bringing about reforms or significant improvements in service quality or efficiency (OED 2002g).[4] Outcomes were better when investments were carefully linked with institutional reforms and complementary support for capacity development. In Ghana, substantial investments in school infrastructure in the context of a government-led sector reform were able to yield significant benefits (box 5.1).

Strong institutional, implementation, and absorptive capacities at the sectoral ministry level, and at the regional and municipal levels in decentralized systems, have been associated with improved outcomes and durable impacts. In Brazil, Bank programs have helped the state and municipal governments to build their capacity to manage their finances and infrastructure. Bank education projects that reflect this strong emphasis on management and attainment of minimum operational standards have generated gains in management and efficiency that are pre-conditions for better learning outcomes. This is in sharp contrast to Bank projects in Brazil initiated in the early 1990s that led to unsatisfactory outcomes because they did not take account of government ownership and absorptive capacity (OED 2004g). The Bank's involvement in global health programs also demonstrates that increased expenditures without attention to absorptive capacity puts in doubt both the achievement of outcomes and their sustainability (box 5.2).

Public expenditure reforms usually fall short of addressing structural and governance bottlenecks that affect social sector performance.

Public Expenditure Reforms and Social Sector Performance

A common approach for developing institutional capacity and promoting reforms in the social sectors has been the strengthening and reform of public expenditure management systems, which are key to improving a country's ability to use its development resources efficiently and effectively. These efforts have typically addressed bureaucratic inefficiencies and inputs: reform of tax administration, improved budget processes, introduction of medium-term expenditure frameworks, and integrated financial management systems. But these attempts have usually fallen short of addressing the structural and governance bottlenecks that affect outcomes and impacts. The greatest success has been in technical areas or areas that receive political support, such as tax administration (which promises increased government revenue at least in the short term). But capacity building efforts have progressed slowly in other areas of deeply rooted institutional constraints related to governance and implementation issues (OED 2005g). OED's evaluation of closed education and health projects in Sub-Saharan Africa, for instance,

Box 5.1 Inputs Do Matter . . . in the Context of Sector Reform

In Ghana, the Bank has provided close to US$260 million in support of school construction and equipment since 1986. This support for inputs has had a substantial impact on educational achievement because it was provided in the context of a sweeping reform program, to which Ghana's government was strongly committed. The reform focused on the politically difficult issue of enhancing efficiency and increasing cost recovery. The Bank's policy conditions, finance, and technical assistance were instrumental in helping maintain the momentum behind the reforms. Both educational attainment and achievement have risen, and improved educational performances have been clearly and strongly linked to better welfare, as measured by higher income, better nutrition, and reduced mortality.

***Source:* OED 2004d.**

Box 5.2 Global Disease Control Programs Are Stretching Health Delivery Systems

Global programs—such as UNAIDS, Stop TB, and Roll Back Malaria— have helped to increase donor funding for combating communicable diseases. The thematic composition of the Bank's health sector lending has followed suit. Since 1992, while overall health sector commitments have grown by 3.6 percent a year, lending for communicable diseases has grown by 8.6 percent a year, and for HIV/AIDS by 16.7 percent a year. This changing composition of Bank lending for prevention and treatment of communicable diseases has put strong pressures on already stretched health delivery system capacities in developing countries. These pressures strain the absorptive capacity of many developing countries to use the new funding for communicable diseases without complementary investments in their health delivery systems. Indeed, disbursements in communicable disease programs have yet to match the increase in commitments. Disease-specific activities can be supported over the long run only if complemented by support for building and strengthening systems of surveillance, testing, diagnosis, and prevention.

***Source:* OED 2004b.**

found that the Bank's technical assistance was largely ineffective because it failed to address systemic public sector weaknesses, including lack of coordination within and among government agencies, inappropriate organizational structures, and the inability of the civil service to attract and retain good people (OED 1999b). These are all public sector governance problems that education and health line ministries need help in addressing.

Quality of Analytic Work

Appropriate and good quality, sector-specific analytic work, with accurate diagnosis of service delivery issues, has significantly contributed to better project designs and human development outcomes. In Chile, the Bank's analytic work and advice were key in launching institutional reforms that helped further decentralize the health system and establish a complementary public-private health system. The analytic work also helped boost the effectiveness of the government's food assistance program through better targeting of the neediest (OED 2002b). Even in countries where the economic and political climate is not stable, high-quality economic and sector work can have high returns. In Lesotho, a country with a fragile and unpredictable political situation, the Bank's timely analytic work on education was instrumental in establishing a coherent policy framework for education reform, including reform of the central ministry. But in the same country, the Bank's failure to do any formal analysis of health and nutrition issues made it ill-equipped to support two complex HNP projects that eventually failed to meet their objectives (OED 2001b).

Empowering the Poor

The increased focus on empowerment rests on the belief that transferring certain decisions from public bureaucracies and into the hands of communities or groups of beneficiaries will help services work better and institutions more accountable. Activities with social development themes are the principal means by which the Bank is supporting the empowerment of the poor and the build-up of social capital (box 5.3). Social development is defined by the Bank as a process that begins with the needs and demands of the poor and works toward transforming institutions to make societies more inclusive, cohesive, and accountable (World Bank 2004i).

More than half of all approved projects during the past two decades have addressed at least one social development theme.[5] Bank projects that incorporate one or more social development themes have had better ratings on outcome, sustainability, and institutional development impact

High-quality analytic work, with sound diagnoses of and recommendations for institutional and sectoral reforms, has a high payoff.

Box 5.3 Social Development Themes Encompass a Wide Range of Activities

The Bank's social development themes are:

- **Community-driven development**
- **Conflict prevention/reconstruction**
- **Culture**
- **Gender**
- **Participation/civic engagement**
- **Social funds**
- **Social safeguards**

These themes are supported through both advocacy activities and lending operations in a wide variety of sectors such as agriculture, education, health, and social protection.

***Source:* OED 2004q.**

than has the Bank's overall portfolio (OED 2004q).[6] This is because social development themes are highly complementary, and integrated approaches to social issues at the project level can create synergetic effects. However, integration of social development good practice in Bank processes has been slow, and good-quality assurance mechanisms have been scarce.

Implementation of Social Development Activities

Social development themes have received expanded coverage in Bank country strategy documents in recent years.[7] OED country case studies and project assessments of the Bank's community development interventions in five countries illustrate that there is greater acceptance at all levels of government of the value of empowering communities to become involved in participatory approaches to development, and that the Bank has managed to introduce new ideas related to community participation processes. For example, in Vietnam, 70 percent of central government officials reported that projects with beneficiary participation can address poverty alleviation better than those without beneficiary participation (OED 2005c).

The Bank, however, has yet to translate its social development themes into practical operations on a significant scale. Plans for social development activities are generally ambitious during appraisal and design, but during implementation they are often limited to only small parts of projects or are too rushed or superficial. Despite the substantial amount of lending directed to social development themes in the aggregate, the social development components of projects have often accounted for a small share of total project loans—in 62 percent of the projects, the social development component was less than 30 percent of the total.[8] The review of 21 CAEs illustrates that the attention given to social development at the project level has been narrowly focused on individual social themes instead of holistic social assessments. Gender equity, the most commonly addressed social development theme in these countries, tended to be narrowly focused on reducing the enrollment gap between boys and girls and on expanding access to health care to reduce maternal mortality. While these efforts did reduce enrollment gaps in the reviewed countries, in virtually all 14 countries where gender issues were addressed, there was a general lack of broader strategies to address barriers to women's participation in the economy.

More needs to be done to translate social development themes from strategy into operational activities.

The Poverty Impact of Social Development Interventions

Despite the increased attention given to empowerment in Bank strategies, its link to poverty reduction is often not explicitly established. CASs generally do not present an adequate treatment of the role of social development themes within the context of a country's overall poverty setting. For instance, despite the significant increase in lending for social funds and community development, insufficient attention has been given to the poverty impact of these approaches and to careful assessments of whether the interventions are more relevant than alternative instruments in serving the specific sectoral activity and in achieving the Bank's poverty reduction mission (OED 2002g, 2005c).

Sector-specific poverty and social analyses are vital for linking policies and programs to a poverty impact. However, there is a critical gap in such analytic work, which reflects the focus on core diagnostic work such as Country Financial Accountability Assessments and Country Procurement Assessment Reviews. As OED's Poverty Reduction Strategy review shows, the Bank has carried out fewer Poverty and Social Impact Assessments than envisioned, despite the increased emphasis on analyzing the impacts of adjustments and policy reform on the well-being of the poor and the vulnerable (OED 2004s). There is considerable scope for improving the comprehensiveness and timeliness of assessment diagnoses and for better mainstreaming of social themes into the Bank's analytical work.

The experience with community development shows that despite sophisticated targeting mechanisms, the poorest and most vulnerable may not always benefit from the projects. The Bank has encountered similar difficulties in its social funds activities (box 5.4). OED assessments have also found cases where the position of the poor has worsened in the context of a Bank project. Recent household surveys in three project areas show that community members with a higher socioeconomic profile, including greater mobilization skills and more connections, gained more in terms of social capital enhancement and empowerment.

Sustainability of Social Development Activities

Although project outcomes are rated highly in all social development thematic areas, the sustainability of social development activities has been low. Social funds, which have the best outcomes among all social development themes, have had the lowest likelihood of sustainability. This is largely a function of the absence of social structures that can support infrastructure in poor communities and the failure of projects to create formal organizations that can sustain themselves. There has often been insufficient attention given to assessing whether the country has the capacity to operate and maintain the activities to be funded (OED 2002g). Governments' recurrent finance constraints have also—as they have in most social sector projects—made it difficult to provide for ongoing operation and maintenance.

The poverty impact of social development interventions has not been adequately demonstrated.

The sustainability of community development operations has also been low. The Bank's subproject cycle at the community level is often too short to provide meaningful capacity for sustainability to be built. There is no clear evidence that social fund and community development interventions have had success in empowering communities and enhancing their social capital (OED 2005b). As OED's review of rural water projects found, for community-based projects to improve outcomes, they need to carefully adapt interventions to the social characteristics of each beneficiary community; to be sustainable, these need to provide for a long-term presence in order to leave behind local organizations capable of operating and maintaining infrastructure (OED 2002f).

Decentralization

Social funds activities and community development projects have contributed to governments' decentralization processes where they have supported central and local government capacity building. These supports have included direct training or technical assistance as well as direct engagement with central and local governments as eligible subproject sponsors. They have also affected capacity through demonstration of new approaches and through additional demands generated for the services of government agencies. The contributions to the decentralization process, however, have not always been widespread or positive. Where social funds have accounted for a substantial share of public expenditure, as

Social development activities are difficult to sustain unless they provide lasting capacity.

Box 5.4 Targeting the Poorest Households Is a Difficult Challenge

Bank-supported social funds projects have reached the poor—and even the poorest—households, but only proportionally to their share in the population as a whole. A significant proportion of social fund resources have benefited the non-poor. Social funds in five countries had a neutral or only mildly progressive distribution of beneficiaries at the household level for four of the funds and a regressive distribution for the fifth. The share of beneficiaries among the poorest 40 percent of the population did not exceed 45 percent. Between 11 and 18 percent of the beneficiaries came from the wealthiest quintile. This lack of progressivity is disappointing because social funds aim to reach poor communities and households by using targeting mechanisms such as poverty maps to allocate resources, outreach and promotion in poor communities, and providing goods and services used by the poor. Better ways of targeting the poor and the poorest and of reducing unintended "leakage" to the non-poor are needed.

Source: **OED 2002g.**

Social development activities have strengthened decentralization where they have supported capacity building, but weakened it where they have set up parallel structures.

in Bolivia, Honduras, and Nicaragua, they have distorted the efficiency of resource allocation and have negatively affected sectoral and budgetary planning (OED, 2002g). And where community development projects have been implemented by setting up parallel structures for community participation rather than by working through local governments, they have actually weakened the capacity of local governments and the decentralization process (OED 2005c).

Participatory Activities in Bank Assistance

The Bank promotes participation in project work to help foster ownership and to make development effective and sustainable. The quality, sustainability, and long-term impact of participatory activities depend on the institutional capacity of client agencies and communities. The Bank has had the most success with participatory activities where it has supported indigenously matured initiatives or where the borrower has used Bank assistance to supplement its own efforts to organize for collective action. Participatory activities introduced into circumstances that have not historically favored participation and collective action have had little impact on the empowerment of the poor (box 5.5).

Participatory activities have better outcomes when they support indigenously matured initiatives.

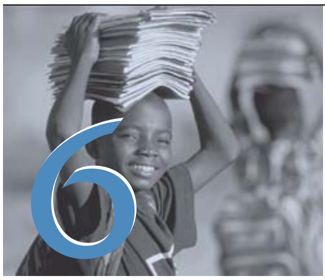
At the country level, too, the Bank expects the authorities to conduct participatory activities in formulating Poverty Reduction Strategy Papers (PRSPs). Extensive consultations conducted during PRSP formulation have indeed brought new actors into the development dialogue, including in countries with little tradition of direct government-to-civil-society dialogue, such as Albania, Cambodia, and Tajikistan. But in general, participatory activities waned once PRSPs were completed. Barriers to a sustained impact of participation at the country level frequently included a lack of clear and shared objectives among stakeholders for these activities and the limited capacity of civil society and communities to engage in detailed policy analysis (OED 2004s).

Box 5.5 **Participatory Projects Do Not Necessarily Empower the Poorest**

Some Bank projects have been designed to graft participatory activities onto a deeply rooted social and institutional environment to give the poor greater voice. The India Uttar Pradesh Sodic Lands Reclamation project helped to create village institutions for managing saline and alkaline farmlands. Although the project design assumed that all farm families would have an equal say, the implementation of the participatory aspect gave little thought to the social and economic context. Caste plays such an important role in village life that higher caste members and better-off farmers dominated the decisionmaking process. The poorest farmers did not even have time to attend meetings since they were too busy trying to make ends meet. The community groups became inactive once project activities were successfully completed, leaving little trace of the project's efforts to promote participation.

Community planning processes were also designed within Turkey's successful Eastern Anatolia Watershed Rehabilitation Project, to allow villagers to help prioritize actions to improve the productivity of steep and degraded lands. As a first learning experience in community participation, the project introduced new ideas into a conservative social environment. But women, as well as the most disadvantaged farmers, remained mostly outside the process. The Bank could have pushed further toward challenging the community decision process in the direction of identifying and targeting the poor and involving women. It is uncertain whether these recently introduced processes will take hold as a permanent feature of service delivery.

Source: **OED 2004h, u.**



Conclusions

The Bank's 2001 poverty reduction strategy appropriately highlights both the growth and social aspects of poverty reduction

Like the previous 1991 strategy, the current (2001) strategy regards sustainable and equitable growth as vital to generating both jobs and the resources for public services, and views private sector investment as the primary engine of poverty-reducing growth. In addition, the current strategy broadens the view of poverty to include not just income but also human development, security, voice, and participation. It advocates an increased focus on public sector governance and institutional reforms that support a positive climate for private sector investment, and that empowers and fosters the participation of the poor in the conduct of public institutions and in the delivery of public services.

The two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction

The two pillars of the Bank's 2001 poverty reduction strategy have provided a workable operational framework for identifying and categorizing the Bank's actual and potential country-level interventions. But the two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction that can have important effects on poverty outcomes. The strategy may be inadvertently downplaying the role of certain sectors—such as infrastructure, rural and urban development, and environment—whose activities cut across and complement economic growth, empowerment, and service delivery.

The Bank faces challenges in effectively customizing its 2001 poverty reduction strategy to individual countries

The Bank needs to apply its strategy based on detailed country knowledge and an appreciation of the willingness and ability of each country to implement reforms. In countries that have institutionalized good macroeconomic management, the Bank is supporting governance and institutional reforms to enhance the investment climate and improve service delivery. The Bank's efforts have been more successful in countries that are politically stable, where there is strong ownership of reform, where the executive, the legislature, and the bureaucracy are working for common purposes, and where the country has the administrative capacity to implement reforms. The Bank's efforts have been less successful where one or all of these elements have been lacking.

In countries where macroeconomic stability and growth remain elusive, the Bank should support reforms to foster growth as well as longer-term institutional and social development interventions. To achieve the right balance between these two is difficult—it requires a realistic assessment of the political environment and the implementation capacity for reform. The Bank can use ESW, knowledge transfers (including peer-to-peer learning), and support to nongovernmental actors to foster greater ownership and build capacity. The Bank should be particularly prudent in turnaround situations in which countries with a poor track record sign onto the reform agenda.

Bank country business models and global programs are not yet fully aligned with poverty reduction

The Bank has crafted business models for different groups of its client countries that reflect their varying levels of development. The newer business models are grounded in the objective of poverty reduction, but have not yet realized their full potential. The Poverty Reduction Strategy Initiative, for instance, has emphasized multidimensional income and non-income goals for poverty reduction. Yet most national strategies produced so far have not considered the full range of policy actions needed for poverty reduction. The Enhanced Highly Indebted Poor Countries initiative added poverty reduction as an objective of debt relief, but debt relief alone, as implemented during the first few years of the Initiative, has not supported a comprehensive or sustainable approach to poverty reduction.

The corporate objective of poverty reduction may appear inconsistent with some client's development needs and priorities. Most middle-income countries, even though they have pockets of poverty and large numbers of *near poor*, have development goals that do not center on poverty reduction. The Bank should further articulate its mission of poverty reduction and progress on the MDGs in ways that align with these visions. There are also inconsistencies in the Bank's approach to post-conflict clients. Some of the Bank's less-poor post-conflict clients have received per capita IDA allocations up to nine times as great as those received by the poorest post-conflict clients. If these allocations are to be understood, the rationale for the Bank's lending decisions in post-conflict situations needs to be made more transparent.

Poverty reduction has not been an explicit criterion for selection and oversight of Bank involvement in global programs. Although some global programs, notably the Consultative Group on International Agricultural Research and the Special Programme for Research and Training in Tropical Diseases, have generated innovations that help the poor, the Bank's criteria for selection and oversight of global programs have not featured poverty reduction as an explicit criterion. In participating in global programs, the Bank needs to focus on global policy issues that hinder poverty-reducing growth in its client countries. It should strengthen the links between operations and global programs to ensure that global programs add value to poverty reduction at the country level. And Country Assistance Strategies should identify how the Bank's global programs can help support development at the country level.

Linking the Bank's country-level interventions to poverty reduction will require a sharper results focus

The Bank has yet to specify an operational results chain that effectively links its country-level interventions with poverty outcomes and ensures that its assistance is based on measurable poverty results. This incomplete articulation of how country-level assistance helps countries meet specific poverty reduction objectives hampers an assessment of the impact of the Bank's assistance on poverty.

There are gaps in the Bank's understanding of the poverty impact of programs and policies. Poverty assessments constitute the Bank's main analytic work on poverty and they have been useful in generating poverty profiles in many countries. But they have tended to focus narrowly on the social sectors while neglecting productive sectors and governance issues, and they seldom link analysis with conclusions on policy alternatives and proposals. The Bank's analytical work needs to pay more attention to the interaction between the growth and social aspects of poverty reduction.

There is an urgent need to assess the impact of the Bank's work on governance

Differences in the quality of economic institutions—broadly understood as the "rules of the game"—have been found to be the most significant source of sustained economic growth in both cross-country research and case studies. Within just a few years, the Bank has developed and mobilized a variety of tools—at the project, country, and global levels—that bring the quality of public sector institutions into the spotlight. So far, there is little evidence that governance is improving and corruption decreasing. It is essential for the Bank to establish what it hopes to achieve from its interventions in the area of governance, to monitor and measure their accomplishments, and to assess their relative effectiveness in fostering economic growth and reducing poverty.

The Bank could do more to harness the synergies between private sector development and public sector reform

A healthy business environment for private sector investment requires an effective and accountable public sector in order to protect property rights and ensure equitable and consistent treatment under the law. The 2001 strategy recognized the overlapping nature of private sector development and public sector reform by associating them in a single pillar. These kinds of reforms entail changes in power and influence within a country, and therefore require the Bank to understand the country's domestic political economy and to make realistic assessments of country ownership. The Bank's organizational arrangements—which place these related issues under the leadership of different vice presidencies—do not foster the pooling of effort and knowledge about reform. Combining or linking the Bank's knowledge about public and private sector issues could improve its understanding of what is likely to be effective.

The Bank needs to demonstrate the poverty impact of its interventions aimed at empowerment and human development

The Bank has carried through with its intention to promote empowerment through social development activities, but both the intended and the actual poverty impact of this kind of intervention remain to be demonstrated. Projects are typically implemented in the context of deeply rooted social and institutional relationships that affect poverty. Most Bank-financed interventions cannot be expected to—and do not—affect these relationships unless sustainable social structures are created. Even in programs that target the poorest households, a progressive distribution of benefits is difficult to achieve. Assessing whether beneficiaries will be able to sustain project benefits requires better tools than the Bank currently has at its disposal. Project objectives need to be realistic about the potential to affect the social relationships that underpin poverty at the community level. In participatory activities, the Bank has had the most success when it has supported existing, homegrown initiatives.

In the social sectors, the Bank has conflated increased expenditures in education and health with reducing poverty, often without adequate consideration of the actual impact of those expenditures. Bank-supported interventions have been focused on inputs and outputs. Although these have frequently met or exceeded their physical and quantitative targets, they have often fallen short of bringing about qualitative and sustainable improvements in human development outcomes such as better learning achievement and improved health status. Increasing expenditures alone have not ensured that the poorest are being reached. There is considerable scope for the Bank to improve its interventions for better human development outcomes with appropriate and good-quality, sector-specific analytic work and with accurate diagnoses of service delivery and institutional reforms.

The Bank's monitoring and evaluation framework is not sufficiently poverty-focused

Weak country capacity for monitoring results on poverty reduction adds to the challenges the Bank faces in selecting activities with the highest poverty payoff. The monitoring of results on poverty reduction remains weak in PRSPs, with only a few mature PRSP countries having enough data to assess whether there has been widespread improvement. If poverty reduction strategy processes are to maintain momentum and support from diverse stakeholders, they will need to rapidly improve their ability to demonstrate results on poverty reduction.

The poverty focus of the Bank's monitoring and evaluation has improved at the country level with the introduction of results-based CASs and self-evaluation on a pilot basis. At the project level, development policy lending guidelines obligate staff to analyze the poverty and social consequences of policies supported by the operation on the poor and vulnerable. But guidelines on monitoring and evaluating projects are still a work in progress, and the degree to which monitoring and evaluation has a poverty focus depends on the objectives specified for the project.

APPENDIXES

APPENDIX A: PROJECT PERFORMANCE RESULTS

This Appendix presents long-term trends in project performance based on OED project evaluations. Following a brief description of the cohort of recent OED project evaluations, analysis of the Bank's lending effectiveness is presented along OED's three key performance criteria—outcome, sustainability, and institutional development impact.

Composition of the ARDE 2004 Exiting Cohort

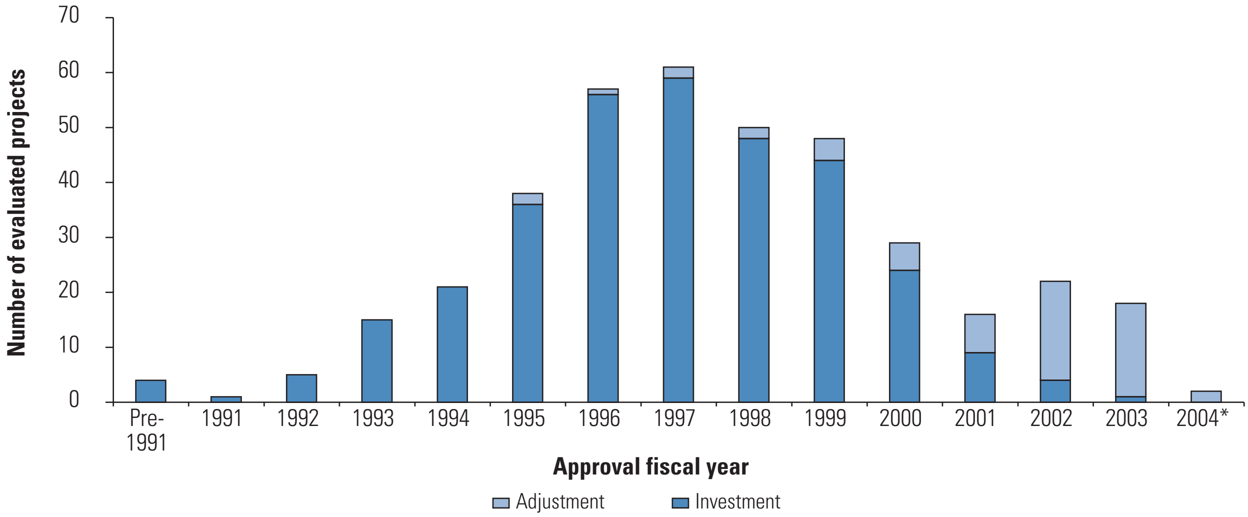
OED has evaluated 387 closed projects since last year's ARDE, 84 percent of which exited the Bank's portfolio during fiscal years 2002 and 2004.[1] These evaluations cover US$24.5 billion in disbursements and consist of 322 Implementation Completion Report (ICR) Reviews and 55 Project Performance Assessment Reports (PPARs).[2,3] This newly evaluated cohort consists of 60 *adjustment* operations and 327 *investment* operations, the vintage of which is shown in figure A.1. The data for fiscal 2004 exits represent a partial cohort of lending exits (177 out of 320).

Performance Trends

Outcome[4]

Projects in exit year fiscal 2003 registered a slight annual decrease in performance outcome, dropping from 78 percent to 75 percent satisfactory between fiscal years 2002 and 2003, as illustrated in figure A.2. Exit year fiscal 2003 nonetheless marks the fourth year in which project performance has met the Strategic Compact target of 75 percent satisfactory outcomes.

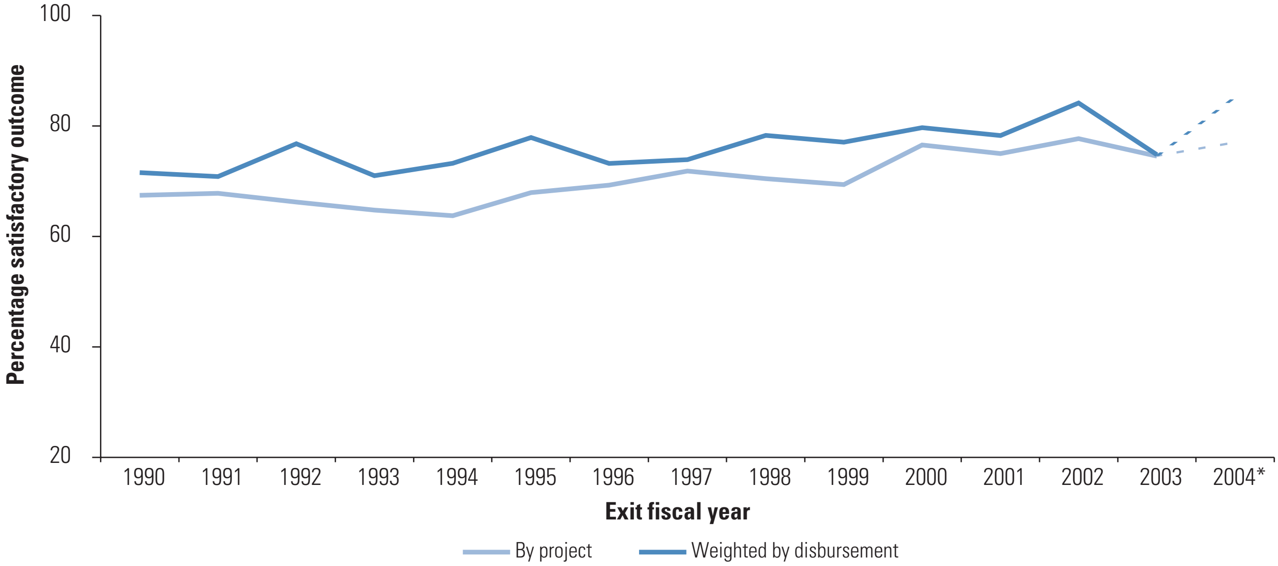
Figure A.1 ARDE 2004 Exiting Cohort by Approval Year



Note: 2004 partial.

Source:, World Bank data for 2005.

Figure A.2 Project Performance Continues to Meet Strategic Compact Target



Note: 2004 partial (dashed line).
Source:, World Bank 2005 data.

OED had evaluated 55 percent of the 320 fiscal year 2004 exits as of February 15, 2005. For this partial fiscal 2004 cohort,[5] outcome is rated satisfactory for 77 percent of projects, and for 85 percent weighted by disbursements. This represents a recovery from the fiscal year 2003 drop.

Sustainability and Institutional Development Impact

Seventy-four percent (weighted by disbursements) of the fiscal year 2003 exiting cohort are rated "likely" or "highly likely" to be resilient to future risks (figure A.3).[6] The fiscal 2003 rating for sustainability marks a significant decline from the fiscal year 2002 cohort rating of 84 percent and represents a departure from the upward trend that began in 1996. For the fiscal year 2004 (partial) cohort, sustainability ratings weighted by disbursements significantly improved, increasing to 85 percent.

Forty-eight percent (weighted by disbursements) of the fiscal year 2003 cohort are rated to have a substantial or high institutional development impact.[7] The institutional development impact rating represents a modest decrease over the fiscal year 2002 cohort. For the fiscal 2004 (partial) cohort, institutional development impact increased to 58 percent (disbursement weighted) substantial or better. Both sustainability and institutional development impact ratings represent a 10 percentage point increase for the fiscal year 2004 (partial) over the 2003 cohort. As with outcome ratings, these improvements may be indicative of a resumption of the upward trend in project performance.

Regional Performance

Figure A.4 presents the percentage of satisfactory project outcomes, weighted by disbursement, for the fiscal year 2000–04 (partial) cohort compared with the fiscal year 1995–99 cohort. The East Asia and the Pacific, South Asia, and Middle East and North Africa Regions are the top performers for the fiscal year 2000-04 (partial) cohort, exceeding the Bank average of 80 percent. The Latin America and Caribbean Region, which was the best performer for the fiscal 1995–99 cohort, is the only Region that declined in performance for the fiscal year 2000–04 (partial) cohort. The South Asia and Middle East and North Africa Regions made the most progress in outcome performance, improving by 17 and 15 percentage points, respectively.

Sectoral Performance

Compared with fiscal year 1995–99 exits, the outcome performance weighted by disbursement for the fiscal 2000–04 (partial) exits improved in 7 of 13 sector boards.[8] Figure A.5 presents the sector boards' outcome performance in order of their improvement. The biggest improvements in outcome ratings were in the water supply and sanitation and financial sectors. The largest declines in performance were in the social protection and economic policy sectors. Outcomes for economic policy, energy and mining, environment, and water supply and sanitation were below the Bankwide average in both time periods.

Lending Instrument Performance

Outcomes of adjustment lending operations have been volatile in recent years, as figure A.6 illustrates. Outcomes (disbursement-weighted) have fluctuated from a record high of 91 percent (fiscal year 2000) to a low of 70 percent (fiscal year 2003). The high disbursement-weighted performance of 93 percent for fiscal year 2004 exits (partial) shows that outcome ratings for adjustment operations may have rebounded once again.

Outcomes of investment lending declined in fiscal year 2003 exits, dropping from 83 percent to 79 percent satisfactory between fiscal years 2002 and 2003. Fiscal year 2004 (partial) exits, however, show that outcomes may have rebounded to their 2002 levels, resuming the upward trend that began in 1998.

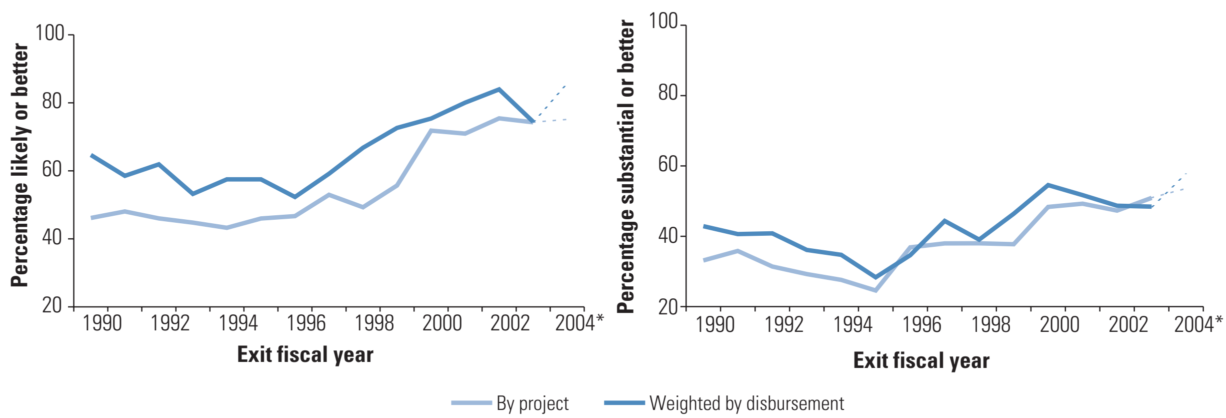
New Lending Instruments

One-hundred and three operations employing the Bank's four new lending instruments—Adaptable Program Loans (APLs), Learning and Innovation Loans (LILs), Private Sector Adjustment Loans (PSALs), and Poverty Reduction Support Credits (PRSCs)—have been evaluated by OED.[9] For these instruments, in the aggregate, outcome is rated satisfactory for 78 percent of projects and 94 percent weighted by disbursements, exceeding the Bankwide average of 76 percent and 80 percent, respectively (figure A.7). PSALs are the best performers of the group, exceeding the Bank average for projects and disbursement-weighted, while APLs and LILs are performing below the Bank average.[10]

Bank-Managed Special Programs

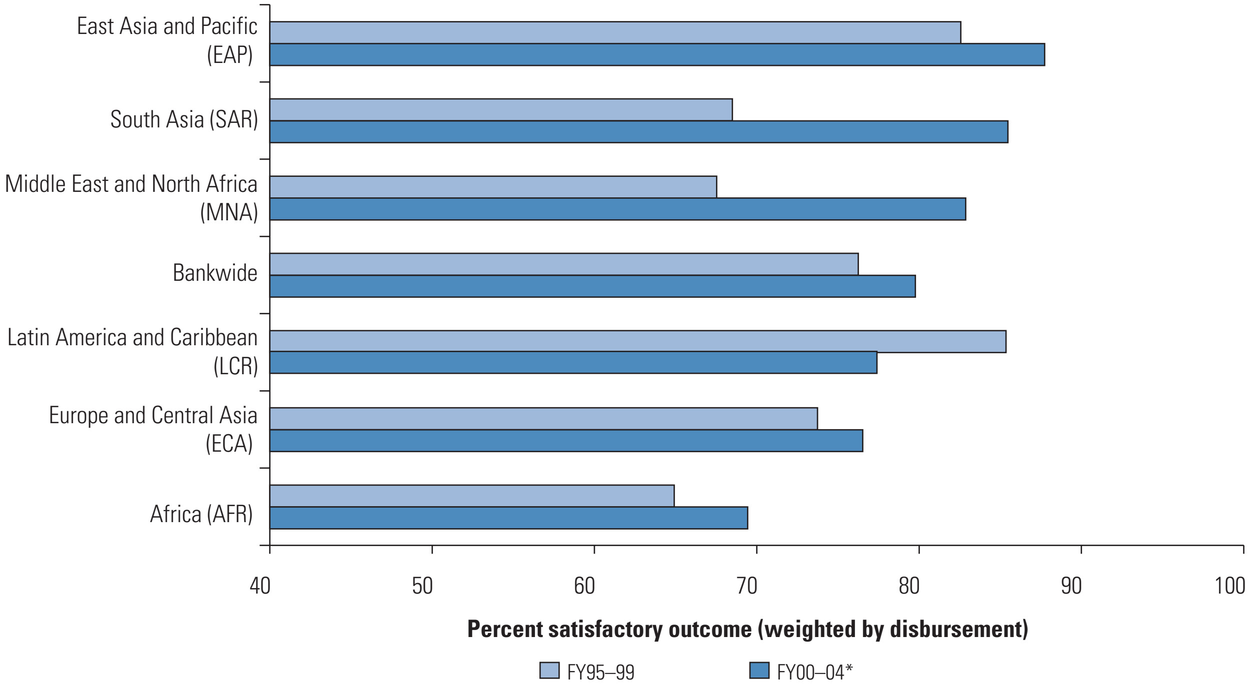
OED has evaluated 89 operations financed under four Bank-managed special programs that have exited the Bank's portfolio since fiscal year 1995. Eighty-two percent of the special operations had satisfactory outcomes. One of every two projects had substantial or better institutional development impact. About 48 percent were rated to have likely or highly likely resilience to future risks (table A.1).

Figure A.3 **Long-term Trends in Sustainability and Institutional Development**

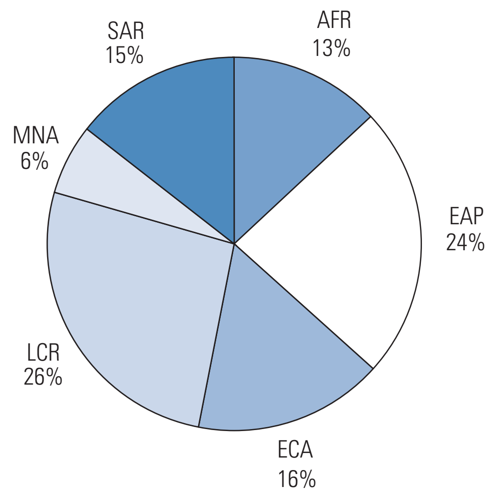


Note: 2004* partial (dashed line)
Source: World Bank 2005 data.

Figure A.4 **Project Outcomes Improved in All but One Region**



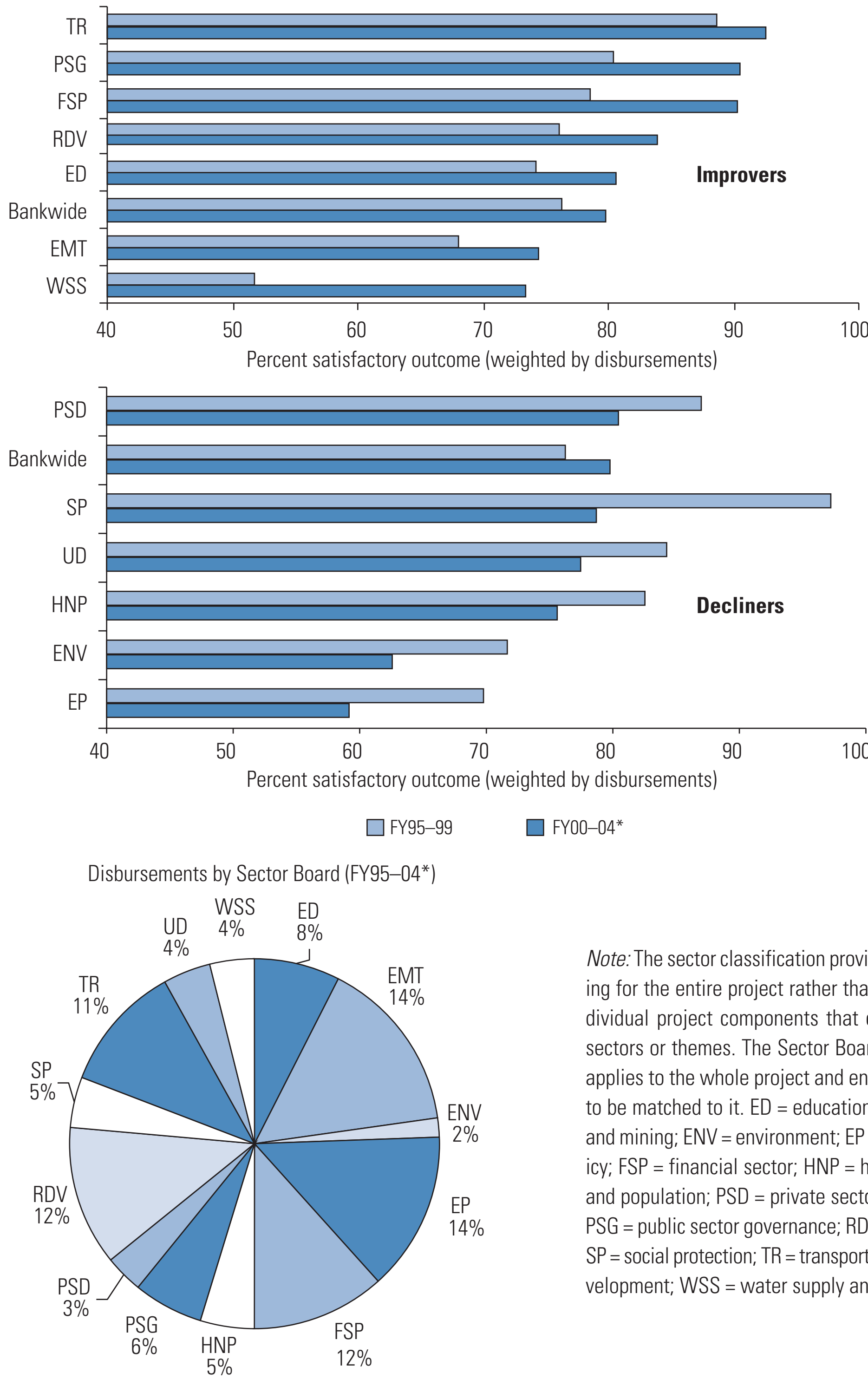
Distribution of disbursements by region (FY95–04*)



Note: 2004* partial.

Source: World Bank 2005 data.

Figure A.5 Trends in Sectoral Performance

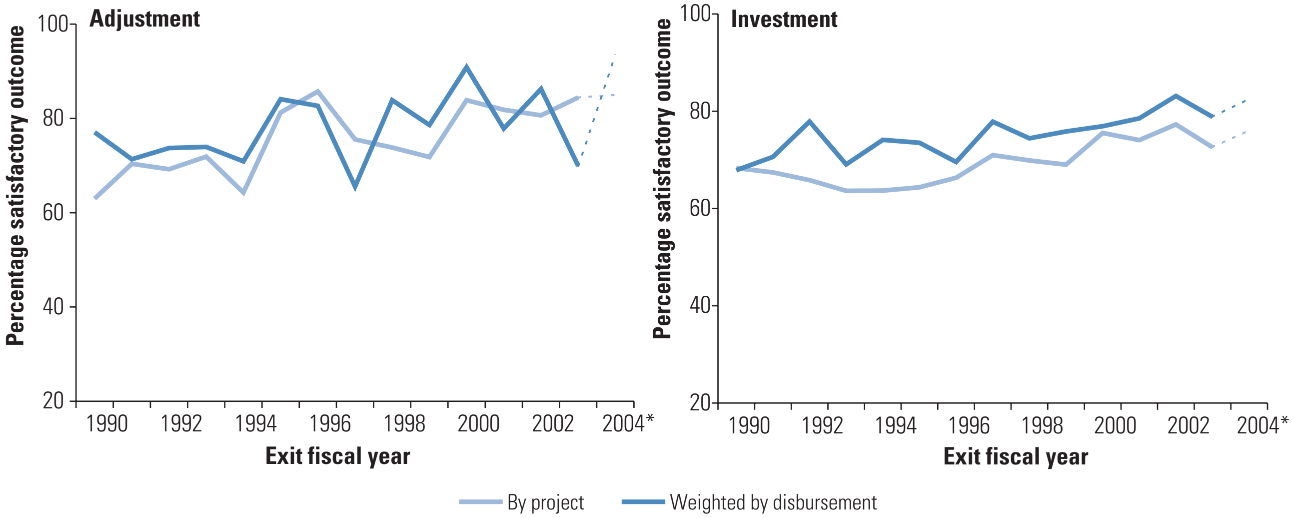


Note: The sector classification provides a single rating for the entire project rather than ratings for individual project components that cover particular sectors or themes. The Sector Board classification applies to the whole project and enables outcomes to be matched to it. ED = education; EMT = energy and mining; ENV = environment; EP = economic policy; FSP = financial sector; HNP = health, nutrition, and population; PSD = private sector development; PSG = public sector governance; RDV = rural sector; SP = social protection; TR = transport; UD = urban development; WSS = water supply and sanitation.

Note: 2004 partial.

Source: World Bank 2005 data.

Figure A.6 Long-Term Trends in Adjustment and Investment Lending



Note: 2004 partial.
Source: World Bank 2005 data.

Figure A.7 Outcome Performance of New Lending Instruments

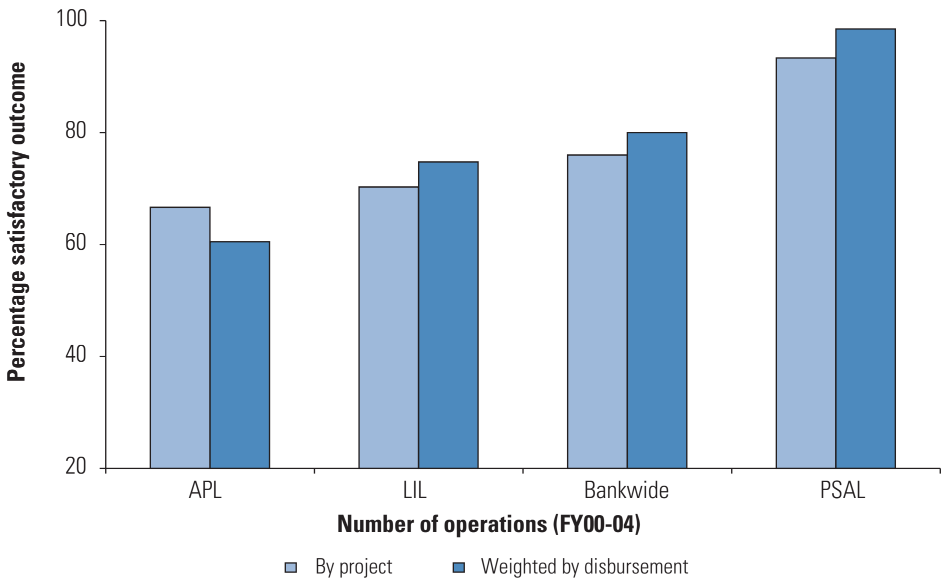


Table A.1 Bank-Managed Special Programs Are Performing above the Bank Average

Special program type	Number of evaluated programs	Outcome (% satisfactory)	Sustainability (% likely or better)	Institutional development impact (% substantial or better)
Global Environment Facility	51	80	63	57
Montreal Protocol Fund	6	100	100	50
Rainforest Initiative	1	100	100	100
Special Financing Grants	31	81	67	48
Overall	**89**	**82**	**48**	**53**

Table A.2 Outcome, Sustainability, and Institutional Development (ID) Impact by Various Dimensions, by Project, FY95–04[a]

	Exit fiscal years 1995–99				
	Number of projects	Share (%)	Outcome (% satisfactory)	Sustainability (% likely or better)	ID Impact % substantial or better
Sector Board					
Economic Policy	116	9.0	71.3	56.6	28.3
Educaton	113	8.8	73.2	43.8	26.8
Energy and Mining	161	12.5	64.8	51.6	38.4
Environment	36	2.8	75.0	60.0	41.7
Financial Sector	79	6.2	59.2	50.7	38.2
Global Information/Communications Technology	23	1.8	82.6	78.3	47.8
Health, Nutrition, and Population	66	5.1	65.2	53.9	28.8
Poverty Reduction	0	0.0	100.0	0.0	0.0
Private Sector Development	48	3.7	75.0	63.0	29.8
Public Sector Governance	68	5.3	75.8	60.9	39.4
Rural Sector	266	20.7	66.7	42.9	36.2
Social Development	0	0.0	0.0	0.0	0.0
Social Protection	50	3.9	84.0	40.8	44.0
Transport	124	9.7	82.0	59.8	46.7
Urban Development	67	5.2	68.2	42.4	27.3
Water Supply and Sanitation	66	5.1	53.8	35.4	24.6
Overall result	**1,283**	**100.0**	**69.8**	**50.3**	**35.2**
Lending Instrument Type					
Adjustment	210	16.4	77.5	61.2	36.9
Investment	1,072	83.6	68.3	48.1	34.9
Not assigned	1	0.1	100.0	100.0	100.0
Overall result	**1,283**	**100.0**	**69.8**	**50.3**	**35.2**
Network					
Environmentally and Socially Sustainable Development	302	23.5	67.7	44.9	36.8
Financial Sector	79	6.2	59.2	50.7	38.2
Human Development	229	17.8	73.3	46.0	31.1
Infrastructure	441	34.4	69.4	51.5	37.5
Poverty Reduction and Economic Management	184	14.3	72.9	58.2	32.4
Private Sector Development	48	3.7	75.0	62.5	27.1
Overall result	**1,283**	**100.0**	**69.8**	**50.3**	**35.2**
Region					
Africa	395	30.8	57.2	32.6	27.0
East Asia and Pacific	197	15.4	79.4	62.3	40.2
Europe and Central Asia	166	12.9	79.8	66.7	46.3
Latin America and Caribbean	258	20.1	78.6	59.8	44.0
Middle East and North Africa	107	8.3	67.3	49.1	28.0
South Asia	160	12.5	66.7	48.1	28.9
Overall result	**1,283**	**100.0**	**69.8**	**50.3**	**35.2**

Notes: Exit fiscal year denotes the year in which the project leaves the World Bank's active portfolio, normally at the end of disbursements. Percents exclude projects not rated. In July 2000, the rating scale for sustainability was changed from a 3-point scale (Likely, Uncertain, Unlikely) to a 4-point scale (Highly Likely, Likely, Unlikely, Highly Unlikely), with the new scale used in rating projects that exited during FY00-02. To monitor the effects of this change, OED continued using the old 3-point scale in parallel with the new till May 2003.

a. The data for FY04 exits represent a partial lending sample (177 out of 320) and reflect all OED project evaluations through February 15, 2005.

Source: World Bank data, 2005

Exit fiscal years 2000–04[a]					Exit fiscal years 1995–04[a]				
Number of projects	Share (%)	Outcome (% satisfactory)	Sustainability (% likely or better)	ID impact (% substantial or better)	Number of projects	Share (%)	Outcome (% satisfactory)	Sustainability (% likely or better)	ID impact (% substantial or better)
66	5.2	77.3	75.0	40.9	182	7.1	73.5	62.7	33.0
128	10.0	81.3	81.4	52.3	241	9.4	77.5	62.7	40.4
113	8.9	70.0	69.6	53.6	274	10.7	66.9	58.6	44.6
75	5.9	70.3	72.9	51.4	111	4.3	71.8	68.6	48.2
63	4.9	79.0	87.5	59.7	142	5.5	68.1	66.4	47.8
13	1.0	100.0	100.0	53.9	36	1.4	88.9	85.7	50.0
107	8.4	70.2	71.0	49.0	173	6.8	68.2	64.2	41.2
2	0.2	100.0	100.0	100.0	2	0.1	100.0	100.0	100.0
71	5.6	62.3	69.5	35.8	119	4.7	67.5	66.7	33.3
105	8.2	77.1	74.2	49.5	173	6.8	76.6	68.9	45.6
200	15.7	73.5	62.5	45.4	466	18.2	69.6	50.8	40.1
7	0.5	71.4	83.3	42.9	7	0.3	71.4	83.3	42.9
86	6.7	83.5	77.8	50.6	136	5.3	83.7	61.6	48.2
125	9.8	89.3	83.6	67.8	249	9.7	85.6	71.1	57.2
60	4.7	71.2	60.0	28.8	127	5.0	69.6	50.4	28.0
55	4.3	74.1	69.4	46.3	121	4.7	63.0	50.0	34.5
1,276	**100.0**	**76.1**	**73.4**	**49.6**	**2,559**	**100.0**	**72.9**	**61.2**	**42.4**
160	12.5	83.1	82.5	48.1	370	14.5	80.0	69.9	41.8
1,115	87.4	75.1	72.0	49.9	2,187	85.5	71.7	59.7	42.5
1	0.1	100.0	100.0	100.0	2	0.1	100.0	100.0	100.0
1,276	**100.0**	**76.1**	**73.4**	**49.6**	**2,559**	**100.0**	**72.9**	**61.2**	**42.4**
282	22.1	72.6	65.9	46.9	584	22.8	70.0	54.6	41.7
63	4.9	79.0	87.5	59.7	142	5.5	68.1	66.4	47.8
321	25.2	78.2	76.8	50.8	550	21.5	76.2	63.0	42.6
366	28.7	78.4	73.8	53.2	807	31.5	73.5	61.1	44.6
173	13.6	77.5	74.8	56.2	357	14.0	75.1	66.0	39.2
71	5.6	62.3	68.4	35.8	119	4.7	67.5	66.8	33.6
1,276	**100.0**	**76.1**	**73.4**	**49.6**	**2,559**	**100.0**	**72.9**	**61.2**	**42.4**
319	25.0	66.4	56.3	40.6	714	27.9	61.3	42.6	33.1
194	15.2	78.1	75.1	55.2	391	15.3	78.8	68.4	47.7
280	21.9	80.6	84.2	56.1	446	17.4	80.3	77.2	52.4
262	20.5	80.1	77.4	55.9	520	20.3	79.3	68.3	50.0
107	8.4	73.3	73.7	37.1	214	8.4	70.3	60.7	32.6
114	8.9	82.5	82.8	47.4	274	10.7	73.3	61.5	36.4
1,276	**100.0**	**76.1**	**73.4**	**49.6**	**2,559**	**100.0**	**72.9**	**61.2**	**42.4**

Table A.3 Outcome, Sustainability, and Institutional Development (ID) Impact by Various Dimensions, by Disbursement, FY95–04[a]

	Exit fiscal years 1995–99				
	Disburse-ment	Share (%)	Outcome (% satisfactory)	Sustainability (% likely or better)	ID Impact % substantial or better
Sector Board					
Economic Policy	16,271	15.6	69.8	72.8	32.2
Educaton	6,465	6.2	74.3	48.9	29.0
Energy and Mining	16,897	16.2	68.0	59.4	42.3
Environment	1,029	1.0	71.7	62.9	41.7
Financial Sector	14,896	14.3	78.6	72.2	45.4
Global Information / Communications Technology	1,047	1.0	91.7	93.7	76.2
Health, Nutrition, and Population	3,687	3.5	82.5	71.1	38.3
Poverty Reduction	0	0.0	0.0	0.0	0.0
Private Sector Development	3,164	3.0	87.0	69.8	38.7
Public Sector Governance	3,919	3.8	80.3	70.2	42.1
Rural Sector	13,281	12.8	76.1	51.7	42.3
Social Development	0	0.0	0.0	0.0	0.0
Social Protection	4,377	4.2	97.2	70.9	42.1
Transport	9,759	9.4	88.6	62.4	48.7
Urban Development	4,815	4.6	84.3	58.6	26.4
Water Supply and Sanitation	4,473	4.3	57.2	26.3	18.8
Overall result	**104,081**	**100.0**	**76.3**	**62.4**	**39.1**
Lending Instrument Type					
Adjustment	39,216	37.7	79.5	74.4	39.2
Investment	64,808	62.3	74.3	55.3	39.1
Not assigned	57	0.1	100.0	100.0	100.0
Overall Result	**104,081**	**100.0**	**76.3**	**62.4**	**39.1**
Network					
Environmentally & Socially Sustainable Development	14,310	13.7	75.7	52.5	42.3
Financial Sector	14,896	14.3	78.6	72.2	45.4
Human Development	14,530	14.0	83.3	61.1	35.3
Infrastructure	36,991	35.5	74.2	57.1	40.0
Poverty Reduction & Economic Management	20,190	19.4	71.8	72.3	34.2
Private Sector Development	3,164	3.0	87.0	76.7	42.0
Overall result	**104,081**	**100.0**	**76.3**	**62.4**	**39.1**
Region					
Africa	14,650	14.1	64.9	35.9	27.5
East Asia and Pacific	27,791	26.7	82.6	77.7	44.4
Europe and Central Asia	14,853	14.3	73.7	74.6	43.1
Latin America and Caribbean	23,589	22.7	85.4	64.2	50.7
Middle East and North Africa	7,071	6.8	67.5	45.9	27.4
South Asia	16,127	15.5	68.5	54.8	26.0
Overall result	**104,081**	**100.0**	**76.3**	**62.4**	**39.1**

Note: Exit fiscal year denotes the year in which the project leaves the World Bank's active portfolio, normally at the end of disbursements. Percents exclude projects not rated. In July 2000, the rating scale for sustainability was changed from a 3-point scale (Likely, Uncertain, Unlikely) to a 4-point scale (Highly Likely, Likely, Unlikely, Highly Unlikely), with the new scale used in rating projects that exited during FY00-02. To monitor the effects of this change, OED continued using the old 3-point scale in parallel with the new till May 2003.

a. The data for FY04 exits represent a partial lending sample (177 out of 320) and reflect all OED project evaluations through February 15, 2005.

Source: World Bank data, 2005

Exit fiscal years 2000–04[a]					Exit fiscal years 1995–04[a]				
Disburse-ment	Share (%)	Outcome (% satisfactory)	Sustainability (% likely or better)	ID impact (% substantial or better)	Disburse-ment	Share (%)	Outcome (% satisfactory)	Sustainability (% likely or better)	ID impact (% substantial or better)
10,349	11.2	59.2	52.5	19.8	26,620	13.6	65.6	65.2	27.3
8,191	8.9	80.6	91.1	58.9	14,657	7.5	77.9	71.4	45.7
12,717	13.8	74.4	67.6	54.2	29,614	15.1	70.7	62.9	47.4
2,179	2.4	62.6	72.8	37.0	3,208	1.6	65.5	69.6	38.5
7,705	8.4	90.4	95.5	70.7	22,601	11.5	82.6	78.7	55.3
1,087	1.2	100.0	100.0	50.8	2,134	1.1	95.9	96.9	63.2
5,683	6.2	75.6	80.3	61.6	9,370	4.8	78.3	76.6	52.4
234	0.3	100.0	100.0	45.6	234	0.1	100.0	100.0	45.6
3,298	3.6	80.4	88.2	63.4	6,462	3.3	83.7	78.6	50.7
7,914	8.6	90.5	90.5	52.4	11,833	6.0	87.2	84.1	49.0
10,051	10.9	83.9	77.3	53.9	23,332	11.9	79.4	62.4	47.3
319	0.3	18.9	99.4	11.0	319	0.2	18.9	99.4	11.0
4,382	4.7	78.7	85.4	49.0	8,760	4.5	88.0	77.5	45.5
11,666	12.6	92.6	90.9	63.5	21,425	10.9	90.8	77.0	56.7
3,201	3.5	77.5	69.3	24.4	8,017	4.1	81.5	62.7	25.6
3,285	3.6	73.5	71.1	42.0	7,758	4.0	61.0	44.9	28.7
92,263	**100.0**	**79.8**	**79.2**	**51.5**	**196,344**	**100.0**	**77.9**	**69.9**	**45.0**
30,417	33.0	79.8	78.5	48.9	69,633	35.5	79.6	76.1	43.6
61,846	67.0	79.8	79.5	52.8	126,654	64.5	77.0	66.7	45.8
0	0.0	0.0	0.0	0.0	57	0.0	100.0	100.0	100.0
92,263	**100.0**	**79.8**	**79.2**	**51.5**	**196,344**	**100.0**	**77.9**	**69.9**	**45.0**
12,548	13.6	78.6	77.1	49.9	26,858	13.7	77.1	63.7	45.8
7,705	8.4	90.4	95.5	70.7	22,601	11.5	82.6	78.7	55.3
18,257	19.8	78.6	86.3	57.4	32,787	16.7	80.7	74.5	47.6
31,957	34.6	82.2	77.2	53.2	68,948	35.1	77.9	66.1	46.1
18,497	20.0	73.1	69.9	34.1	38,687	19.7	72.4	71.2	34.1
3,298	3.6	80.4	81.8	58.4	6,462	3.3	93.7	80.4	54.1
92,263	**100.0**	**79.8**	**79.2**	**51.5**	**196,344**	**100.0**	**77.9**	**69.9**	**45.0**
10,834	11.7	69.4	60.0	38.0	25,484	13.0	66.8	45.8	32.0
18,855	20.4	87.7	83.5	66.3	46,646	23.8	84.7	80.0	53.9
17,340	18.8	76.5	84.2	56.0	32,193	16.4	75.2	79.4	50.0
28,200	30.6	77.4	75.7	49.8	51,790	26.4	81.0	70.2	50.2
4,619	5.0	82.9	83.5	37.6	11,690	6.0	73.6	60.2	31.4
12,414	13.5	85.5	89.9	43.8	28,541	14.5	75.9	68.9	33.7
92,263	**100.0**	**77.9**	**79.2**	**51.5**	**196,344**	**100.0**	**77.9**	**69.9**	**45.0**

APPENDIX B: ECONOMIC GROWTH AND INCOME POVERTY

That economic growth is associated, on average, with reductions in income poverty is now well established. For a given country, changes in the degree of income poverty are basically a function of changes in the mean of the income distribution—economic growth per capita—and changes in its spread—the distribution of income per capita. But economic growth per se does not, on average across countries, systematically affect the distribution of income, for the latter changes very slowly, if at all, in most countries over time. Therefore, economic growth generally leads to poverty reduction. Based upon an analysis of household surveys conducted in 47 countries in the 1980s and 1990s, Ravallion (2001) found that a 1 percent increase in per capita income reduced the proportion of people living on less than US$1 a day by an average of 2 percent.

OED has updated this analysis for the period from 1990 to 2001 for 80 developing and transition economies for which there exist poverty data based on household surveys.[1] Rather than use an absolute measure of poverty such as US$1 per day (typically used in low-income countries) or US$2 per day (typically used in middle-income countries), OED used a relative measure of poverty—proposed by Atkinson and Bourguigon (1999) and Chen and Ravallion (2001 and 2004)—in which people are deemed poor if they do not attain either the $1 a day consumption level (loosely interpreted as "physical needs") or one-third of the mean consumption in each country (loosely interpreted as "social needs"). This measure of relative poverty better facilitates comparisons across both low- and middle-income countries together. Otherwise, one ends up analyzing changes in poverty rates in some middle-income countries (by the $1 a day standard) that are based on what happens to the lowest 1 percent of the population, and changes in poverty rates in some low-income countries (by the $2 a day standard) based upon what happens to the lowest 60 percent of the population.

The results of 3 regressions for 205 spells in 80 countries are presented in table B.1. The estimated growth elasticity of poverty for the simple regression of the change in income poverty on the change in mean income or consumption expenditure per capita is –2.62. This result is depicted in figure B.1 (which is the same as figure 1.2). Holding the degree of inequality constant, the growth elasticity of poverty increases to –2.87. Although the change in inequality has a significant impact on poverty, the initial level of inequality (as measured by the Gini coefficient) does not in this particular regression.

An analysis of what happened to poverty in each of the 205 spells confirms that changes in the average household income have a greater impact on poverty than changes in the degree of inequality (table B.2). The Gini coefficient changed by an annualized rate of less than 1 percent in almost half the spells. Even when income inequality was rising, poverty decreased by an average of 7.1 percent yearly when average household income was also rising.

The degree in equality varies considerably across countries (figure B.2). Of the 13 countries with Gini coefficients greater than 0.50, 11 are in Latin America and the Caribbean and 2 are in Sub-Saharan Africa. Of the 9 countries with Gini coefficients less than 0.30, all are in Central or Eastern Europe.

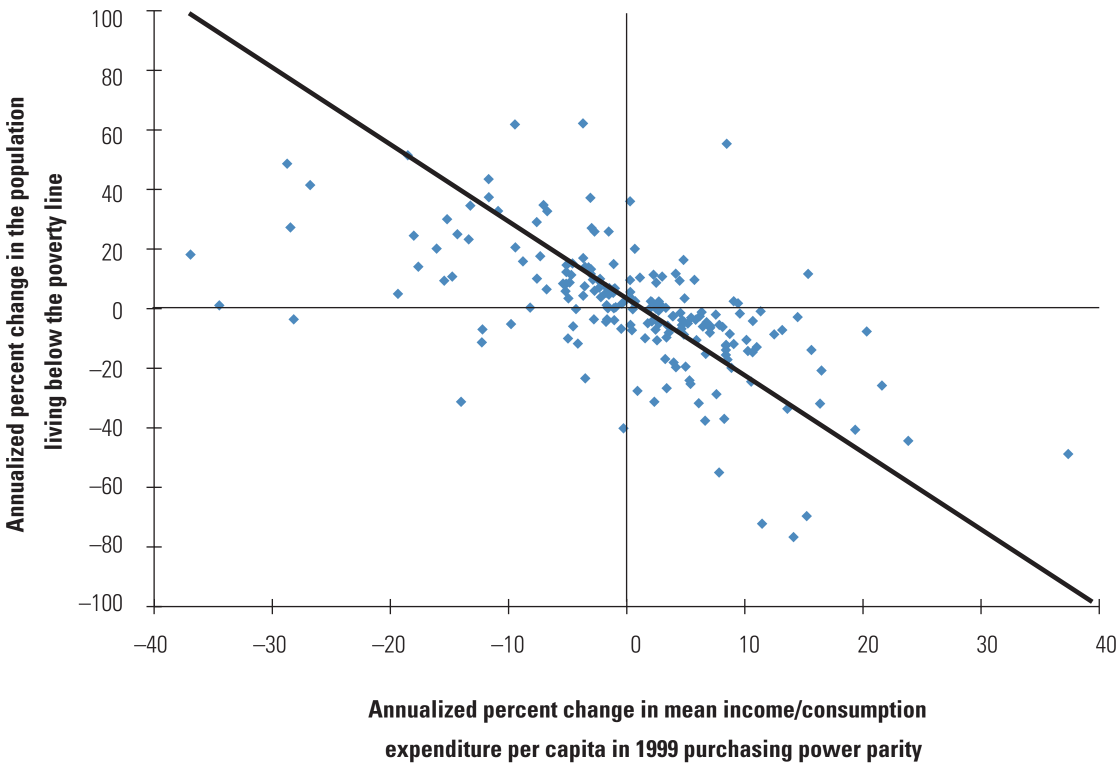
OED also used the same measure of relative poverty—per capita consumption of less than $1 a day or one-third of the mean consumption level in each country—in figure 3.1, which com-

Table B.1 Changes in Both the Average Level of Income and the Degree of Inequality Have a Significant Impact on Poverty

Equation	Change in mean income/consumption expenditure per capita	Change in the degree of inequality (Gini coefficient)	Initial level of inequality	R2
(1)	–2.63 (–15.04)			0.527
(2)	–2.87 (–22.96)	3.29 (14.18)		0.762
(3)	–2.88 (–22.71)	3.30 (13.54)	–0.00011 (–0.11)	0.762

Note: Regression analysis based on 205 spells in 80 countries for which at least 2 household surveys have been conducted since 1990 inclusive. T-statistics are in parentheses. A "spell" is a time period of at least one year between sequential household surveys in one country.

Figure B.1 Economic Growth Has a Strong but Variable Impact on Poverty



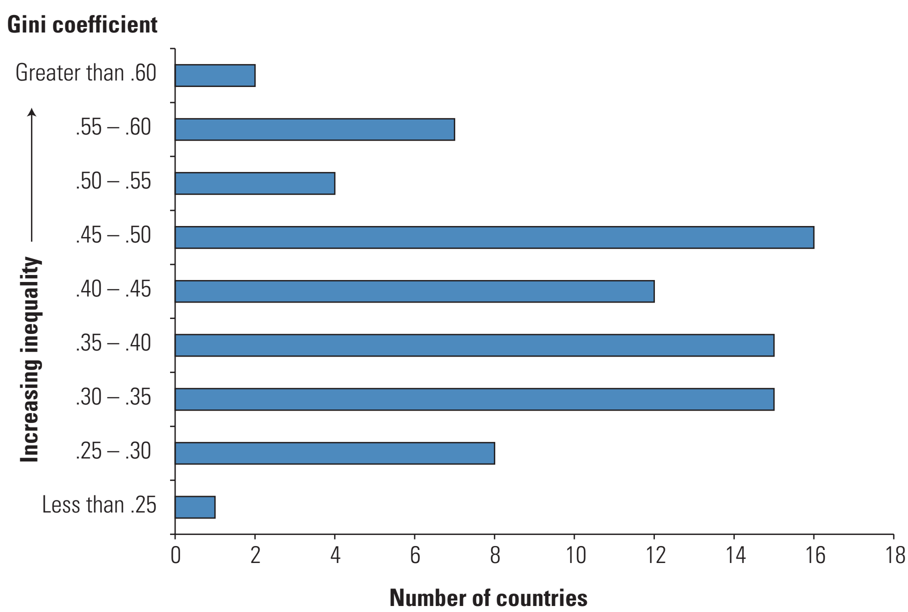
pares the performance of the 21 CAE countries in Chapter 3. Where the years in which household surveys were conducted in each country do not coincide with the years in the figure—1990, 1993, 1996, 1999, and 2001—the PovcalNet program adjusted the poverty estimates using the closest available survey and applied the consumption growth rate from the national accounts.[2] The proportion of the population below the poverty line in figure 3.1 is the simple (unweighted) average of the countries in each of the three groups.

Table B.2 Improvements in the Average Level of Income Have a Greater Impact on Poverty Levels; the Degree of Inequality Changes Much Less Over Time

		What happened to average household income between the surveys? Rising	Falling	Total
What happened to inequality between the surveys?	**Falling**	21 out of 205 spells (10%) Poverty decreased at a mean rate of 29.6% per year	27 out of 205 spells (13%) Poverty increased at a mean rate of 3.3% per year	23%
	No significant change[a]	57 out of 205 spells (28%) Poverty decreased at a mean rate of 9.0% per year	39 out of 205 spells (19%) Poverty increased at mean rate of 18.0% per year	47%
	Rising	35 out of 205 spells (17%) Poverty decreased at a mean rate of 7.1% per year	26 out 205 spells (13%) Poverty increased at a mean rate of 57.1% per year	30%
	Total	55%	45%	100%

a. The Gini coefficient changed by an annualized rate of less than 1 percent between sequential household surveys.

Figure B.2 The Degree of Inequality Varies Considerably Across Developing and Transition Countries



APPENDIX C: STATISTICAL TABLES

Table C.1 Economic Growth and Bank Assistance Outcomes in 21 CAE Countries

(Sorted alphabetically within each of the three groups)

Country	Current income classification	GDP growth per capita, 1990–2003 (%)[1]	OED review period
Good Growth and Poverty Reduction			
Chile	Upper-middle income	4.0	1985–1999
China	Lower-middle income	8.1	FY1993–2002
Dominican Republic	Lower-middle income	3.9	1985–2002
India	Low income	3.9	1990–2000
Tunisia	Lower-middle income	3.1	1990–2001
Vietnam	Low income	5.7	FY 1994–2001[3]
Transition Countries			
Armenia	Lower-middle income	1990–03: –24.9 1993–03: 7.1 1990–03: 2.6	1993–2002[4]
Bulgaria	Lower-middle income	1990–97: –2.5 1997–03: 5.2 1990–03: 0.6	1991–2000[5]
Croatia	Upper-middle income	1990–93: –13,6 1993–03: 4.5 1993–03: 2.0	1993–2003[6]
Lithuania	Upper-middle income	1990–94: –15.4 1994–03: 5.4 1990–03: 0.6	1992–2002[7]
Moldova	Low income	1990–99: –9.8 1999–03: 5.9 1990–03: –5.1	1993–2003[8]
Mongolia	Low income	1990–93: –9.4 1993–03: 2.0 1990–03: 0.4	1991–2000[9]
Russian Federation	Lower-middle income	1990–98: –7.1 1998–03: 6.9 1990–93: –1.5	1992–2001[10]

	CAE ratings for Bank assistance	
Overall outcome[2]	Institutional development impact	Sustainability
Highly satisfactory	Substantial	Highly likely
Satisfactory	Substantial	Likely
Moderately satisfactory	Not rated	Likely
Moderately satisfactory	Modest	Uncertain
Satisfactory	Substantial	Likely
Satisfactory	Modest	Likely
Satisfactory	Substantial	Likely
1991–97: Unsatisfactory 1997–00: Satisfactory	Modest Modest	Unlikely Likely
1993–2001: Unsatisfactory 2001–03: Satisfactory	Modest Substantial	Not rated Likely
Satisfactory	Substantial	Likely
Unsatisfactory	Modest	Unlikely
Partially satisfactory	Modest	Unlikely
FY1992–98: Unsatisfactory[11] Mid 1998–2001: Satisfactory	Modest Substantial	Highly unlikely Likely

(*Continued on the following page.*)

Table C.1 **Economic Growth and Bank Assistance Outcomes in 21 CAE Countries (continued)**

(Sorted alphabetically within each of the three groups)

Country	Current income classification	GDP growth per capita, 1990–2003 (%)[1]	OED review period
Modest or Poor Growth and Poverty Reduction			
Brazil	Lower-middle income	1.2	1990–2002
Guatemala	Lower-middle income	1.1	1985–2001
Jordan	Lower-middle income	0.6	1990–2002
Lesotho	Low income	2.0	1990–2000
Morocco	Lower-middle income	1.0	1997–2000[12]
Peru	Lower-middle income	1990–97: 3.6 1997–03: 0.5 1993–03: 2.1	1990–2000
Zambia	Low income	–0.9	1996–2001[13]
Zimbabwe	Low income	–0.9	1990–2000

1. For the seven countries that experienced transition recessions after 1990 and for Peru, the overall period has also been split into two time periods during which the country experienced distinguishably different growth rates. In these cases, the overall outcomes of Bank assistance shown in figure 3.2 are the average of that for the two periods, weighted by the length of each period.
2. CAEs evaluate the outcomes of the Bank's assistance programs, not the clients' overall development progress. They assess the extent to which the major strategic objectives of the assistance program were relevant and achieved, without shortcomings. The outcomes of each assistance program are determined by the *joint* impact of four agents: (1) the client, (2) the Bank, (3) partners and other stakeholders, and (4) exogenous forces such as events of nature, international economic shocks, etc. See OED, *Country Assistance Evaluation (CAE) Retrospective: OED Self-Evaluation* (December 2004), Annex A, on the CAE Methodology.
3. While the Bank carried out a wide-ranging program of nonlending services between fiscal years 1988 and 1994, lending to Vietnam re-started in fiscal year 1994.
4. Armenia joined the World Bank on September 16, 1992.
5. Bulgaria joined the World Bank on September 25, 1990.
6. Croatia joined the World Bank on February 25, 1993.
7. Lithuania joined the World Bank on July 6, 1992.
8. Moldova joined the World Bank on August 12, 1992.
9. Mongolia joined the World Bank on February 14, 1991.
10. The Russian Federation joined the World Bank on June 16, 1992.
11. Bank management disagrees with this unsatisfactory outcome rating for Russia from fiscal 1992-98, noting that many reforms implemented after 1998 reflected Bank advice provided during 1992-98 and built on reforms of that period.
12. The previous Country Assistance Review (January 21, 1998) covered the period from 1983-95.
13. The previous Country Assistance Review (June 3, 1996) covered the period from 1983-95.

CAE ratings for Bank assistance		
Overall outcome[2]	Institutional development impact	Sustainability
Satisfactory	Not rated	Non-evaluable
1985–90: Unsatisfactory 1991–2000: Satisfactory	Modest	Likely
Moderately satisfactory	Modest	Not rated
Moderately unsatisfactory	Modest	Uncertain
Marginally unsatisfactory	Modest	Likely
1990–96: Satisfactory 1997–2000: Unsatisfactory	Substantial Negligible	Unlikely Highly unlikely
Unsatisfactory	Modest	Likely
Unsatisfactory	Negligible	Unlikely

Table C.2 **Outcomes of Bank Assistance, Poverty Focus, and Analytical and Advisory Services to the 21 CAE Countries**

Overall outcome
Good-Performing Countries
Chile: 1985-1999 **Highly satisfactory outcome.** The government was ready to adopt the Bank's suggestions for policies that would improve growth and lower poverty. There were dramatic improvements in governance and better financial accountability and financial management. The Bank identified the problems correctly and attempted to mitigate bottlenecks in infrastructure.
China: FY1993-2002 **Satisfactory outcome.** The emphasis on system reform and macro management first, followed subsequently by a gradual shift towards poverty reduction and environmental protection has been successful. The Bank was slow to recognize important growing problems like inequality, vulnerability, growing fiscal problems and the need for better environmental policy.
Dominican Republic: 1985-2002 **Moderately satisfactory outcome.** The New Economic Program in the early 1990s stabilized the economy, after which successive administrations have broadened the reforms. The Bank's interventions in education have had a large impact. Agriculture and rural development remain critical gaps. The relevance of the program is limited because of the Bank's absence during key times and the Bank was not pro-active with key issues like privatization. The efficacy of the program has been limited.
India: 1990-2000 **Moderately satisfactory outcome.** The Bank provided timely support for structural adjustment for the resumption of economic growth in the early 1990s, which was the most pressing priority. There has been a strong focus on the social sector and on state-level decentralization and participation, but very little impact of ESW and mediocre performance of projects. Rural poverty was neglected in the first half of the 1990s. The large fiscal deficit in 1997 posed risks to the economy.
Tunisia: 1990-2001 **Satisfactory outcome.** There has been an improvement in the social indicators, which are among the best in the MNA region, and a commitment to rural development.
Vietnam: FY1994-2001 **Satisfactory outcome.** Vietnam has achieved one of the best records on the score of growth and poverty. Good macroeconomic management has achieved and sustained stability.

Poverty focus in CAS	AAA and poverty
CEMs in 1986 and 1989, and a forestry and mining study focused on alleviating poverty. The initial objectives of Bank assistance were to support the government's stabilization policies and structural reforms so as to restore Chile's access to international capital markets and create the conditions for faster growth and sustained reduction in poverty.	AAA emphasized the elements that became the foundation of the Bank's strategy for Chile: stabilizing, adjusting and reforming the economy, consolidating growth (CEMs and financial sector report), building the infrastructure necessary for rapid and sustained growth (electricity, roads, ports), alleviating poverty, developing natural resources (forestry and mining, 1986 and 1989), and setting policies and investment priorities for agriculture (1985, 1990).
The overarching objective during the 1980s and 1990s was to promote economic system reform. System reform was seen by the Bank and the Chinese as the key to long-term growth, modernization and poverty reduction. The emphasis on poverty appeared in the first stand-alone CAS in 1995.	The Bank has made a substantial contribution to China's evolving poverty reduction strategy through its AAA, poverty monitoring, and projects. Two studies of rural poverty (1992 and 2000) provided an overview of poverty issues and proposed sensible strategies with respect to targeting and the need for a multi-sector approach to rural development through integrated rural development projects. There is a gap between the Bank's rhetoric on the importance of ESW in country assistance strategy and ESW budget allocations.
The Bank has been a small player in terms of financial flows and influencing policy in the Dominican Republic. The 2000 CAS adopted a poverty focus and had two main objectives: (1) help the people of the Dominican Republic strengthen their consensus around the steps required for implementing the unfinished reform agenda, and (2) support the country to maintain a firm direction toward the long-term goal of reducing poverty. The strategy for reducing poverty was focused on (a) sustaining growth, (b) increasing the access of the poor to the benefits of growth, and (c) implementing environmental policies for sustainable development.	A 1995 Economic Report focused on trade policy and a 2000 Social and Structural Policy Review had large impacts. During the 1990s the Bank emphasized analytic work to contribute to the policy dialogue. The impact of the Bank's sector work and dialogue has been mixed—with some influence in energy and in some social sectors, but a negligible impact in other areas. The 1994 work on agriculture—a very important area—was not successful in moving reform forward.
Eradicating poverty was the overarching development strategy in India. However, the relevance of Bank assistance to poverty reduction improved in the second half of the 1990s, and even more so after 1997. The 1997 CAS contained monitorable indicators, one of which was reducing poverty by 15% by 2010.	Most Bank reports appeared to have little direct impact due to their limited scope and dissemination, the variety and richness of intellectual contributions within India, and the drawn-out internal consensus-building and decision-making processes. One exceptions to this was the Bank's report on trade and investment liberalization in the 1980s. The new state economic reports, which were undertaken in close partnership with local policy institutes, have had a significant impact through their relevant analyses of fiscal structural, policy and institutional deficiencies.
The overarching strategy in the 1990s and early 2000s was growth with equity. The Bank emphasized support for stability, growth, boosting competitiveness, human development, and rural development	ESW was relevant and of high quality, conformed to the Bank's assistance strategy, and provided a solid basis for policy dialogue with the government. The poverty alleviation report – which covered macro, social, and sectoral issues – informed Bank strategy.
Strategies from 1993 focused on poverty as one of the five areas. The goal was to bring about poverty alleviation through promoting economic growth and support for social sectors. The strategy was broadened in 1998 to include governance and transparency issues.	The work on poverty served to orient the thrust of the lending program. A combination of broad-based growth, investments in rural infrastructure, and better targeting of social services have contributed to alleviating poverty. Between 1988 and 1993, while the Bank was waiting for approval to resume lending, the Bank built its knowledge base and provided a wide-range of non-lending services to Vietnam. This early sector work effectively fed into the selection of projects and project design.

(*Continued on the following page.*)

Table C.2	Outcomes of Bank Assistance, Poverty Focus, and Analytical and Advisory Services to the 21 CAE Countries (continued)

Overall outcome

Transition Countries

Armenia: 1993-2002

Satisfactory outcome. There has been a large contribution to maintaining macro-stability, although the resulting poverty reduction has so far been small. AAA contributed to establishing the new social benefit system with better targeting. There have been improvements in the efficiency in the education sector, energy sector and aspects of PSD. The agriculture and transport sectors remain with unaddressed problems, and the Bank's efforts to strengthen public sector efficiency have been ineffective.

Bulgaria: 1991-2000

Unsatisfactory outcome from 1991 to 1997 and satisfactory from mid-1997 to 2000. The Bank rightly focused on stabilization and debt reduction. The reforms stalled in the 1990s until a new strategy, which was implemented after 1997, led to some reform. Bulgaria after 1997 still had very poor PSD, poor targeting of poverty, and very little reform in the public sector.

Croatia: 1993-2003

Unsatisfactory outcome from 1993 to 2001 and satisfactory from 2001 to 2003. The Bank's strategies were relevant overall, but there was a disconnect between the proposed and implemented assistance programs. Prior to FY02 the government rejected proposals for adjustment and sector reforms in public administration, judicial, health, and other sectors. The actual lending program was more focused on infrastructure than indicated by the CAS and less on growth, public expenditure, and governance. After FY01 the outcome was satisfactory based on higher relevance and efficacy, and on restraining and retargeting the public investment program.

Lithuania: 1992-2002

Satisfactory outcome. Focus on growth and transition helped stabilize the economy. The Bank's CEMs and sector work highlighted key areas for reform. Lending was relevant except in the areas of PSD and agriculture where there were unaddressed problems. The Bank's major contributions occurred in the areas of fiscal, financial, energy and transport sectors for Lithuania.

Moldova: 1993-2003

Unsatisfactory outcome. The country remains highly indebted. Governance remains weak and social institutions fiscally challenged. The government is reluctant to turn to market-friendly solutions. The poverty has led to emigration.

Poverty focus in CAS	AAA and poverty
One of the elements of the 1995 CAS was poverty alleviation and better targeting of social protection. Poverty alleviation through the strengthening of social safety nets and health and educational reform were elements of the 1997 CAS. The 2001 CAS focused on private sector development, governance, and human capital development.	The resulting reduction in poverty has thus far been limited, but, through AAA and lending, the Bank has helped establish a new social benefit system, well targeted to the poor. Poverty alleviation was addressed early through analytic work and adjustment lending.
The Bank's main strategic objective in Bulgaria has remained unchanged over the last decade. The objective has been to facilitate Bulgaria's transition to a market-based economy, by (1) supporting macroeconomic stabilization and sustainable growth, (2) facilitating the expansion of private sector activity, and (3) addressing poverty by establishing a financially viable and effective social protection system and other social sector programs.	The social assessment and participatory research came too late to inform the 1997 Poverty Assessment (PA). The timeliness and relevance of the PAS was also modest. First, the 1997 survey on which the PA drew was not representative of the poverty situation since it was done at the peak of the crisis during which conditions of hyperinflation had a large and immediate impact on poverty. Second, the PA came too late to fully benefit the preparation of the SPAL (FY99). Even if it had been in time for the SPAL, it would not have been useful because of its inaccurate picture of poverty and lack of guidance on the scope for improved targeting. Third, the Bank did not build domestic capacity to carry out living standard measurement surveys (LSMS).
The 1995 CAS sought to help Croatia with the transition from transformation to stabilization with sustained growth. The 1999 CAS adopted containing poverty as one of the main objectives.	Throughout the 1990s, effective components of the ESW program could not be implemented because of the lack of government agreement. Therefore, the impact of work completed was low even through it was of good quality. Not until 2001 was the outcome of the Bank's assistance program satisfactory. The Bank was less active in poverty alleviation and social development, because the government did not welcome Bank assistance in these areas until 2000. The Vulnerability Study was long-delayed having been on the agenda since the 1995 CAS. While the Bank supported reforms in pensions and a few social sectors, clients perceived that the Bank did not have either a strong involvement or a strong impact on poverty.
The Bank's overall objectives during the past ten years were to assist in the transition and to address poverty reduction by helping restore overall growth.	The Bank's focus on key adjustment issues in the lending program also guided its AAA with the CEMs playing a role in defining issues and proposing reforms. Sector reports as well as activities supported by the Institutional Development Fund opportunistically addressed important issues and provided relevant guidance to the CEMs.
The Bank's strategy in the mid-1990s supported the Government's reform agenda to establish self-sustaining growth based on (1) increased competitiveness, particularly in agriculture, (2) improved energy efficiency, (3) emergence of a service sector, and (4) improving the country's human resources. The 1999 CAS noted that Moldova was one of the poorest countries of Europe and had among the lowest levels of foreign direct investment. Poverty-linked lending was a specific "focus" of the 1999 CAS, which proposed lending for social protection, a social investment fund, and health reform.	The Bank's AAA was usually relevant and had an impact on government and donor decisions. The Bank's poverty work was deemed useful by donors and government, and had a direct impact on social reforms.

(*Continued on the following page.*)

Table C.2 **Outcomes of Bank Assistance, Poverty Focus, and Analytical and Advisory Services to the 21 CAE Countries (continued)**

Overall outcome
Transition Countries **(cont.)**
Mongolia: 1991-2000 **Partially satisfactory outcome.** The Bank helped overcome the initial crisis and restored growth but was not able to advance key institutional and policy objectives needed to support broad-based growth. The lending program, ESW, donor coordination, and policy advice achieved good results but with clear limitations. The impact of the lending program in particular was constrained by unsatisfactory projects in banking and energy and the declining relevance of its emergency transition. The Bank also made contributions to overcome the initial crisis and restore growth and protect the vulnerable during transition.
Russian Federation: 1992-2001 **Unsatisfactory outcome from 1992 to 1998 and satisfactory from mid-1998 to 2001.** The macro-environment was volatile and unsustainable before 1998. Public sector management and private sector development remain at the core of the development challenge. Since 1998, there has been an overall improvement in the macro-situation and broader ownership, suggesting that the reform program is likely to be sustained. However, the economy remains vulnerable to shocks.
Modest- and Poor-Performing Countries
Brazil: 1990-2002 **Satisfactory outcome.** The Bank made major contributions to human resources and education, and played a critical role in building up institutional capacity in the environment area since the early 1990s. There have been with some gains in poverty due to macroeconomic stabilization.
Guatemala: 1985-2001 **Unsatisfactory outcome from 1985 to 1990, and satisfactory from 1991-2000.** The government distrusted the Bank in the 1980s. The outcomes of the Bank's assistance (in terms of policy reform and growth) improved after the start of stabilization by Serrano in 1990 and the peace agreement in the early 1990s. The Bank's assistance supported programs agreed to in the peace accord, finally coming to grips with the problems of poverty, inequality, and social exclusion.
Jordan: 1990-2002 **Moderately satisfactory outcome.** The Bank helped Jordan stabilize its economy after the debt crisis and disruption caused by the 1991 Gulf War. But there was slow growth until 2000 despite wide-ranging sectoral reforms.
Lesotho: 1990-2000 **Moderately unsatisfactory outcome.** Half the population lives below the poverty line and income inequality is among the highest in the world. Despite macroeconomic success, the economy has had problems with governance that have constrained progress.

Poverty focus in CAS	AAA and poverty
An explicit poverty focus was adopted in 1996 in the second CAS. The aim was to promote development through direct poverty alleviation efforts.	The Bank's prospective lending program drove the sectoral focus of its analytical reports. Eight formal ESW reports were prepared during the 1990s, including three CEMs; sector reports in agriculture (FY95), energy (FY96), and transportation (FY99); a poverty assessment (FY96); and a public enterprise review (FY97). The Bank also produced a financial sector review, helped the government prepare its National Environmental Action Plan in 1995, and supported a Participatory Livings Standards Assessment carried out by the National Statistics Office in 2000.
Throughout this period, the Bank's main objective was to ease Russia's transition from a planned to a market economy and to help avoid the human costs and geopolitical consequences of a policy reversal by facilitating the restructuring of old enterprises, creating new enterprises, improving the environment for investment, and reforming social protection.	Until 1995, the Bank gave only secondary priority to ESW and did not disseminate findings to a wider audience. Between 1997 and 2000, reports were produced in a number of areas including poverty and inequality. The study "Making Transition Work for Everyone" updated and supplemented various studies on poverty and highlighted the negative consequences of Russia's transition for poverty and inequality.
Poverty alleviation was a central objective of the Bank's assistance throughout the 1990s and early 2000s. Growth was usually defined as a means (or an intermediate objective) to achieve final objective.	Overall, ESW was of good quality and relevance. The greater importance attached to non-lending services was due to the Bank's capacity to contribute to sectoral reforms and its awareness of its declining importance as a source of finance. Some ESW had a significant impact on the formulation of sectoral policies and Bank projects.
In the 1980s, the government showed little commitment to addressing problems that exacerbated poverty and inequality. It was only in the 1990s that the Bank began to focus on poverty reduction, stabilization, and economic reform	
In 1999, Jordan reiterated the objectives of the 1995 strategy which focused on accelerating economic growth, fostering private investment and export development, promoting human development, and improving water resource management. The objectives of the 2002 CAS were the same as 1999—sustained growth to create jobs and reduce poverty.	The two poverty assessments helped resolve the controversies that had arisen because of the differences in the range of poverty estimates. These reviewed the numbers produced by the Bank and justified that they were defensible. The Bank's AAA has been sound and has had an impact on the views of the government.
The 1994 CAS had three-pronged growth strategy—to help the government deepen structural reforms, to improve its capacity to implement the program, and to capture the benefits of the Lesotho Highlands Water Project (LHWP). The CAS recognized the serious poverty situation and identified the lack of economic growth as the major cause. Not until the 1996 CAS was there a serious shift in focus towards poverty reduction. Its main aims were to foster labor-intensive growth, invest in human resources, maximize the poverty-reducing impact of the LHWP, and enhance institutional capacity.	The sector analysis that was carried out during the 1980s and 1990s was generally sound and satisfactory, but with some shortcomings. AAA in education was particularly effective. There was no broad economic work that followed the action plan of the 1995 Poverty Assessment. Three areas—agriculture, finance, and education—were covered, but health and population were ignored.

(*Continued on the following page.*)

Table C.2	Outcomes of Bank Assistance, Poverty Focus, and Analytical and Advisory Services to the 21 CAE Countries (continued)

Overall outcome
***Modest- and Poor-Performing Countries* (cont.)**
Morocco: 1997-2000 **Marginally unsatisfactory outcome.** The results in terms of growth and poverty have been very weak. There has been an increase in the budget deficit and reallocations have not been as expected. PSM has been very weak and growth has not been broad-based. The government has reached an agreement with the EU to liberalize trade.
Peru: 1990-2000 **Satisfactory outcome from 1990 to 1996 and unsatisfactory from 1997 to 2000.** The first part of the 1990s was a period of much progress, including macroeconomic stabilization, a reduction in poverty between 1991 and 1997, and improvements in social indicators and infrastructure. After 1997, during a period of economic crisis and stagnation, the assistance program was not efficacious in achieving its development goals. The government implemented policies that directly undermined institutional strengthening and investments in human capital. The Bank provided budget support without addressing the policy reversals and the eroding tax base.
Zambia: 1996-2001 **Unsatisfactory outcome.** The Bank's role in shaping the policy agenda was significant, reflecting the Bank's high degree financial leverage and diversified portfolio. The Bank encouraged macro-stabilization. The Bank could have fostered more rapid economic growth, reversed trends in per capita income, and reduced poverty if relevance and efficacy had been higher. Although the Bank's portfolio was more diversified, including an emphasis on economic infrastructure and social services, investment lending was heavily oriented towards infrastructure rehabilitation and with little emphasis on or success in promoting relevant sector reforms.
Zimbabwe: 1990-2000 **Unsatisfactory outcome.** The Bank showed very little commitment to macroeconomic stability. Liberalizing economic reforms in the early 1990s were not sequenced appropriately. An overall policy framework that could sustain project and sector achievements was lacking. The Bank had a poor understanding of country ownership and consensus among decision makers.

Poverty focus in CAS	AAA and poverty
The 1997 CAS aimed to accelerate growth and alleviate poverty by (1) reducing the public deficit and reallocating expenditures, (2) broad public sector reform and continued private sector development, (3) implementation of social and rural development programs to reduce the gender gap and to improve environmental management.	AAA in Morocco is generally of high quality, but relatively expensive, well above the average for MNA and for the Bank as a whole in recent years. The 1997 CAR found that much of the Bank's excellent economic and sector work on Morocco had not been well used and recommended that relatively more resources be spent on dissemination and consensus-building.
The CASs before 1994 focused on stabilization of the economy. It was in 1997 that poverty reduction and extreme poverty became the focus of the Bank. The Bank also recognized that investment in human and physical capital could help improve the poverty situation.	The quality of the AAA program since the 1997 CAS was satisfactory overall because of the concerted focus on poverty reduction. Policy makers viewed ESW was one of the most valued Bank products. The Bank also played a catalytic role in broadening the dialogue and consultation for poverty reduction through a Poverty Dialogue, which brought together the government, other donors, civil society, and the private sector.
The Bank's program was guided by three country strategies which had a consistent objective of promoting sustainable growth to reduce poverty. The four main themes consistent through the CASs were to promote (1) a stable macro-environment, (2) privatization of state-owned enterprises, (3) targeting assistance directly to the poor, (4) improving public sector efficiency and governance.	A participatory PER was completed in mid-FY02, six years after the previous PER. Improved public expenditure management was important to enhance the efficiency of the state, channel HIPC resources appropriately and implement the upcoming PRS. The PER was of substantial relevance. It highlighted, in particular, the links between public expenditures, growth and poverty, as well as the fiscal deficits that remained a barrier to macroeconomic stabilization. However, the inadequacy of the enhanced HIPC initiative in alleviating the discretionary budget constraint was not sufficiently addressed.
The twin objectives of reducing fiscal deficits and fostering equitable growth have remained unchanged for almost two decades. These objectives were first set out in the 1980 country economic memorandum (CEM) and repeated with a few modifications in the FY92, FY94 and the FY97 country strategies. Private sector development, poverty alleviation, human capital, and rural development were added to the country strategies in the 1990s.	The 1991 agricultural sector memorandum, apart from mentioning the need for a more equitable distribution of assets and food insecurity, made no reference to poverty in rural areas. This omission was noteworthy considering that it followed on the 1990 WDR on poverty. Attention to poverty and social protection was weak in 1991-96, and a full poverty assessment has never been completed. The 1995 CEM was labeled as a poverty assessment but contained only a slim poverty profile with no proposed plan or strategy for reducing poverty. The Bank's 1997 strategy stated that poverty was not as prevalent as in many other Sub-Saharan countries, but was likely to have increased in 1990-95. A poverty situation analysis was published in 1996 and work on geographical targeting in 1997 formed the basis of the Community Action Project in FY98.

Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
Good-Performing Countries				
Chile				
FY1986-88	Structural adjustment			
FY1988-93		Financial sector adjustment	Social sector adjustment	
FY1993-95 and FY96-98			Transport	Education & health
China				
1980s & early 1990s	Macro management and system reform			
1995 CAS	Macroeconomic and structural reforms	Infrastructure bottlenecks	Poverty reduction	Environmental protection
1997 CAS	Macroeconomic growth	Infrastructure & stability	Human development	Environmental protection & poverty reduction
2002 CAS	Accelerating the transition	Investment climate Accelerating the transition		Rural/agricultural to urban migration Environmental sustainability
Dominican Republic				
CAS 1988	(1) Establish dialogue and rebuild the Bank's image, (2) have positive net transfers, and (3) use the Bank's analytic work and lending operations to support the government's efforts to stabilize and reactivate the economy			
1994-96	The draft country strategy never became an official country strategy, since the Bank had misgivings about the country and the direction in which it was heading.			
1996-99	Sustaining growth	Privatizing the power sector	Investing in human capital	Natural resource management
2000-02	Liberalization of trade	Improving the business environment Reforming the financial sector Improving the justice system	Social security Improving health, education, and social services Basic safety nets for the poor	Reforming the agricultural sector Rural development Improving the environment Tourism
India				
1990-mid 1990s	Reforms for sustainable growth, improved macroeconomic management, and liberalization of the trade and investment regime		Human development (for broad-based improvement of primary social services)	Environmental protection
Second half of 1990s	Studying state finances	Increased attention to sector reforms Assistance in establishing a framework conducive to efficient private investment in infrastructure	Poverty reduction Restructuring social programs and providing the poor with skills to participate in the new, more competitive market economy	

Ratings, comments, and qualifications
Substantial relevance. In the majority of cases, the Bank diagnosed the problems correctly and identified objectives that would increase the country's growth prospects and the welfare of Chileans. In the 1990s it became clear that to alleviate poverty and to improve human welfare the quality and quantity of health and education services needed to improve. The Bank also helped improve transport infrastructure to assist growth.
Substantial relevance. The four main Bank objectives—promoting system reform and better macro-management, poverty reduction, infrastructure development, and environmental protection—have helped address China's most pressing development issues. The gradual shift of emphasis toward poverty reduction and environmental protection has also been in the right direction, though the Bank was sometimes slow to recognize the importance of issues such as growing inequality and vulnerability, intergovernmental fiscal problems, and the need for better coordination of environmental policy and WRM. In some areas, such as financial sector and enterprise reform, the relevance of Bank advice waned during the mid-to-late 1990s. Since the Bank ended China's eligibility for IDA in FY00, Bank lending for social sectors and poor regions has become increasingly constrained.
Modest relevance. The Bank had limited influence immediately after the New Economic Program in the Dominican Republic, but began to recover in the late 1990s. The Bank's program has supported improvements, especially in education, where it had an important influence. Progress on infrastructure has been mixed due to inadequate attention to institutional and regulatory issues. Agriculture and rural development were critical gaps in the country's reform program and the Bank's assistance strategy. The relevance of the Bank's assistance program was limited, due to the lack of continuity in the dialogue and the absence of Bank lending during critical times, and because the Bank was not pro-active in some key structural areas like privatization where it had a comparative advantage.
Substantial relevance. Although the Bank neglected rural poverty in the first half of the 1990s, it provided timely support to structural adjustment for the resumption of economic growth, which was the most pressing priority. It also showed increased concern for the adequacy of the policy and institutional framework in the energy sector and human development. The relevance of Bank assistance became more substantial in the second half of the 1990s, as its concern for the adequacy of the policy and institutional framework expanded to other sectors (especially water resources) and to the states, and thanks to its in-depth study of India's rural development strategy and to the heightened attention in its lending program to social development and rural poverty. Creditworthiness, stabilization, and faster growth on the heels of the fiscal and structural reforms of the early 1990s were already in hand by the mid-1990s. From a closed and controlled economy, India has indeed moved far toward integration in the global economy. However, macroeconomic stability has been at risk since 1997 because of the fiscal deficit. Poverty reduction has been limited, with severe poverty in rural areas associated with inadequate social and infrastructural services. A large reform agenda still remains a decade after breaking away from the old development model.

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Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Good-Performing Countries* (cont.)**				
Tunisia				
Mid-1990 (based on 1995 CEM)	Economic integration		Social stability	Environmental sustainability
2000 CAS	Growth with equity, with emphasis on stability and growth through boosting competitiveness and enhancing outward orientation	Rejuvenating private investment	Human development	Rural Development
Vietnam				
1993,1994, 1995	Maintaining macro-stability Supporting rapid transition to a market economy	Private sector development Financial sector reform Infrastructure (transport, power, irrigation, water supply)	Poverty alleviation and support for social sectors	Land reform Environmental protection
1998	Maintaining macro-stability Supporting rapid transition	Private sector development Financial sector reform Infrastructure Public sector reform Transparency Decentralization	Poverty alleviation and support for social sectors Participation	Land reform Environmental protection
Transition Countries				
Armenia				
1993	Economic stabilization Structural reforms to complete the transition to a market economy	Institution building Infrastructure rehabilitation Promoting private sector development and growth	Poverty alleviation and support for better targeting of social protection	
Mid-1990s	Consolidation of macroeconomic stability	Fostering rapid private sector development through further structural reforms; strengthening the financial system and the legal and judicial framework; and alleviation of key bottlenecks in energy, transport, and water		

Ratings, comments, and qualifications
Substantial relevance The Bank's assistance, in tandem with that of the IMF and other donors, made a contribution to maintaining macroeconomic stabilization and structural reforms, which in turn facilitated growth. The Bank's assistance contributed to improving the overall soundness of the banking system and to significant progress in the rural and social sectors. Remarkable progress was made towards achieving the MDGs. However, efforts to facilitate rural credit and land consolidation were less effective. The Bank did not pay sufficient attention to the country's expanding social programs and did not undertake public expenditure reviews periodically.
High relevance. The Bank maintained its focus on structural reforms, even in the face of limited progress, as well as on infrastructure rehabilitation and poverty alleviation, both of which were priorities for the government. In addition, the Bank has done a good job orienting investments toward those areas identified by sector work and research as benefiting the poor. In many respects, the Bank's performance has been exemplary in its appropriate risk-taking in activities affected by safeguards, priority on partnership, focus on inclusiveness of ethnic minorities as beneficiaries of Bank projects, and its efforts to foster participation of the private sector and local NGOs in donor conferences and strategy sessions. The quality of the services, both lending and non-lending, has been high. The main weakness in the assistance has been its wide-ranging character, covering many sectors and sub-sectors. As in many countries, the lack of selectivity is linked to the internal and external pressures on the Bank to be present in most sectors.
High relevance. The emphasis placed on infrastructure renewal, and on dismantling the remnants of a centrally planned economy was highly appropriate for the country—especially during the first half of the decade. Poverty alleviation was addressed early through analytical work and adjustment lending. Investment and adjustment lending were generally well-synchronized. The increased importance accorded to the social sectors was highly relevant. However, two important areas received insufficient attention until 2001—additional measures to support private sector development and modernization of the public sector. The 2001 CAS redirected the reform effort, emphasizing that additional measures were needed to support private sector and to help modernizing the public sector.

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Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Transition Countries* (cont.)**				
Armenia (continued)				
2001		Creating jobs through private sector development Improving governance and public sector services	Rebuilding human capital Strengthening the social safety net and reforming the health and education systems	
Bulgaria				
FY91-93	The first strategy focused on policy advice, the large external debt problem and assisting Bulgaria to reschedule it. The FY93 strategy proposed a five-year program of US$300 million per year with roughly 40 percent in adjustment lending, including an enterprise and financial sector reform loan.			
1996			Social sectors	Environment
1998		Support for SOE reforms, banking, and energy sector reforms Reforms in state administration, civil service, and judiciary	Social protection	Agriculture Support for compliance with EU environmental standards
Croatia				
1995		Reforming public finance Private-sector led growth Upgrading infrastructure		
1999	Contain poverty	Reducing size of and improving the efficiency of the public sector Improving governance Creating conditions for real sector development		
Lithuania				
1994	Maintaining macro and financial stability Strengthen the financial sector, including privatization of banks	Liberalization and private sector development Reorienting the energy sector Maintaining and developing physical infrastructure	Providing targeted social protection	
1999		Enhancing competitiveness by addressing corporate governance, bankruptcy laws, the judicial system, infrastructure and energy regulation Strengthening public administration at the central and sub-national levels Upgrading infrastructure		Raising rural productivity Upgrading the environment

Ratings, comments, and qualifications
Substantial relevance. The strategies were relevant to addressing Bulgaria's constraints. In the early years, the priority was on establishing the foundations for macroeconomic stability, on helping Bulgaria transition to a market economy with particular emphasis on enterprise reform, financial reform, and energy sector. The focus on debt restructuring was also appropriate. The cautious approach to lending in the FY96 CAS, the warning of an impending crisis unless reforms in the financial and enterprise sectors were decisively tackled, and the continuation of ESW were the right strategy for Bulgaria at that time. After 1997, the increased focus in the FY98 CAS on reforms was also relevant both for sustainable growth and poverty alleviation. However, the strategy would have been stronger if it had linked the strengthening of public administration to private sector development and to helping Bulgaria accede to the EU.
Substantial relevance. The strategies presented in the two CASs were generally well designed, but were not fully implemented. These strategies assumed that the end of open hostilities presaged government support for a broad structural adjustment program. Intentions to reform public administration and investment, and the judiciary, were difficult to operationalize. The FY99 CAS recognized shortcomings in privatization and education but did not propose solutions. The client survey conducted in 1998 revealed that poverty reduction was not perceived as a Bank priority. As adjustment lending failed to materialize, the Bank allowed infrastructure lending to expand and supported a larger public investment program with limited retargeting at a time when Croatia needed to reduce and retarget public expenditures.
Substantial relevance. The strategies were relevant to addressing Lithuania's constraints. The early priority on restoring macroeconomic stability and growth while assisting in the transformation of the Lithuanian economy was appropriate, as were the sectoral emphases on energy, infrastructure, and targeting social protection. The expanded scope of the Bank's assistance strategy in the FY99 CAS was also appropriate, in particular, addressing selected social issues not specifically addressed by the EU accession agenda while also supporting the EU accession agenda explicitly. The "external shock" scenario included as a high case alternative was also appropriate. The country assistance strategy was highly relevant in addressing critical constraints to transitioning to a market economy where the Bank had a subsequent role. The CEMs contained generally sound analysis and offered practical recommendations on reform, which were used as a basis for the design of adjustment lending that addressed macroeconomic stability, the consolidated fiscal deficit, and related issues.

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Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Transition Countries* (cont.)**				
Moldova				
Mid-1990s	Establishing self-sustaining growth Supporting the implementation of the government's reform agenda	Improved energy efficiency	Supporting the emergence of a service sector Improving the country's human resources	Increased competitiveness, particularly in agriculture
1999	Supporting macro-economic stability and growth	Private sector development and public sector reform	Social protection, a social investment fund, and health reform A specific "focus" on poverty-linked lending	
Mongolia				
Pre-1996	Emergency transition support between 1991 and 1996 Supporting short-term macroeconomic stability through balance of payments lending	Supporting essential public services and industries through import financing and technical assistance Building public capacity to manage a market economy by financing, training, and external advisors		
1996	Improve macroeconomic management and support medium-term stabilization	Develop the private sector and financial institutions Remove infrastructure bottlenecks	Promote equity in development through direct poverty alleviation efforts	Protect the environment
Russian Federation				
1990 (Approach Phase)	The Bank approved a $30 million grant in March 1991 to finance a trust fund TA and project preparation. Then, the Bank reached a new agreement in December 1991 with what was now the Russian Federation with respect to a share ($13.5 million) of the original grant. However, the advisory services financed by this trust fund came too late to help in the preparation of the Gaidar reform program and its initial implementation in early 1992.			
1992-1995 (Learning and Investing Phase)	Structural reforms Tax administration	Privatization Private and financial sector development Infrastructure rehabilitation	Employment services Pension payment administration Housing	Land, agriculture, environment
Mid-1995-1996 (Consolidation Phase)	This phase was marked by an intensification of supervision efforts, the start of annual Country Portfolio Performance Reviews (CPPRs), and major project restructurings.			

Ratings, comments, and qualifications
Modest relevance. The failure of successive governments to implement reforms as well as exogenous events (Moldova's extremely difficult initial conditions, climatic factors, and the Russia crisis of 1998) were major factors in the unsatisfactory outcome of the Bank's assistance program in Moldova. But the Bank's program also had some shortcomings. While the Bank supported an appropriate reform agenda in most sectors throughout the period and made efforts to support reformist governments, the Bank's assistance program was based on optimistic macroeconomic projections that did not adequately take into account Moldova's complex political situation and ignored corruption problems until too late. The optimism reduced the pressure for immediate and major reforms. Cognizant of the difficulties newly democratic institutions faced, Bank managers often rewarded partial or deferred results with lending. Bank strategies, especially the 1994–97 strategy, should have emphasized Moldova's extremely difficult transition more strongly, stressed concessionary support, lent less IBRD, and insisted that reform commitments be implemented rather than delayed or partially completed.
Substantial relevance. The Bank pursued relevant objectives in the 1990s except that emergency transition support could have been phased out earlier than it was. The Bank's objectives and strategy were consistent with the principles of the CDF, aiming to reduce poverty and improve living standards by enabling sustainable growth. The Bank practiced selectivity and did not finance investments in areas where other donors were fully involved. The early rehabilitation loans were appropriate in the light of the strong commitment shown by the government to implementing market reforms, the magnitude of the immediate problems faced—collapsing industries, termination of Soviet aid, lower commodity prices—and the prospects of severe hardships among the population. The rehabilitation loans were well coordinated with other donors. The financing of advisors, training, and producing analytical reports in various sectors were appropriate responses to the severe shortage in the knowledge and skills needed to implement reforms. Close attention to the financial sector was relevant given a succession of crises in the sector. Appropriate attention was paid to safety net programs for the poor to mitigate the short-term impact of the transition. Selective attention to redressing poor infrastructure, which continued to impede private sector activity, and to greater participation of the rural population in the market economy was also relevant.
Substantial relevance. The Bank reiterated in all its CASs the end goals of promoting an environment conducive to economic growth while protecting the poor and vulnerable. Through 1998, the relevance of the Bank's operational objectives was substantial when set against the complex challenges of the transition, the fast-changing domestic and international situation, and the Bank's institutional priorities, but the efficacy of its assistance was modest. In the 3.5 years since the 1998 crisis, the relevance and design of Bank assistance have improved significantly, although delays in new project effectiveness and the slow pace of loan disbursements continued. Important reform legislation was successfully adopted. The implementation of the reform program has started in only a few areas, but its efficacy—that is, its contribution to economic performance—has been substantial and aided by the cumulative impact of earlier Bank efforts. By the end of 2001, Bank assistance had helped improve the incentive regime for sustained economic growth, pension benefits, the targeting of social assistance programs, and the restructuring of the coal sector. Most importantly, the dialogue between the Bank and senior Russian policymakers on structural reform, which has intensified since late 1998, played a major role in helping the current government formulate its program of market-oriented reform, good governance, and social responsibility. These are solid achievements.

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Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Transition Countries* (cont.)**				
Russian Federation (continued)				
1996-1998 (Renewed Lending) (CAS 1997)	Supporting macro-economic stabilization, tax reform, and elimination of budget arrears	Enterprise housing divestment Capital market development Legal reform Medical equipment Pricing reforms Privatization Competitive restructurings in power, natural gas, and railways Banking reform. Coal sector reform The 1997 CAS also placed great emphasis on regional infrastructure projects	Social protection reform	
CAS 1999; 1998 (Crisis and Recovery Phase)	Supporting macro-economic management through adjustment loans during the crisis Budget management, tax collection, and federal-regional fiscal relations	Public administration reform and reducing corruption Improving the business environment Promoting private sector investment	Rehabilitation of the education and health systems Addressing health crises, such as tuberculosis and AIDS	
Modest- and Poor-Performing Countries				
Brazil				
1990-94	Poverty reduction	Reallocation of infra-structure resources to water and transportation, with a focus on decentralization	Investments in health, education, and environment	
1995-1998	Initial support for stabilization	Reducing infrastructure bottlenecks through PSD	Focus on CDD Provision of basic services, especially to the rural poor	Focus on rural poverty
1999-2002	Macroeconomic stabilization and prevention of economic stagnation	Fiscal and public administration Financial sector reform Energy reform	Social security reform and preserving social expenditures Focus on education and health	Focus on rural poverty

Ratings, comments, and qualifications
Substantial relevance. The Bank's strategy to reduce poverty comprised a set of elements expected to address the roots of poverty, and another set to foster growth. Emphasis was on the first set, which essentially included assistance to human resource development (education, health) and expansion of basic services to the poor. The second set comprised financial and technical assistance to the buildup of infrastructure and the removal of structural inefficiencies. The decision to provide more intensive assistance to human resource development, especially education, was appropriate. The decision to pursue a diversified strategy of poverty reduction was also justified by the finding that growth reduces poverty in Brazil, but with an elasticity less than 1. The consistency of the assistance program with the government's own development agenda also improved during the 1990s, along with increasing government participation in the CASs, macroeconomic stability, and the formulation of clear sectoral programs. The focus on the Northeastern states was appropriate, given the region's high levels of poverty and the strategy to provide assistance to these states was also reasonable and cost-effective. Rural poverty alleviation projects were prepared and implemented in every Northeastern state, an appropriate decision given the high levels of rural poverty in the region. Assistance to education and health was provided in part through federal projects covering all Northeastern and other poor states. The shift to adjustment lending at the end of the decade was also justified and consistent with the Bank's central objectives of poverty reduction and growth.

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Table C.3 **Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)**

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Modest- and Poor-Performing Countries* (cont.)**				
Guatemala				
1990s	Economic reform and stabilization		Support for peace Poverty reduction	
1995	Economic reform and stabilization	Financial management	Education and basic services for rural communities, secondary roads	Agricultural services and lending for land rights
1998	Economic reform and stabilization		Low-income urban neighborhoods and war-torn reconstruction	Rural roads and rural financial markets Land Administration
Jordan				
1993	Sustainable growth in productive sectors Mobilizing external financing Outward oriented, private-sector led strategy	Create an enabling environment for private investment in industry, trade services, and infrastructure Improvements in energy, water, and transportation	Reducing poverty Slowing population growth	Protecting the environment
1995		Trade, financial, regulatory, and public enterprise reform to build a better investment climate and reduce unemployment Private participation in infrastructure	Human resource development. Family planning	
1999 and 2002	Accelerating growth	Private investment and export development Public sector reform	Promoting human development	Improving water resource management
Lesotho				
1994	Macroeconomic and structural reforms	Privatization Fostering the growth of the indigenous private sector	Capturing the benefits of LWHP	
1996 and 1998	Labor-intensive growth	Enhancing institutional capacity	Investing in human capital	Maximizing poverty reduction impact of LWHP

Ratings, comments, and qualifications
Substantial relevance. Bank assistance benefited Guatemala during the 1990s because it supported better economic policies and better targeting and management of public resources. Both the 1995 and 1998 CASs dealt with relevant problems in the country and adopted the proper interventions to deal with them. The Bank adopted the right targets and sequencing of interventions. Although the Bank adopted better strategies in the 1990s, it could have placed greater emphasis on the education sooner and could have made more explicit how the strategies could affect rural development. The Bank could have been more forceful in supporting education programs with loans and sector work, and in working with civil society (political parties, think tanks, NGOs) when vested interests threatened the existence of education programs. Some of the loans helped deal with rural poverty, but if the strategies had tried to link the proposed program to rural development, the need for an agricultural development strategy would have become more evident.
Substantial relevance. Bank strategies were relevant and consonant with Jordan's development priorities as outlined in a series of five-year economic and social development plans. Reforms in trade, banking, and public enterprises were the main thrust of the Bank's 1995 country strategy. The Bank's 1999 country strategy coincided with the 1999–2003 five-year development plan that sought to raise the rate of economic growth. The plan articulated the goals more clearly than it articulated how the government would achieve them. The increased focus on the social sectors in the Bank's strategies has been appropriate and is reasonably aligned with the MDGs. Bank strategies during the 1990s were silent on reducing the level of government expenditures, despite sufficient analytical work on identifying how these might be reduced and better targeted. Health spending could have been reduced if the government had not built hospitals but, instead, reimbursed the poor for using private hospitals with excess capacity. Educational costs could have been contained if existing capacity had been used more efficiently, class sizes increased, and double-shift schools maintained. A significant part of public spending stemmed from large public employment which had risen throughout the region following the 1970s oil boom. While this is sometimes described as the "social contract" to distribute the wealth, there are more effective ways of doing so. The reforms that the Bank's strategies supported did not significantly reduce government expenditures or improve their allocation.
Modest relevance. Bank assistance strategies in the 1990s overreached in their objectives, given weak government ownership and insufficient implementation capacity. The strategies did not take into account Bank and client resources and strengths, and misjudged Lesotho's political instability, limited resources, and weak institutions. The relevance of the World Bank's increasing focus on poverty reduction was undermined until late in the 1990s by inadequate attention to poverty monitoring and weak performance benchmarks. Where perfo-rmance indicators existed (for example, in the social sectors), they often exhibited such weaknesses as vague wording, input orientation, no baseline data, or unrealistic targets. There was a dearth of information required to evaluate progress toward poverty reduction. Most Bank projects in Lesotho do not have a poverty monitoring and evaluation mechanism; nor were the CASs used to raise consciousness in Lesotho regarding the need for monitoring poverty and setting targets.

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Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Modest- and Poor-Performing Countries* (cont.)**				
Morocco				
1997-2000	Reducing the budget deficit, reallocating expenditures	Developing a business environment conducive to economic and export growth Initiating and implementing a broad public sector reform and maintaining the momentum of private sector development	Speeding up implementation of social programs Reducing the gender gap	Rural development Environmental management, especially in establishing river basin authorities and in water pricing
Peru				
1993-1994	Macroeconomic sustainability Debt service reduction	Institution building Infrastructure development	Poverty reduction Development of social sectors	
1997		Institutional reform	Poverty reduction and reduction of extreme poverty Investment in human and physical capital	
Zambia	Macroeconomic stabilization. Providing balance of payments support to overcome severe external imbalances	Privatizing state-owned enterprises and creating an enabling environment for private sector development. Improving public sector efficiency and governance.	Targeting assistance directly to poor and vulnerable groups	
Zimbabwe				
1992	Fostering equitable growth Reducing fiscal deficits Trade and exchange rate	Private sector development Reforms in the parastatal sector Civil service reform	Poverty reduction Human capital development	Agriculture and rural development

Ratings, comments, and qualifications
Substantial relevance. The program proposed in the 1997 CAS was highly relevant to Morocco's development needs. However, the program as implemented was much less so. In particular, the shifting of a substantial portion of the lending program from investment to adjustment operations, along with the loose focus of the biggest adjustment loan, the PRSL, reduced the potential for the program to contribute measurably to increasing the productive capacity of the economy and to reducing poverty. With some exceptions, the outcome of the program has been disappointing. In comparison both to the CAS projections and to other countries in the Region, the results in terms of growth and poverty reduction have been weak.
Substantial relevance The 1997 CAS identified the crucial obstacles to further progress as institutional reform and resource availability. However, the Bank faced a difficult conundrum, since there were indications that the Peruvian government's commitment to reform was weakening, making the holistic modernization of the state and the needed fiscal effort unlikely. Given these constraints, the decision to attempt an incremental approach to public sector modernization by building in institutional reform components into individual loans was reasonable. The proposed attempt at wholesale reform of the judicial sector, on the other hand, seemed overly ambitious and out of line with the more realistic overall Bank strategy.
Modest relevance. Bank strategies were devoid of response to the HIV/AIDS. Adult HIV prevalence in Zambia rose to 20 percent by the mid-1990s, reducing life expectancy dramatically and creating a cumulative 650,000 orphans. The pandemic had a devastating impact on household welfare, labor force productivity, and economic growth. Although the Bank was aware of the devastating impact of AIDS, this analysis was not fully integrated into subsequent economic work. Efforts to target the poor through lending to expand basic social services in rural and peri-urban areas through a related effort for a social fund had increasing success in targeting poorer rural communities and improvements in social infrastructure. However, the Bank paid little attention to financial barriers to social services. Bank strategy to support extensive privatization and the supporting legal and regulatory framework for private sector development in the FY96–2001 period was substantially relevant, despite implementation problems. The Bank initially used adjustment lending to provide incentives to downsize civil service, to restructure the civil service, and to reform human resources policies related to remuneration, performance evaluation, and promotions. The relevance of this strategy to strengthen the public sector to facilitate private-sector led growth was also substantial. Although civil service downsizing did occur, negligible progress was made on the broader agenda. Later reform efforts in the public sector through adjustment lending were overshadowed by the privatization of the copper mines. A success in the 1990s was helping promote periodic poverty monitoring and analysis in Zambia, so that the level, depth, and nature of poverty are now well known. However, the Bank failed to fund safety net programs and did not provide the intellectual leadership to stimulate a national debate on redistributive programs.
Modest relevance. The relevance of the strategy throughout the 1990s was modest with respect to reducing poverty and inequality, mainly because there was no strategy for land reform. The FY92 and FY98 strategies also placed little emphasis on infrastructure in communal lands where rural poverty was concentrated. No plan was in place to monitor the impact of economic policies on poverty and income distribution, and the FY94 strategy did not propose a strategy to strengthen safety nets although it noted that the Social Development Fund had not been effective in protecting the poor. Relevance was high with respect to stimulating private sector development, growth, and maintaining macro-economic stability by focusing on reducing unsustainable levels of public sector deficits and parastatal losses, and mitigating the negative social impact of adjustment on the poor through the Social Development Fund. The emphasis on Sexually Transmitted Infections for reducing AIDS in the FY94 Bank strategy was relevant at that time, although more recent research suggests that it would have had only a modest impact on HIV transmission. Population issues were absent in the strategies, even though a Bank report in 1989 had highlighted the need to develop a national population policy and program. The Bank strategy in FY97 for PSD correctly focused on the provision of efficient and cost-effective infrastructure, and continuing tariff reduction. But the Bank underestimated the concerns of the top political leadership about the impact of parastatal and civil service reforms, privatization, and changes to investment policies on the distribution of income and assets.

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Table C.3 Relevance of Bank Assistance Strategies in the 21 CAE Countries (continued)

	Economic management and trade	Private sector development and public sector governance	Human and social development and protection	Urban and rural development and environment
***Modest- and Poor-Performing Countries* (cont.)**				
Zimbabwe (continued)				
1994		SME development Infrastructure	Reducing poverty and inequality Preventing spread of HIV	Communal farming
1997	Macroeconomic reforms	Private sector development	Human capital development	Rural development and natural resource management

Ratings, comments, and qualifications

Table C.4 Kaufman-Kraay Indicators of the Quality of Public Sector Institutions in the 21 CAE Countries

Good-Performing Countries	Chile	China	Dominican Republic	India	Tunisia	Vietnam	Average
Voice and accountability							
1996	0.89	–1.22	0.02	0.27	–0.50	–1.24	–0.30
2002	1.12	–1.38	0.19	0.38	–0.83	–1.36	–0.31
Change	0.22	–0.16	0.17	0.11	–0.33	–0.11	–0.02
Political stability							
1996	0.72	0.23	–0.08	–0.55	0.28	0.38	0.16
2002	1.04	0.22	0.18	–0.84	0.24	0.49	0.22
Change	0.32	–0.01	0.26	–0.29	–0.04	0.11	0.06
Government efficiency							
1996	0.95	0.11	–0.31	–0.16	0.39	–0.18	0.13
2002	1.19	0.18	–0.41	–0.13	0.65	–0.27	0.20
Change	0.25	0.07	–0.10	0.03	0.26	–0.08	0.07
Regulatory quality							
1996	1.28	–0.10	0.07	–0.13	–0.01	–0.54	0.09
2002	1.50	–0.41	–0.17	–0.34	–0.02	–0.69	–0.02
Change	0.22	–0.31	–0.23	–0.20	–0.01	–0.15	–0.11
Rule of law							
1996	1.19	–0.43	–0.49	–0.01	0.06	–0.47	–0.02
2002	1.30	–0.22	–0.43	0.07	0.27	–0.39	0.10
Change	0.11	0.21	0.06	0.08	0.21	0.08	0.13
Corruption							
1996	1.19	–0.01	–0.31	–0.29	–0.04	–0.60	–0.01
2002	1.55	–0.41	–0.39	–0.25	0.35	–0.68	0.03
Change	0.36	–0.39	–0.08	0.04	0.39	–0.08	0.04
Overall average							
1996	1.04	–0.24	–0.18	–0.14	0.03	–0.44	0.01
2002	1.28	–0.34	–0.17	–0.18	0.11	–0.48	0.04
Change	0.25	–0.10	0.01	–0.04	0.08	–0.04	0.03

Table C.4 ***Continued***

Transition Countries	Armenia	Bulgaria	Croatia	Lithuania	Moldova	Mongolia	Russian Federation	Average
Voice and accountability								
1996	–0.54	0.16	–0.47	0.72	–0.19	0.36	–0.34	–0.04
2002	–0.42	0.56	0.46	0.89	–0.30	0.44	–0.52	0.16
Change	0.11	0.40	0.93	0.16	–0.11	0.07	–0.18	0.20
Political stability								
1996	0.39	0.20	0.38	0.57	–0.25	0.68	–0.76	0.17
2002	–0.53	0.56	0.56	0.93	–0.12	0.95	–0.40	0.28
Change	–0.92	0.36	0.18	0.36	0.12	0.28	0.36	0.11
Government efficiency								
1996	–0.34	–0.44	–0.22	0.05	–0.49	–0.27	–0.48	–0.31
2002	–0.42	–0.06	0.19	0.61	–0.63	–0.18	–0.40	–0.13
Change	–0.08	0.38	0.41	0.56	–0.14	0.08	0.08	0.19
Regulatory quality								
1996	–0.70	–0.12	–0.12	0.27	0.01	–0.55	–0.41	–0.23
2002	0.13	0.62	0.19	0.98	–0.17	–0.18	–0.30	0.18
Change	0.83	0.74	0.31	0.71	–0.17	0.37	0.11	0.41
Rule of law								
1996	–0.44	–0.09	–0.50	–0.14	–0.19	0.45	–0.80	–0.24
2002	–0.44	0.05	0.11	0.48	–0.49	0.36	–0.78	–0.10
Change	0.00	0.14	0.61	0.62	–0.30	–0.09	0.02	0.14
Corruption								
1996	–0.60	–0.62	–0.45	–0.12	–0.19	0.34	–0.69	–0.33
2002	–0.72	–0.17	0.23	0.25	–0.89	–0.14	–0.90	–0.33
Change	–0.11	0.45	0.68	0.37	–0.70	–0.49	–0.21	0.00
Overall average								
1996	–0.37	–0.15	–0.23	0.23	–0.22	0.17	–0.58	–0.16
2002	–0.40	0.26	0.29	0.69	–0.43	0.21	–0.55	0.01
Change	–0.03	0.41	0.52	0.46	–0.22	0.04	0.03	0.17

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Table C.4 *Continued*

Modest- and Poor-Performing Countries	Brazil	Guatemala	Jordan	Lesotho	Morocco	Peru	Zambia	Zimbabwe	Average
Voice and accountability									
1996	0.22	–0.60	–0.14	0.02	–0.60	–0.69	–0.15	–0.28	–0.28
2002	0.28	–0.48	–0.41	–0.16	–0.30	0.22	–0.40	–1.50	–0.34
Change	0.06	0.12	–0.27	–0.18	0.29	0.91	–0.24	–1.22	–0.07
Political stability									
1996	–0.01	–0.91	0.36	0.96	–0.36	–0.72	–0.39	–0.03	–0.14
2002	0.17	–0.43	–0.44	–0.06	–0.14	–0.67	–0.02	–1.62	–0.40
Change	0.17	0.49	–0.80	–1.02	0.22	0.04	0.37	–1.58	–0.26
Government efficiency									
1996	–0.19	–0.56	0.09	0.19	–0.10	–0.24	–0.81	–0.23	–0.23
2002	–0.22	–0.61	0.36	–0.26	0.07	–0.47	–0.93	–0.80	–0.36
Change	–0.03	–0.05	0.27	–0.44	0.17	–0.23	–0.12	–0.57	–0.12
Regulatory quality									
1996	0.13	–0.03	0.00	–0.67	–0.06	0.51	0.18	–0.81	–0.09
2002	0.26	–0.09	0.10	–0.48	0.02	0.24	–0.60	–1.61	–0.27
Change	0.13	–0.06	0.10	0.19	0.09	–0.28	–0.78	–0.79	–0.17
Rule of law									
1996	–0.24	–0.61	0.19	–0.29	0.18	–0.33	–0.33	–0.22	–0.21
2002	–0.30	–0.84	0.33	–0.01	0.11	–0.44	–0.52	–1.33	–0.38
Change	–0.05	–0.23	0.14	0.28	–0.07	–0.11	–0.19	–1.11	–0.17
Corruption									
1996	–0.10	–0.90	–0.09		0.21	–0.09	–0.91	–0.11	–0.28
2002	–0.05	–0.71	0.00	–0.28	–0.04	–0.20	–0.97	–1.17	–0.43
Change	0.06	0.19	0.08		–0.25	–0.11	–0.06	–1.05	–0.16
Overall average									
1996	–0.03	–0.60	0.07	0.04	–0.12	–0.26	–0.40	–0.28	–0.20
2002	0.02	–0.53	–0.01	–0.21	–0.05	–0.22	–0.57	–1.34	–0.36
Change	0.06	0.08	–0.08	–0.24	0.08	0.04	–0.17	–1.05	–0.16

Table C.5 Diagnostic Tools and Indicators in Relation to Investment Climate and Public Sector Governance

Investment climate issues	Sub-topics	Tools
Infrastructure for private sector development	Data on services and analysis of infrastructure	ICA
	Quality of physical infrastructure	ICA, WBES/BEEPs, and Private Participation in Infrastructure Advisory Services
Financial sector	Private sector audit and accounting	CFAA, ROSC, WBES/BEEPs
	Access to credit	DB
	Efficiency	ICA, FSAP, WBES/BEEPs
	Sources of financing	ICA, WBES/BEEPs
	Sector development and regulations	FSAP
Corporate governance	Investor protection	DB
	Business environment, influence/lobbying, information flows	WBES/BEEPs
	Corporate governance	ROSC
Property rights	Property registration and rights	DB, WBES/BEEPs
Legal and regulatory environment	Quality of regulation	WBI governance indicators
	Regulatory burden, intervention and obstacles to business development, information and interpretation of regulations	WBES/BEEPs, ICA, GAC-BES
	Legal environment	WBES/BEEPs, ICA, GAC-BES
	Use of technology in customs, registration of businesses and taxation	E-Government
	Starting/closing business, contract enforcement	ICA
	Labor regulation	DB
	Creditor rights and insolvency	ROSC
Corruption, public sector transparency and accountability	Perceptions on bribery, corruption	WBES/BEEPs, GAC-BES, WBI governance indicators, ICA
	Public sector efficiency, quality of government agencies	WBES/BEEPs
	Fiscal transparency	ROSC (IMF)
	Public sector service delivery and cost effectiveness	Citizen/community report cards
	Public sector accountability	CFAA, WBI governance indicators
Political stability, law and order	Macro and political stability and law and order	GAC–BES, ICA, WBI governance indicators
	Predictability of public policy	WBES/BEEPs

CFAA – Country Financial Accountability Assessment.

DB – Doing Business Survey.

GAC-BES: Governance Anti-Corruption – Business Enterprise Survey.

ICA – Investment Climate Assessments.

ROSC – Report on Standards and Codes.

WBES/BEEPs – World Business Enterprise Survey/Business Enforcement and Enterprise Performance Survey.

APPENDIX D: MANAGEMENT COMMENTS

This year's *Annual Review of Development Effectiveness* (ARDE) examines the Bank's contribution to poverty reduction. This note provides brief management comments on the ARDE.

ARDE Analysis

This section examines some of the analysis presented by the Operations Evaluation Department (OED) in the ARDE and provides management's comments on that analysis. Overall, management finds the analysis useful for its work on improving the poverty focus of all of the Bank's work. However, there are a few areas where management would like to comment.

Country Business Model

The report notes the relatively good understanding of the business model for Bank support to low-income countries, based on country-owned Poverty Reduction Strategies (PRSs). It states that more needs to be done on the business model for supporting low- income countries under stress (LICUS) and middle-income countries (MICs).

LICUS. With regard to LICUS, the ARDE states that there is no consensus within the Bank or among its potential partners on what kinds of actions are needed, notably in conflict-affected countries. Management would like to note the Bank's leadership recently in this area in bringing donors together around a common platform for support. Specifically, at the Senior Level Forum for Development Effectiveness in Fragile States, held in London on January 13-14, 2005, it was agreed that a set of principles for support be drafted and field tested. The Bank has been instrumental in producing these draft principles. They are now available and are being applied in LICUS, notably in conflict-affected countries (OECD 2005). In addition, the Transitional Results Matrix,[1] a planning tool that the Bank helped develop, integrates political, economic, security, and social dimensions of recovery, and allows for close donor coordination behind government-agreed priorities, permits flexibility, and supports the monitoring of progress; it is also in use.

MICs. The recent update on the Bank's MIC support strategy (World Bank 2005e) lays out a set of actions either completed or in progress to enhance the ability of the Bank to work more effectively with these countries. As the ARDE notes, the MIC strategy aims to help countries promote sustainable, equitable, and job-creating growth, raise living standards, and reduce poverty. The update emphasizes that recent Country Assistance Strategy (CAS) documents for MICs have customized support to country circumstances and facilitated a more rapid response to lending demand, notably those for El Salvador, India, Kazakhstan, Mexico, and Slovakia, and all welcomed by executive directors.

Measuring the Impact of Bank Support on Poverty

Management would note that it is difficult for any development institution to truly measure its impact on poverty reduction in a client country, given all the elements that affect poverty levels. Perhaps the most important measure is the following. As pointed out in last year's ARDE (OED 2003a), the Bank has done well in directing its financial support to countries with better policies, where these resources contribute the most to growth and poverty reduction. At the same time, support to LICUS countries has been stepped up, with the goal of helping them achieve consensus on policy direction and over time improve policy and institutional performance and gain greater access to financing from the International Development Association and from other sources.

ARDE Conclusions and Implications

OED draws a series of conclusions and implications for future Bank activities from its analysis. While it broadly embraces the two-pillar approach (support for sustainable and equitable growth and empowering and investing in poor people), it highlights several ways that the implementation of the strategy could be strengthened. This section provides Management views on OED's observations.

Interactions between the Two Pillars

Management agrees that these interactions are important and deserve further emphasis. To better make these links, the Infrastructure Action Plan currently under implementation highlights both the growth and the social service delivery aspects of infrastructure development (World Bank 2004n). Additionally, the upcoming World Development Report on equity and development will closely examine these links.

Customizing Bank Strategies and the Country Business Model

As noted above, Management agrees and is working to align its country assistance strategies in all groups of countries with a relevant poverty focus. Management notes OED's observation that early PRSs in low-income countries were less focused on broader growth issues than on social services (although better social services do contribute to growth, as emphasized by OED); however, more recently low-income countries have insisted on a greater emphasis on sustainable growth in developing their country-owned PRSs.

Poverty Focus of Global Programs

Management concurs with the importance of a poverty focus in making choices with regard to Bank support for global programs. Management has prepared a strategic framework for the Bank's global programs and partnerships for discussion with Executive Directors. That framework emphasizes this poverty dimension.

A Sharper Results Focus

Management agrees on the need for a better results focus in its country programs, including on support for improvements in governance, and better monitoring and evaluation. The results-based CAS pilot has made a start in this direction, but it will take time to better articulate the results chain between Bank outputs and the country outcomes the Bank supports. The recent review of the results-based CAS pilot (World Bank 2005c) lays out the architecture for these results chains but also emphasizes the difficulties and learning that must take place along the way. Both growth diagnostic work led by the Poverty Reduction and Economic Management Network and research by the Development Economics Vice Presidency are aimed at improving the development community's understanding of these links. However, Management has some difficulty with OED's suggestion to add more elements to the Bank's poverty assessments, notably growth and governance issues. That would tend to overburden the already complex poverty assessment tool.

Synergies between Private Sector Development and Public Sector Reform

These synergies are clear, and Management recognizes the risks of a lack of coordination on these issues. However, there is no ideal organizational structure to achieve the synergies. Combining responsibilities in one unit (as was considered at the time of the 1997 reorganization) also has risks, as one of the topics could be neglected relative to the other.

Support for Empowerment and Human Development

The review notes that the Bank has sometimes supported increases in expenditures for health and education without adequate consideration of their actual impact. Recently this issue has received greater attention. For example, the Bank's public expenditure work addresses three levels of public performance—the soundness and sustainability of budget expenditures, the quality of budget formulation and allocation, and, notably, service delivery, especially in social services. One of the tools the Bank has effectively used in support to many countries with regard to service delivery is the public expenditure tracking survey, which helps determine if budgeted expenditures are reaching the targeted beneficiaries. Beyond this, results-based CASs are starting to set out the country outcomes the Bank is supporting and the intermediate indicators of progress. Any health or education operations within the CAS program then show how they support the achievement of these CAS targets.

Conclusion

Management finds the 2004 ARDE useful in reviewing the poverty focus of Bank support. As in past years, it is a timely and important input into Management's work on strategy and policy, the budget process, and improving the Bank's results focus.

APPENDIX E: CHAIRMAN'S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE)

On April 27, 2005, the Committee on Development Effectiveness met to discuss the *2004 Annual Review of Development Effectiveness—The World Bank's Contributions to Poverty Reduction* (ARDE) prepared by OED.

Poverty Reduction and Growth. Members agreed with the report's emphasis on the importance of a holistic approach to poverty reduction, inclusive of both social and productive sectors, as well as growth. They noted that the links between the specific interventions and poverty outcomes need to be better articulated and more measurable. A member highlighted the need for clear policy guidance on how to balance Bank lending for social development and physical infrastructure. Management agreed with the importance of growth for development and noted that there has long been a recognition of the centrality of the growth agenda in the Regions, with a rapidly growing body of analytic work to support that agenda, as well as enormous demand from the clients in this regard. Several speakers felt that the report could have been more specific in its recommendations on how to maximize the impact on poverty reduction, and a member felt that the report could have been clearer in delivering its main message which he interpreted to be that the Bank was essentially on the right path and only some improvements on the margin were needed. OED responded that the main message was that while the Bank has been considerably successful in redefining its mission, developing strategy and requisite instruments at the corporate level, more work still remains to be done to link particular interventions at the country level to the broader strategic objective of poverty reduction.

Social Development Interventions and Analytical Work. Members agreed with the report's conclusion regarding the need to demonstrate more clearly the poverty reduction impact of its social service delivery and social development assistance. Regarding OED's conclusion that the Bank's efforts have been more successful in countries where, among other reasons, the executive, the legislature, and the bureaucracy are working for a common purpose, a member questioned the capacity of both the Bank and OED to make a value judgment on this matter. A speaker expressed concerns about governments' recurrent cost financing constraints, which tend to impede sustainability when the Bank's financing phases out. Management noted that new improved policies on recurrent financing will allow focusing more appropriately on the issue of sustainability at the project level. A speaker concurred that increased expenditures cannot be equated with poverty reduction and stressed the need for a well-defined mix of capacity building measures and investment in that area. They expressed their support for instruments designed for use by countries to analyze the distributional impact of policy reforms on the poor (PSIAs) and urged to widen their scope and improve their timeliness. A member noted that the Bank's poverty assessments should focus more on the links to economic growth, without necessarily overburdening the already complex instrument with more elements. Management concurred that PSIAs are a useful tool, but cautioned about their further expansion, given the possible budgetary constraints from the Bank side and the issue of their ownership by the clients—ideally all PSIAs should be done by client countries. OED explained that the report did not actually say that poverty assessments should be extended to include productive sectors and governance, but suggested improving the links between the two pillars in the overall context of analytical work (e.g., CEMs).

Country Business Models. Several members highlighted the ARDE's finding of a need to better align the Bank's country business models, including those for MICs and LICUS countries, with the goal of poverty reduction. Members noted that although the Bank needs a certain degree of flexibility to respond to various needs of client countries (especially MICs), it should also be mindful of the impact of its interventions on growth and poverty reduction. Several members emphasized that there is no single policy framework or uniform set of policies that could be applied universally, and underlined the need to tailor poverty reduction measures to country-specific contexts, taking better stock of in-country experience. A speaker felt that the Bank's business model should give priority to the poorer client countries, such as LICUS and conflict-affected countries. Several speakers noted that there are issues to be addressed in respect to performance in high-risk environments, and in particular LICUS, such as allocation of lending and transparency of lending decisions, distribution of administrative costs across regions, etc. Management noted that the record of continued below-average performance in LICUS countries does not speak for increased lending in these countries. Management added that there is a potential contradiction between the demands for taking more risks and simultaneously improving performance. OED clarified that poor outcomes in risky environments do not necessarily imply poor Bank performance.

Global Programs. A member noted that he expects the Bank's approach to global programs to be clarified in the context of strategic framework (currently under preparation), including their relation to poverty reduction and interaction with other MDBs.

Governance and Synergies with Private Sector Agenda. Speakers underlined the role of governance as an important factor to enhance development impact and a crucial element of performance based allocation, and urged giving serious consideration to the OED lessons for improving the way the Bank addresses and monitors governance. Management agreed that governance remains a critical issue to be tackled, but, given its extreme complexity, stressed the need to approach it with a long term view, rather than look for quick fixes. OED concurred that the governance issue needs a more careful look and stressed the need to focus more on the country-specific binding constraints for poverty reduction and growth in this regard. Some speakers noted that despite its importance, good governance is neither a sufficient nor a prerequisite for sustained economic growth and rapid poverty reduction. Members urged articulating synergies between the public and private sector development agendas, including those with IFC.

Pietro Veglio, Acting Chairman

ENDNOTES

Chapter 1

1. The strategy was formalized in Operational Directive 4.15, Poverty Reduction (December 1991), and was based on both the 1990 WDR on *Poverty* and World Bank 1991b, *Assistance Strategies to Reduce Poverty*. The strategy became known informally within the Bank as the "two-and-a-half leg" strategy.

2. World Bank 2001a, p. 7; 2001b, pp. 7–8. When the Bank updated its formal poverty reduction strategy in August 2004, replacing Operational Directive 4.15 (December 1991) with Operational Policy 1.00, the latter emphasized the three themes of opportunity, empowerment, and security in the 2000/2001 WDR. However, most of the Bank's other strategic statements since 2001, the conceptual framework for the Scaling Up Poverty Reduction Conference in Shanghai in May 2004, and the 2004 and 2005 WDRs have been based on the two pillars of sustainable growth and empowerment.

3. OED assesses the outcomes of Bank assistance and the Bank's contribution to these outcomes at the project, sector, thematic, country, and corporate levels. It uses an objectives-based approach that assesses the results of development interventions against their own stated objectives. This evaluation approach enhances accountability by focusing attention on the extent to which objectives have been achieved, promotes efficiency by relating the use of scarce resources to the accomplishment of specific outcomes, and allows comparisons by applying a common metric across the wide array of sectors and countries for which the Bank provides financing. It becomes increasingly challenging to attribute particular development outcomes to Bank project interventions as time passes or as the observation point shifts from the micro (project) level to the macro (country) level.

4. The year 1990 was chosen as the benchmark, since the WDR on poverty was published in 1990 and the achievement of the MDGs is being measured against 1990 benchmarks.

Chapter 2

1. The Enhanced HIPC Initiative expanded the group of countries expected to qualify for debt relief to 36 (from 29 under the 1996 Original HIPC Initiative).

2. Examples include macro-related areas such as tax/revenue policies and exchange rate management, plus the role of the private sector, trade, price policies, and privatization.

3. The expansion of HIPC's objectives to include poverty reduction was brought about largely under political pressure from advocacy nongovernmental organizations (NGOs), organized under the umbrella of the Jubilee 2000 campaign, who successfully lobbied creditors in Organization for Economic Cooperation and Development capitals to strengthen the link between debt relief and poverty reduction (OED 2003b). The influence of NGOs and the fact that debtor states were not a major driving force behind the link with poverty reduction helps to explain how the Enhanced HIPC Initiative became focused almost exclusively on a particular approach to poverty reduction.

4. The Post-Conflict Fund was created in July 1997 to position the Bank through constructive engagement in conflict-affected areas.

5. The annual average per capita commitment to IDA countries between fiscal years 2000 and 2002 was $5.70.

6. The Bank's global public goods priorities are communicable diseases, environmental commons, information and knowledge, trade and integration, and international financial architecture.

7. The *CAS Retrospective* used the following criteria to evaluate the poverty content of CASs (World Bank 2003a): Does the CAS reflect existing, adequate poverty diagnoses for the country? If there is a gap,

does the CAS propose actions to fill it? Does the CAS describe and assess the country's poverty reduction strategy and its goals? Does the CAS explain how the proposed Bank assistance strategy supports the country's poverty reduction strategy? Does the CAS include monitorable indicators for Bank actions? Does it discuss the adequacy of existing arrangements for monitoring and propose actions to put a good monitoring system in place if one does not exist? Did the CAS preparation process draw on consultations with a wide range of stakeholders, beyond central government officials?

8. Further, the guidelines specify that the CAS must be based on a sound diagnosis of poverty, including obstacles to poverty reduction, actions necessary to reduce poverty, linkages between poverty and growth, and an assessment of the country's capacity to measure poverty indicators. The program itself should support the country's poverty reduction strategy (World Bank 2004d).

9. In 2004, the Bank introduced a major change in its adjustment lending instruments, which it consolidated and renamed as one development policy lending instrument in a revised Operating Policy 8.60 on Development Policy Lending. The innovation was influenced by lessons from the past failures of adjustment lending and was designed to support the Compreshensive Development Framework/Poverty Reduction Strategy Paper principles of Bank engagement. The new operational policy drew on results of the Structural Adjustment Participatory Review Initiative, the Extractive Industries Review, and consultations with governments, NGOs, and others.

10. In addition to rural and urban development and environment, this particular way of associating the 2 pillars with the Bank's 11 themes also does not adequately capture the role of infrastructure in fostering both economic growth and service delivery. Outcome ratings by sectors are presented in Appendix 1. See also endnote 1 in Chapter 4.

11. The exceptionally high rate of growth calculated for human development lending is attributed in part to the high level of lending in 2003, equal to US$3.37 billion (18 percent of total new commitments), which was something of an outlier.

12. In addition to these sectors, which account for 75 percent of the poverty and social impact analysis undertaken, analysis has been conducted on social sectors, land reform, industry, and infrastructure.

Chapter 3

1. This includes the 19 CAEs that have been completed since fiscal year 2002 inclusive, and for which there have been at least two national-level household surveys measuring the incidence of poverty since 1990, as well as 2 CAEs (India and Morocco) that were completed in fiscal year 2001 in order to include at least one country from South Asia and a third country (in addition to Jordan and Tunisia) from the Middle East and North Africa Region. OED selects CAE countries based on several factors, the most important being the timing of the Bank's next CAS in order for the CAE to provide input into the preparation of the CAS. Other factors OED considers are Regional balance, whether previous CAEs have already covered particular countries, and the potential for collaboration with other international financial institutions in their preparation. While this sample of 21 CAE countries is neither representative nor random, it includes 5 large countries (China, Brazil, India, Russia, and Vietnam), 6 medium-size countries (Chile, Guatemala, Morocco, Peru, Zambia, and Zimbabwe), and 11 countries of fewer than 10 million people (Armenia, Bulgaria, Croatia, Dominican Republic, Jordan, Lesotho, Lithuania, Mongolia, Moldova, and Tunisia).

2. These seven countries had a similar pattern of economic growth and poverty reduction during the period from 1990 to 2003, which is markedly different from the other 14 countries in the sample. Such a grouping will not necessarily remain relevant from 2004 onward.

3. OED rates the outcomes of the Bank's country assistance programs by assessing the extent to which the major strategic objectives of the assistance programs were relevant and achieved, without major shortcomings. The Bank's contribution to the outcome of its assistance program is only part of the story, since the overall outcome of the assistance program is determined by the joint impact of four agents: (1) the client, (2) the Bank, (3) partners and other stakeholders, and (4) exogenous forces such as events of nature and international economic shocks. As a check upon the subjective component of evaluation, OED examines each country assistance program across three dimensions: (1) a products and services dimension, involving a "bottom-up" analysis of major program inputs-loans, AAA, and aid coordination; (2) a development impact dimension, involving a "top-down" analysis of the principal program objectives for relevance, efficacy,

outcome, sustainability, and institutional impact; and (3) an attribution dimension, in which the evaluator assigns responsibility for the program outcome to the four categories of actors listed above.

4. The Europe and Central Asia Region believes that the Bank was correct in not regarding poverty as a central issue when these countries first embarked on their economic transitions, given the other priorities in handling the crisis. The general view was that any increase in poverty would be transitory, and that growth would come quickly and would reduce the incidence of poverty rapidly. Poverty was believed to be best addressed through the provision of pension protection for the elderly and safety nets for those affected by downsizing (World Bank 2004k, p. 70).

5. In China, the Bank's overall lending allocations across provinces were regressive during most of the past decade, and therefore at odds with the stated objective of targeting. Per capita Bank lending was positively and significantly correlated with provincial income per capita during 1993–97, and still positively, although not significantly, correlated during 1997–2002 (OED 2004g, p. 37).

6. The Bank provided the Poverty Reform Support Loan in the late 1990s as a way of rewarding the country's movement toward a more open political system. But the loan was too unfocussed to have a major impact on the areas identified in the country strategy as in critical need of reform. Many of the actions taken prior to Board approval were only first steps, sometimes in the form of studies or plans, and many others did not show concrete results (OED 2001c, p. 13).

7. As noted in endnote 4, the Europe and Central Asia Region expected that any increase in poverty in the early 1990s would be transitional and that an emphasis on poverty alleviation at the time would have been misplaced in the light of other priorities.

Chapter 4

1. The Bank's 2001 strategy, and therefore this review, uses the term "investment climate" broadly to encompass not just improving the business environment, but also privatization and enterprise restructuring, infrastructure services for private sector development, and financial sector reform. The contribution of infrastructure services to the investment climate includes both public and private investments—not just mobilizing private participation, but also leveraging in a complementary way both public and private infrastructure resources. The provision of infrastructure can also make an important contribution to the delivery of services to the poor—the second pillar of the Bank's poverty reduction strategy and the subject of the next chapter.

2. The increase in infrastructure lending is less dramatic when measured on a sectoral basis. New commitments for the four infrastructure sectors combined (information and communications; energy and mines; transportation; and water, sanitation, and flood protection) grew by an average of 3.3 percent a year between 2000 and 2004.

3. These outcome averages are not comparable to those in Appendix 1, since they are for different time periods—1993–2003 rather than 1990–2004—and because they are derived from the detailed review of the investment climate and financial sector reform portfolios that were conducted in the two recent OED studies (OED 2005d, e).

4. Better outcomes may also derive from factors on the borrower's side, such as having specialist counterparts from central banks or Ministries of Finance, who may also focus more intently on financial sector issues than in situations where reforms cover many sectors and ministries.

Chapter 5

1. The *Voices of the Poor* series (World Bank, 1999 a-c) was a participatory research initiative launched by the World Bank in 1999 to chronicle the struggles and aspirations of poor people around the world. The immediate impetus for the *Voices of the Poor* study was to help prepare the *WDR 2000/01*. The research findings have been published in a three-volume series—*Can Anyone Hear Us, Crying Out for Change, From Many Lands*— and highlight the multidimensionality and complexity of poverty as encompassing, among other things, voicelessness, powerlessness, insecurity, and humiliation.

2. World Bank data—lending analysis by sector.

3. As an example, according to the Bank's 2004 *Global Monitoring Report*, the amount of additional aid needed to support adequate progress toward the MDGs is expected to be approximately $50 billion a year.

4. The five Eastern European countries are Albania, Croatia, Estonia, Hungary, and Romania.

5. Lending commitments to the social development themes, on the basis of the Bank's thematic

breakdown (conflict prevention, gender, indigenous peoples, participation/civic engagement, social analysis/monitoring), totaled US$13 billion between 1990 and 2002. OED's review of social funds estimated that Bank lending for social funds stood at US$3.5 billion as of May 2001, while OED's review of community development (forthcoming) estimates that lending commitment for community development amounted to US$4 billion by end of fiscal 2003.

6. The review is a meta-evaluation of 10 OED evaluations addressing the following social development themes: gender, post-conflict reconstruction, nongovernmental organizations, participation, rural water, resettlement, cultural heritage, community-driven development in the Sahel, and forestry.

7. OED's review of social development examined the most recent CASs of 109 countries for information on Bank and borrower assessment of social development needs. The average number of social development themes mentioned per CAS was 2.7. Social development themes that were mentioned often in CASs were *participation* (74 percent), *gender* (67 percent), *NGO/civil society* (55 percent), *community-driven development* (19 percent), and *culture* (13 percent).

8. Data based on the World Bank thematic breakdown of the social development theme (conflict prevention, gender, indigenous peoples, participation/civic engagement, social analysis/monitoring).

Appendix A

1. Data for this Appendix include project evaluations conducted through February 15, 2005. Four evaluated projects that exited the Bank's portfolio of active projects in fiscal year 2005 have been excluded from the trend analysis given the extremely low coverage of this fiscal year.

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

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

Once sent to the Board of Executive Directors, each ICR is evaluated by OED, which validates or adjusts the ratings based on the information provided in the ICR and other operational documents. OED summarizes its findings in an **ICR Review (formerly called "Evaluation Summary")**. This review conveys the OED ratings, comments on the lessons to be drawn and on the quality of the ICR, and suggests whether the project is a candidate for a **Project Performance Assessment Report (PPAR)**. Bank regional staff have an opportunity to review this summary before it is completed.

PPAR – The purpose of a PPAR is to validate the findings and augment the information in the ICR, and to examine issues and lessons of broad applicability. Some PPARs are intended to serve as building blocks for broad sector studies or Country Assistance Evaluations. They provide independent, field-based post-completion verification of a project's implementation and results. They incorporate the views of the borrower and main stakeholders, and analyze the operation in its sectoral and country context. The operational staff and borrower representatives have an opportunity to comment on the draft report. The final report is submitted to the Bank's Board and is widely distributed within the Bank and the borrowing country.

3. Four projects had both an ICR Review and a PPAR completed during this time period.

4. OED's measure of outcome considers three factors: relevance, efficacy, and efficiency. Relevance measures the expected development impact of a project design by weighing the continuing relevance a project's objectives. Efficacy refers the extent to which each objective was achieved, or expected to be achieved. Efficiency measures the cost-effectiveness of a project, based mainly on sector-wide best practices and indicators where available. Combining these three factors, overall outcome is rated on a 6-point scale, ranging from highly satisfactory to highly unsatisfactory.

5. This partial coverage is noted with dashed lines in all the figures in this appendix. Lending includes IBRD/IDA, GEF, Montreal Protocol, and Special Financing.

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

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

8. The analysis excludes the global information and communications technology, poverty reduction, and social development sector boards because OED has evaluated very few projects managed by these sector boards.

9. These operations exited the Bank's portfolio during the fiscal years 2000–04 (partial) period, amounted to US$9.0 billion in disbursements, and accounted for 8.1 percent of all the projects and 9.8 percent of all the disbursements that exited during the same time period.

10. PRSCs are excluded from the analysis because OED has evaluated only 5 projects since fiscal year 2000.

Appendix B

1. The data were downloaded from PovcalNet <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>. This is an interactive computational tool maintained by DECRG that allows researchers to estimate the extent of poverty in countries for which reliable household survey data exist, to calculate different poverty measures under different assumptions, and to assemble the estimates using alternative country groupings of one's choosing.

2. See Chen and Ravallion (2001 and 2004) for more details regarding the data and the methodology.

Appendix D

1. Available at http://www.oecd.org/dataoecd/29/18/34245/39.pdf

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