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Annual Review of Development Effectiveness 2000

- OED's ARDE 2000 confirms that significant improvements in the Bank's development performance have taken place over the past five years. Portfolio performance is likely to exceed the Strategic Compact target of 75 percent satisfactory in FY00. Eighty-six percent of adjustment lending outcomes were satisfactory, institutional development outcomes climbed to 43 percent substantial, and sustainability has strengthened to 57 percent.
- The outcome of country assistance programs depends as much on the quality and coherence of nonlending services and partnerships as on project performance. The Bank therefore should complement its increased attention to project quality with efforts to further enhance the quality and dissemination of its analytic work, and establish more businesslike partnerships at the country level.
- In order to achieve corporate goals, the Bank's matrix management structure needs to be rebalanced; as currently designed, budgetary resources and decisionmaking reside with country departments. As a result, although the Bank has articulated sound strategies for most sectors, these strategies have not been implemented consistently in client countries.

ARDE 2000

To meet the challenges of the changing international economy and increased operational complexity, the Bank has built new competencies, updated systems and processes, established new management arrangements, and reoriented its values and culture. The ARDE 2000 finds that progress has been made across a broad front (see figure), and examines four tensions the Bank must manage. As it seeks to implement an increasingly crowded agenda, the Bank must learn to (1) reconcile client and corporate priorities; (2) adapt global prescriptions to local conditions; (3) balance country performance and poverty incidence in allocating its resources; and (4) achieve efficiency and selectivity while seeking to implement a long-term, holistic vision of development.

Cross-Cutting Messages

The ARDE 2000 draws on OED's recent evaluations to provide guidance on how these tensions can be managed. Several messages emerged:

- At the country level, the Bank needs to use its lending and nonlending tools more deliberately to foster consensus through increased local involvement and more widespread dissemination of analytic work; more systematic use of pilot projects to test new approaches; and greater use of advisory services and flexible lending instruments to nurture policy change processes.
- Development effectiveness depends on adapting institutional priorities and programs to individual countries' constraints and opportunities. Such adaptation requires an up-to-date knowledge base about country operating contexts and the enabling environment. Despite an increased focus on knowledge management, current resource allocation patterns do not give sufficient priority to economic and sector work.
- Countries with stronger policy frameworks receive more lending resources per capita. But for each individual country, especially those with poor policies and institutions, the Bank's effectiveness depends not solely on lending volume but also on the mix of

instruments, the timing of policy-based loans, and the judicious use of partnerships.

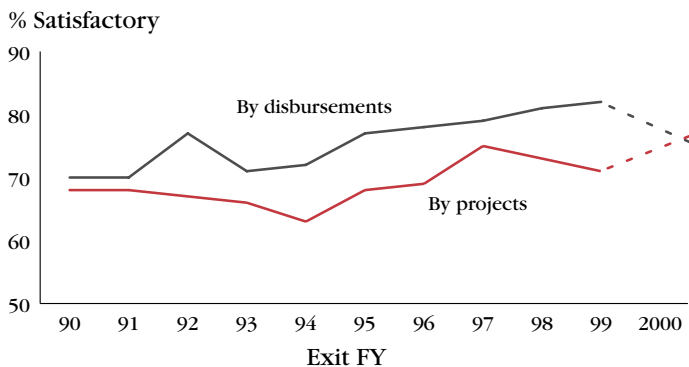
Project Findings

Investment project ratings improved to 77 percent satisfactory for the partial FY00 sample. Outcomes are lower on average in low-income countries. Three-quarters of Bank operations are rated as substantially complex, and complexity has increased most in countries with weak capacity. Further improvements depend on capacity building and adapting project design to borrower institutions. Adjustment operation outcomes have gained steadily over the past five years, but achievement of immediate policy objectives does not necessarily translate into long-term impact on incomes and poverty. The objectives of adjustment programs should increasingly be framed in steps toward explicit development outcomes.

The Country Dimension

The two most important determinants of country program outcomes—the most relevant unit of account—are the level of borrower commitment to the country program and the extent to which Bank strategies, programs, processes, and partnerships are adapted to the country setting. The level of country consensus for reform is a critical determinant of the relevance and outcome of country strategies. Country evaluations also identified a pattern of over-optimism about borrower governments’

Trends in Satisfactory Project Outcomes



Note: Two recently evaluated projects in Russia (Oil Rehabilitation I and II) were the largest investment operations approved by the Bank in 1993 and 1994, respectively. Both were found to have unsatisfactory outcomes.

willingness to reform and their ability to carry it out. Institutional development at the country level has been modest, suggesting a need for enhanced capacity development focus.

Sector and Thematic Elements

The Bank’s ability to articulate a broad strategic vision is one of its strengths, but difficulties are commonly encountered in implementation. The introduction of Sector Strategy Papers in 1996 helped standardize the process and address weaknesses—including lack of planning for implementation or evaluation. But fundamental challenges remain, particularly reconciling corporate and international objectives with demand-driven country programming. Sector and global priorities are not always consistent with those of clients. Without appropriate economic and sector work to support adaptation of strategies to individual country conditions and a rebalancing of the matrix structure, these strategies will remain difficult to implement. The Bank has made significant progress developing and implementing safeguard policies, which helped reduce the negative impacts of Bank lending. But enforcement has been inconsistent, largely because of diffuse accountability combined with weak central coordination and oversight.

Implications

Given the considerable broadening of the Bank’s mission and mandate as a result of the Strategic Compact, the Bank will have to adapt its organizational structure, business practices, and operational instruments in order to reduce the enormous stress that currently affects the organization—unless this is remedied, it could undermine the Bank’s development effectiveness. The Bank should:

- Link strategies, programs, budgeting processes, and staff incentives to the achievement of results, and reform budget processes to align corporate strategies with resource allocations.
- Give greater priority to knowledge creation, at both the country and global levels, and establish quality monitoring and tracking processes to strengthen the quality and coherence of all knowledge activities.
- Continually assess its comparative advantage relative to international and country partners—and achieve responsible selectivity through businesslike partnerships.



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